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Dear Eddie,

RE: NTS GCM 19 – Removal of NTS Daily Entry Capacity Reserve Price Discounts

E.ON UK's position remains unchanged from that set out in detail in response to NTS GCD 08. We are strongly against these proposals and are unconvinced by the supporting arguments for change, which seem to rely on the benefits that would be brought about primarily by introducing further changes, such as multipliers; despite not being part of this particular proposal. It is unclear how much of the benefits identified by National Grid NTS (NG NTS) would accrue from introducing multipliers and how much can be attributed solely to removal of the short-term discounts. Given that the concept of multipliers has yet to be even discussed in-depth and the success of the overall package seems to depend primarily on the effect of them (theoretically driving more long-term capacity bookings), we cannot see how this change *alone* – which will impose significant costs for Shippers – can be justified.

If we get to the point where multipliers are determined to not be a viable option (as was the case when multipliers were retired as a concept following NTS charging consultation PC 49 – "*Prices for unsold monthly capacity and floor prices for daily capacity Auctions*"), then very little will have been achieved in terms of reducing the TO Entry Commodity charge, but serious costs imposed. Moreover, if the benefits from this change amount to the lower end of NG NTS's scale (c. £3M), then the increased costs to Shippers will significantly outweigh the benefits. With this in mind, we look forward to the Ofgem Regulatory Impact Assessment examining both the benefits and the costs in depth and considering the proportionality of the changes proposed.

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As stated in our response to GCD 08, it should be recognised that fluctuating commodity charge levels are an inevitable outcome when auctions are used to collect fixed allowed revenue. This issue is simply an illustration of the inefficient nature of auctions and it is not inconceivable that in a few years we will be considering ways to better manage over-recovery by NG NTS. In fact, this situation arose only a few years ago when a transportation constraint existed in the Easington area resulting in significant over-recovery of auction revenues. As a result, we believe these proposals are short-sighted and an over-reaction to the current under-recovery situation. As previously stated, it is predictability not less volatility which is the most important outcome when setting Transportation charges and we do not believe this proposal helps in furthering that important objective.

Overall, E.ON UK strongly believes that these proposals would not provide an improvement to the UK gas entry charging arrangements, since the anticipated side-effects significantly outweigh the benefits identified by NG NTS.

Neutrality

To date, NG NTS has provided very little analysis on the impact of these changes on neutrality and this issue was only briefly discussed as part of NTS GCD 08. There appear to be some very significant linkages that would be broken if the current arrangements were changed; most notably the impact on buy-backs and SO incentives. For clarity, we do not support any changes to the current neutrality arrangements as proposed here, but welcome further detailed analysis by NG NTS of the impact of altering the current arrangements.

I hope that the above comments prove useful. Should you wish to discuss our response in any further detail, please do not hesitate to contact me on T: 02476 181421.

Yours sincerely,

Richard Fairholme (by email)

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