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09 September 2010

Dear Lesley,

RE: Entry Capacity Substitution Methodology Statement (Consultation v1.1 effective 1 November 2010)

In line with our previously expressed views, E.ON UK does not believe the current “option” / “retainer” based methodology is appropriate. As we noted in our formal response to the methodology in July 2009:

“E.ON UK believes that the ‘two stage auction’ approach would fit best with the principles underpinning the substitution obligation and the established gas entry capacity auction regime. It is the only approach that affords shippers a genuine opportunity to influence the outcome of substitution by using existing, familiar tools – i.e. QSEC auction bids. Moreover, it does not permit available capacity to be ‘protected’ from substitution by anything other than a full user-commitment: the only way capacity can be secured under the ‘two stage auction’ approach is to buy it.”

Furthermore, Ofgem noted in its decision letter to approve the original methodology, that:

“We also expect NGG to give active consideration to whether enhancements to the Methodology or other methodological approaches would be better suited to meeting the licence objectives. We would expect this consideration to include all aspects of the methodology...”

With this in mind, we do not believe National Grid NTS has given sufficient consideration to developing alternative approaches since approval of the methodology in 2009 and therefore should look at developing a two stage auction-based methodology immediately, given the complexities involved.



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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