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11 December 2009

Dear Debra,

RE: NTS GCD 07 – Optional NTS Commodity Tariff

This response by E.ON UK is on behalf of all E.ON group companies operating in the UK currently holding a UNC Shipper licence. Given that the short haul methodology has not been re-visited since 1998, we support this re-consideration, clarification and potential updating of the methodology. Our response to the detailed questions is set out below.

Methodology – Cost Assignment

Q1. Do respondents consider the cost assignment under methodology option one or option two, to be most consistent with the relevant objectives? Do the methodologies;

- **Reflect the costs incurred by the licensee?**
- **Take account of developments in the transportation business?**
- **Facilitate effective competition?**

E.ON UK's preferred Option is **1b**. This builds on the existing, familiar methodology, whilst updating certain key parameters. We believe this option best facilitates the objective of ensuring the methodology reflects latest costs whilst seeking to avoid inefficient bypass of the NTS by Shippers. We note that Appendix D in the discussion paper also confirms that Option 1b is likely to have no overall effect on the standard commodity rate, minimising potential for cross-subsidy.

We do not support any of the Option 2 alternatives. Although the methodology is distance-related, the methodology under Option 2 is only barely so and as a result, would seem to benefit large sites only. On this basis, Option 2 cannot be considered to facilitate effective competition. It also relies on lots of arbitrary decisions on which SO costs should be allocated where and in what proportion, and in our view, adds unnecessary complexity for Shippers trying to get to grips with the methodology – particularly new entrants.

Q2. Do respondents have any views on the appropriateness of the costs and parameters used in the derivation of the tariff under option one? Specifically;
- **The connection cost approach?**
- **The anuitisation period; 10 years, 45 years or other?**
- **The load factor?**

We do not understand the rationale for including the connection cost for the purpose of this methodology. This is usually paid as a lump sum by the connecting party. If a minimum charge is desirable then this should be made explicit rather than justified on the basis of a connection charge. An anuitisation period of 45 years should be used as this is consistent with other NTS pipelines. We agree that the current 75% load factor should be retained.

Q3. Do respondents have any views on the appropriateness of the costs and parameters used in the derivation of the tariff under option two? Specifically;

- **Whether the minimum cost should be based on a connection cost approach or a proportion of the SO costs related to short-haul?**
- **Whether the SO costs associated with short-haul (34% for the indicative charges) should be set on an annual basis or fixed, based on a long term trend?**

We do not support Option 2.

<u>Issues common to either option</u>
Q4: Do respondents have any views on the application of the methodology? Specific comments on the following are requested:

- **Distance from the exit point to the ASEP – in the case of ASEPs with more than one SEP is it appropriate to measure the distance to the nearest SEP?**

  This appears to be a reasonable proposal.

- **Load factor – is it appropriate to use a system load factor or an exit point load factor?**

  A system load factor would seem to be more representative of the diversity of load factors of affected points. However, in the absence of data to demonstrate the effect of varying the load factor, we reserve our judgement on this matter.

- **Minimum charge – should there remain a minimum charge? If so, what level should this be set at? Should this be related to the exit point capacity (EPC)?**

  Provided that it is also cost-reflective, then we would not object in principle to a minimum charge.

- **Annual updating of charge – should the charge be updated in parallel with other transportation tariffs?**

  As noted in the consultation paper, an annual updating of the charge is probably more consistent with the move to an anuitisation period of 45 years, which, as outlined above, is our preferred approach (Option 1b). It is also important that if the charge is updated annually, that the change in charge levels should be as predictable as possible.

- **Application to multiple exit points from a single entry point – do respondents agree that the present default allocation rule should apply when the input allocations are below the output allocations?**

  The existing rules on this should be retained, including the possibility for a shipper to request an alternative allocation method. However, we would not necessarily object to the default rule being applied universally.

- **Application at storage exit points – do respondents agree that the 'short-haul' tariff should not be applicable at storage exit points?**

  This seems a reasonable approach to take given that storage sites (justifiably) do not pay commodity charges.

- **Do respondents agree that the charge should only be applicable to the exit points that are connected between an ASEP and the next downstream compressor?**

  No, we see this as an arbitrary cut-off point. Since NG has advised that introducing this rule would not make any parties that currently use the optional tariff ineligible, we do not see the point in adding extra complexity to the methodology if there is no impact in practice.

<u>**Implementation**</u>

Q5: Do respondents support either an implementation date of 1st October 2010 or an alternate implementation date?

This seems reasonable, however we should be mindful that a further consultation stage is likely to be required in addition to any UNC change proposals required, and therefore this proposed implementation date should be flexible. However, it is useful to see the indicative timescales that National Grid is intending to work to.

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,

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