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November 24, 2006

Dear Paul

**Consultation Response: Recovery of TO Allowable Revenue from Exit Users from 1st October 2010**

E.ON UK does not support this proposal.

We wish to state that we do not support the radical reform of the current Exit Capacity arrangements and therefore do not support UNC Modification Proposal 0116, which this discussion document supports.

We believe that the auction process under Modification Proposal 0116 by its very nature introduces much greater revenue uncertainty, which could lead NG NTS to place an increasing reliance on a commodity charge to over- or under-recover TO allowed revenue. We agree with the principle highlighted in the consultation document that this "...might distort auction behaviour and capacity price locational incentives"<sup>1</sup>. Indeed, the possibility of a negative NTS TO Exit Commodity charge perversely giving incentives to flow gas simply highlights how absurd these proposals really are.

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<sup>1</sup> NTS GCD 03, page 2, Para 2.4

We do not offer support to a proposed Exit Capacity auction and therefore see no need for a commodity charge to adjust TO revenue accordingly. If these unwelcome reforms are implemented however, the use of a TO exit commodity charge would seem to be the most “appropriate” mechanism to deal with both under- or over-recovery of TO revenue.

In our response to NTS GDC 01, we stated that reserve prices should be adjusted upwards to seek to recover target revenues, thereby minimising the prospect of under-recovery, which has been a feature of the current Entry Capacity arrangements and could quite easily be repeated at Exit.

If you have any questions or queries regarding this response, please do not hesitate to contact me.

Yours sincerely

**Richard Fairholme**  
Trading Arrangements  
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