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30 January, 2015

Dear David,

**Treatment of Anticipatory Investment in Determining the Local TNUoS tariff for the Western Isles Link**

Thank you for the opportunity to provide our views on the treatment of the above anticipatory investment. We believe that if the investment can be shown not to provide any redundancy on the link, that the second of the two options presented is the more appropriate. However, if it does indeed provide redundancy, then there is an argument for its costs to be included in the local circuit tariff. Our responses to the specific questions raised in your open letter on this issue are as follows:

**Question 1: What are your thoughts on the options presented for treatment of proposed anticipatory investment with respect to the Western Isles link?**

In the open letter it is stated that the second cable is being installed purely as an anticipatory investment and that it will not provide any redundancy on the link. We think this needs to be clarified. If it does not provide any redundancy we would expect only one of the cables to be utilised and the other not to be used at any time until further generation comes on line which justifies its use. If up to that point the first cable were to be out of action for any length of time, the other should not be used at all to alleviate any constraints which arise as a result. If this not how the second cable is to be operated, then we believe that it will be providing redundancy and should be treated accordingly in the use of system methodology.

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Notwithstanding this point, if the second cable is indeed not providing redundancy then the second of the options seems more appropriate. The whole idea of socialising the costs of anticipatory investment must be to place the generators who use the associated link in the same position they would have been in if it had not been made. The first option puts them in a better position however. This is because certain costs which would have been incurred anyway for a single cable are shared across the capacity of the second cable as well, even though it is not being used yet. Therefore, not only would other TNUoS payers be underwriting the decision to make the anticipatory investment, with no assurance that other generators will arrive to use it, but they would be subsidising the costs that would have been incurred anyway with a single cable.

When additional generation comes on line to utilise the second cable, we believe that it would be fair to spread the costs of both cables across all generation utilising the link. If local tariff reductions result from this then would be appropriate, as it would represent a genuine economy of scale being realised, rather than the underwriting of an investment which may or may not turn out to have been economically justified.

**Question 2: Do you believe that such treatment of anticipatory investment should be more explicit within Section 14 of the CUSC?**

Yes. Although new situations will undoubtedly arise which need different charging solutions, the rules which have been developed should be formalised and included in the charging methodology.

**Question 3: Do you have any other thoughts or comments relating to the treatment of anticipatory investment either in the calculation of the local circuit tariff for the Western Isles link or more broadly in the TNUoS charging methodology?**

Yes, although this is not directly related to the decision of how to treat it in the local charge calculation. Suppliers and generators will be exposed to the costs of this project and any increases and decreases that occur in the funding allowed for it. Recent changes in the costs of the Caithness to Moray link made with relatively short notice will expose parties to additional costs, which they were unable to plan for and consequently will find extremely difficult to recover in the market.

We therefore believe that it would be worth exploring how these costs changes can be better monitored and reported to the market, to prevent future price shocks from hitting parties in a similar manner. This will have the benefit of reducing the risk for companies and prevent needless costs for customers.

I hope you find the above comments helpful. Please contact me on the above number should you wish to discuss any of these points.

Yours sincerely

Paul Jones  
Head of Market Development