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Dear John,

RE: National Grid Gas (NTS) System Operator Incentives for 1 April 2010

E.ON UK welcomes this opportunity to comment on National Grid's first consultation on Gas SO Incentives for 2010/11. We are pleased to see that Ofgem has responded to concerns raised in the final consultation responses for the current 2009/10 SO incentives package, which noted that Ofgem had not signalled its views on the package sufficiently early in the process. Further to this point, we are pleased to see that Ofgem will also be publishing an initial thoughts consultation later in the year. We believe Ofgem's full involvement in the development process is important to ensure that the SO incentive package is sufficiently challenging for National Grid NTS, in order to provide real benefits to consumers.

Bundling / Unbundling of Incentives

We are wary of further unbundling, since the more that this takes place, the less easy it becomes for non-Transporters (i.e. shippers and consumers) to understand the possible trade-offs between the incentives. Whilst focusing on discrete aspects of system operation may bring about some financial savings for that area, it does not necessarily follow that this is best for overall system economy and efficiency, since it may be producing a cross-subsidy, for instance. It is our view that the SO Incentives package should only be significantly changed where there is a risk of harm to the best interests of consumers in continuing with the prevailing arrangements. Tweaking around the edges has limited value for shippers who undoubtedly already find the current package difficult to fully understand. We therefore believe that stability in SO incentives has more value, in order that we can actually compare performance year-on-year. The problem currently is that the 'goalposts' keep changing each year, which makes appraising performance very difficult for shippers and surely for the regulator, also.

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Residual Balancing Incentive

We believe the current scheme retains an appropriate cost-targeting framework and reduces the likelihood of unnecessary balancing actions being taken by NGG, when linepack is close to target levels. We broadly support the suggestion of no further change for 2010 and believe it is important that the current incentive arrangements are given the chance to “bed-down” before major revisions (such as removing the linepack incentive, for instance) are considered.

Inter-day Linepack Product

We continue to see no point in this product and would not support its introduction.

Demand Forecasting Incentive

We support the continued incentivisation of the Demand Forecast. Although some shippers are capable of producing their own forecasts, many also rely on National Grid’s information and therefore it is important that it is as accurate as possible. We are concerned, however, that forecast accuracy has slipped over the last year or so (as acknowledged in the consultation document) and therefore a change to the incentive scheme should be considered. In response to some of the specific questions posed by National Grid, as regards this incentive:

- We are sceptical as to the value of a multiple-year demand forecasting incentive unless the target was to achieve a year-on-year improvement in forecast accuracy, as opposed to just maintaining current levels.
- We believe it is appropriate that the incentive should be based around the 13:00 D-1 forecast, since this is likely to be the most valuable report for shippers.
- We agree that consideration should be given to unbundling the DM and NDM elements. This could potentially bring more transparency for shippers as to where the forecast error is greatest (NDM or DM) and therefore where targeted action may be required by National Grid.
- We believe that the incentive should be focused on an annual, overall level rather than trying to target specific days. Although there may be benefits to the latter approach, we wouldn’t want to see the overall level degrade in order to achieve improvements on some key days.

Data Publication Incentive

We do not believe that an incentive should be required in order to maintain the levels of performance already achieved. As we have said repeatedly, we do not agree with the data publication incentive being rolled forward in any form. We believe it represents little more than “money for old rope”, since it is in our view paying NGG to provide a core service to its customers, which it should be doing already. It should not require an incentive. As stated previously, we believe this aspect of system operation would be better served solely through a ‘standard of service’-style approach, rather than as a discrete incentive which currently represents a not insignificant cost to shippers.

NTS Maintenance Incentive

We are supportive in principle of a new NTS maintenance incentive. We believe it is an aspect of system operation which could benefit from an incentive in order to enhance NGG’s customer focus. We believe the purpose of any such incentive should be to:

- Encourage more flexibility from NGG in carrying out planned and ad-hoc maintenance activities (e.g. working weekends);
- Minimise the number (and/or duration) of maintenance days (within reason);
- Minimise number of maintenance days falling outside of the published plan;
- Improve timeliness of communications regarding actual maintenance schedules.

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 the number above.

Yours sincerely,

Richard Fairholme (by email)
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E.ON UK