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

Eddie Blackburn
Regulatory Frameworks
National Grid
National Grid House
Gallows Hill
Warwick
CV34 6DA

Friday, 12th September 2008

Dear Eddie,

RE: NTS GCM 05 - NTS Exit (Flat) Capacity & Exit Reform

E.ON UK supports the proposals put forward in this consultation paper, although our preferences expressed in this response should not be taken as indicating support for any of the Modification Proposal 116 variants (excluding 116A). As proposer of Modification Proposal 195AV, we believe that the charging methodology changes proposed here would be compatible with Modification Proposal 195AV if it were to be implemented.

In response to National Grid's specific questions we offer the following comments on National Grid's proposal that:

A consistent approach to setting actual, indicative and auction reserve prices for NTS Exit (Flat) Capacity is taken for all proposals other than 0116A which requires no changes.

E.ON UK supports the use of the Transportation Model to set Exit capacity prices, which should ensure a consistent approach and help Users to replicate and predict the charges themselves.

Nodal NTS Exit (Flat) Capacity prices are generated.

Whilst it could be argued that nodal prices are more cost-reflective, equally calculating exit prices on this basis does remove some of the averaging inherent in zonal pricing. As a result, there will be some exit points where the cost of booking capacity will increase considerably. To avoid possible "shocks" in pricing, some thought should perhaps be given to phasing in the new pricing methodology over time.

Interruption credits are removed.

We support the removal of interruption credits, which would be compatible with the implementation of Modification Proposal 195AV. We assume that interruption payments would be included in the Charging Methodology if E.ON UK's Modification Proposal 116A is implemented and the transitional arrangements effectively become the "enduring" arrangements.

The prevailing methodology for NTS Exit Capacity Prices will be used for the purposes of determining Enduring/Prevailing NTS Exit (Flat) Capacity prices and reserve prices for annual (UNC 0116 variants excluding UNC 0116A only)) and daily firm NTS Exit (Flat) Capacity auctions based on a single year network model and supply/demand forecast for the relevant Gas Year.

Under the Modification Proposal 195/195AV proposals the annual flat exit capacity product would attract an administered price rather than an auction reserve price, but nonetheless we support use of the prevailing methodology to set 'enduring' NTS Exit (flat) capacity prices.

The expansion factor, the unit cost (£/GWH/km) of adding capacity, will be determined in year N in relation for setting all exit prices for year N+4.

This approach seems reasonable, but we note that it introduces a level of uncertainty for Users as it depends on the accuracy of National Grid's forecasting for four years out. Ultimately, this may lead to greater reliance on commodity charge to address over- or under-recovery of allowed revenue. This would make charges less predictable for Users of the system.

The anuitisation factor used will be that calculated from the allowed rate of return implied by the NTS Licence, at the time of setting prices, and a forty year asset life (currently 0.10272).

This seems reasonable and is consistent with the approach adopted for electricity transmission use of system charges.

These arrangements are implemented with effect from the date of implementation of the relevant UNC Modification Proposal.

We agree with National Grid's that the charging methodology changes required will depend on which (if any) of the 116 or 195 variant Modification Proposals are implemented.

I hope that the above comments prove useful. Should you wish to discuss our response further, please do not hesitate to contact me on the above number.

Yours sincerely

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