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Dear Paul,

RE: Consultation on the Exit Capacity Release Methodology Statement (ExCR) to support implementation of the Enduring Gas Offtake Arrangements

E.ON UK does not support the proposed changes to the Exit Capacity Release Methodology Statement.

It should be noted that we do not support UNC Modification Proposal 0116, which this ExCR supports. We have raised an alternative; 0116A, which proposes to extend the current arrangements into the “enduring” arrangements by removing the relevant ‘sunset clauses’ from the UNC. As a result, we believe that the current arrangements suit the present, satisfactory situation regarding Exit Capacity. We are not aware of any sudden increase in “stranded asset” scenarios or concerns from customers in regard of the current regime and therefore, we do not see any reason for change.

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User Commitments

We believe that the current arrangements for user commitments do not require alteration and that these proposed arrangements merely re-allocate risk from National Grid onto Users, rather than reduce the level of risk, overall.

We do not believe that it is appropriate to have a commitment to pay four years of NTS Exit Capacity charges. We consider that a one year commitment is appropriate and that adequate investment signals at Exit are already given through Advance Reservation of Capacity Agreements (ARCAs). ARCAs provide sufficiently large financial commitments to guard against stranded assets whilst allowing reinforcement works to be aligned with the new or incremental increase in gas load.

Placing longer user commitments on Users is likely to be detrimental to competition as it places a significant added risk burden on new entrants to the market. Under the proposed arrangements, a shipper will have a firm commitment to pay for capacity, for example for a new power station, but if construction work is delayed the flat exit capacity payment will be still payable. This is despite the fact that National Grid should be seeking to re-phase their related reinforcement investment to coincide with the actual power station build. Such co-ordination is allowed in the context of bilaterally 'negotiated' ARCAs and clearly allows for efficient re-scheduling of investment for both the User and National Grid. We believe that the new arrangements would be a retrograde step.

The proposals are also inconsistent with the existing shallow connection policy which firmly places investment risk on the gas transporter based on an understanding that efficient investment will always form part of their ongoing regulatory asset base. This new policy was adopted by Ofgem in the late 1990s, in part to ensure costs for new entrants did not become a barrier to entry. It is also supported by Ofgem's Langage and Marchwood ARCA determinations. In our view, longer user commitments are likely to delay investment in much needed gas-fired generation; the only form of generation that can realistically fill the electricity supply gap in the medium-term.

Although a four-year commitment places less risk on National Grid it does not reduce overall market risk; rather, it inefficiently transfers it to the Users who are less well placed to manage such risk. Given the current instability in the UK wholesale gas market, it would seem unwise to further add to user investment risks.

We also do not support the minimum of 14 months notice to reduce holdings of Prevailing NTS Exit (Flat) Capacity. It is our opinion that this can be viewed as a tax on exit from the market. It provides little or no value in terms of market signals and parties may regard this ongoing commitment as a sunk cost which may contribute, at the margin, to a delay in exiting the market. This could sterilise capacity which might otherwise have been released to other users. Again, we are not aware of any complaints regarding the current arrangements. Indeed, we believe that the Transporter will continue to meet its obligations under Standard Special Condition A9

by maintaining the current arrangements.

Options for Discharging the User Commitment

Option 1, reflecting a volume commitment at prevailing charges, may appear to offer the benefit of simplicity. Nonetheless, Option 2, which fixes the price at time of application, also allows the user commitment to be discharged earlier and therefore is, perhaps, the better option. This option also allows parties to 'benefit' from fixing a price, but the extent of this benefit may depend on where prevailing price move over the four years. Fixing prices may, of course, result in neighbouring users who apply for capacity at different times also paying different prices. This could be considered to be discriminatory.

Please note that our statement of preferences above does *not* in any way imply support for the introduction of a flat capacity product or an associated increased user commitment. We would ask that National Grid make this clear in any summary of industry responses.

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

Yours sincerely

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