

Andrew Fox
National Grid House
UKT Commercial
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

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

Richard Fairholme
T: +44 (0)2476 181421

richard.fairholme@eon-uk.com

Friday, 8th February, 2008

Dear Andrew,

RE: The Entry Capacity Transfer and Trade Methodology Statement

We are pleased that National Grid has invested considerable efforts into developing a workable trade and transfer solution, but we are very concerned that what has been produced at the end of the process has effectively become a tool for NG NTS to help manage its own risk rather than a tool for Shippers to manage theirs. As such, we consider the proposed arrangements and the accompanying charging methodology to be much less user-friendly than the recent winter 2007/8 'interim' arrangements.

As we stated in our response to the charging methodology applicable to the interim trade and transfer arrangements:

"Many of our concerns relate to the lack of transparency associated with the proposed arrangements and we believe that any enduring solution must place transparency and simplicity at the top of the agenda."

We do not believe this has been achieved in the current methodology statement or with the Modification Proposals currently on the table. Although we are fully aware that the underlying principles have changed, we are disappointed that National Grid hasn't directly addressed concerns raised in regard of the "interim" charging methodology; specifically:

- *The need for greater transparency in determination of the 'NAM's, 'ZAM's and inter-zonal exchange rates;*
- *The need for greater transparency with respect to underlying assumptions and the data used;*
- *Provision of a rationale for the choice of data;*
- *Provision of a rationale for the 150% cap rule;*
- *Provision of a rationale for the definition of zones;*

E.ON UK plc
Registered in
England and Wales
No 2366970

Registered Office:
Westwood Way
Westwood Business Park
Coventry CV4 8LG

If these issues had been directly dealt with and addressed, we would be more comfortable in accepting that National Grid's proposed way forward is the most favorable option. At this stage, we do not have sufficient information to support this position.

As you will be aware, Shippers will be shortly initiating an audit of the interim trade and transfer arrangements, which should address major industry concerns, such as the lack of transparency in the calculations underlying the methodology and use of data, the apparently conservative nature of the model inputs and concern that this methodology could be used to actually reduce the level of buyback risk agreed as part of the TPCR package. Until this process is completed and the results shared, it makes it very hard for us to comment on the detail of the methodology statement, given the lack of supporting data.

The Methodology Statement

As far as we are able to do so, we offer the comments for your consideration:

- Para 19 is very vague. Surely, if National Grid identifies so-called “other factors”, they should initiate a change to the methodology which must go through the normal governance channels, rather than just giving National Grid complete (and unacceptable) discretion.
- The first bullet point of Para 35 is very vague. National Grid should make sure that this methodology is, and continues to be, consistent and compliant with “regulatory and commercial agreements and statutory instruments”. It is not acceptable for these to be quoted as an excuse for not accepting a trade or transfer.
- In Para 45, it is not clear where NG will increase supplies to maintain a supply/demand balance. Based on the example in the appendix, it looks to be the same ASEP as was used in para 42(f).
- In Appendix 1, what does “average maximum” and “average minimum” mean in the column headings? Para 24 suggests it is just the maximum and minimum, so where does the “average” come from?



I hope you find these comments useful, but if you wish to discuss them in any more detail, please do not hesitate to contact me.

Yours sincerely

Richard Fairholme (by email)
Trading Arrangements
E.ON UK