

Mr P McMahon
Deputy Director Competition & Regulatory Economics
Office of Rail Regulation
1 Kemble Street
London WC2B 4AN

E.ON UK plc
Westwood Way
Westwood Business Park
Coventry
CV4 8LG
eon-uk.com

Steve Taylor
+44 (0)2476 183213
+44 (0)2476 425056
stephen.taylor@eon-uk.com

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Dear Mr McMahon

You will recall we spoke briefly after your presentation at the Coal UK Conference in London last week. Also, that Tim Griffiths met with us last October at our headquarters in Coventry to discuss the potential impact of increased track access charges on coal fired generation. We did not respond formally to your consultation given that we had discussed our concerns previously with Tim. However, following our recent conversation, I think it is worth reiterating briefly my two main concerns in writing.

E.ON operates a mixed portfolio of generating assets; coal, oil, gas and renewables. Like other electricity generators, E.ON can supply its customers by generating electricity with its own assets or buying the output from others. Accordingly, the cost of converting the input fuel to electricity at each power plant in each half hour is constantly compared with the wholesale energy markets to decide whether to 'make or buy'. An increase in the delivered price of coal, however small, will reduce the number of half hours in which coal is cheaper than gas (all other things being equal). In general, power generated from coal is cheaper than from gas in winter and gas cheaper than coal in summer. The effect of an increase in the delivered price of railborne coal is therefore to make the 'gas summer' a little longer and the winter for coal a little shorter.

Following our meeting with Tim, we ran our generation planning model with a 4p/GJ increase in the cost of railborne coal from 2009. Unsurprisingly, this increase resulted in our gas stations running more and a reduction in coal burn significantly more than the 1% estimated by your consultants. Moreover, within the reduced coal burn, generation was re-distributed from Ratcliffe and Ironbridge (rail fed stations) to Kingsnorth, which is supplied by ship. On top of this switch (from coal to gas and from the inland coal stations to a coastal coal station), there would inevitably be a switch from rail to road dependent on the supply sources contracted post 2009.

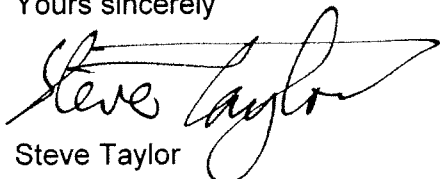
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No 2366970
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Westwood Way
Westwood Business Park
Coventry CV4 8LG

Secondly, I must re-emphasise the potential impact of freight picking up all costs on freight only lines. This proposal could be very serious for those pits or power stations which are connected to the network by long branch lines or lines with expensive to maintain structures. For example, E.ON's Ironbridge power station sits at the end of a six mile branch line which has many bridges and viaducts such as the Coalbrookdale Viaduct. The station is opted out of the Large Combustion Plant Directive and must close by the end of 2015. It seems that the cost of the branch and its structures could be allocated either across all coal traffic, or, just movements to Ironbridge. If a large structure on the Ironbridge branch failed, the cost of repair could be several million pounds. If this cost were spread across all coal traffic, it would probably be bearable. But if allocated just to E.ON, it could lead to a large increase in the delivered coal price and the premature closure of the station. In this case it would be clear that the traffic could not bear the costs, but possibly only after the station has closed.

In short, whilst your consultants may feel that ESI coal can bear increased access charges, they appear to have seriously underestimated the effects of the proposed pricing regime. Generators will act to minimise their input costs. This will be seen by increased gas generation (longer gas summers), the transfer of some coal burn to coastal stations and earlier plant and pit closures. This could have serious detrimental effects on the domestic economy.

I would be happy to discuss this further if you or your consultants wish. Please contact me on the telephone number above.

Yours sincerely

A handwritten signature in black ink that reads "Steve Taylor". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Steve Taylor
Fuel Logistics Manager