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7 May 2010

Dear Bob,

RE: Modification Proposal 0284 - Removal of the Zero Auction Reserve Price for Within-day Daily NTS Entry Capacity (WDDSEC)

E.ON UK does **not support** implementation of Modification Proposal 0284. This proposal should be considered no more than a means to temporarily re-distribute money between Shippers, to the advantage of those who predominantly or solely book long-term entry capacity at the expense of those who also book long-term capacity, but have a more diverse supply portfolio and require an affordable balance of both short and long-term products to efficiently and economically manage daily volume risk.

Removing the discount for within-day entry capacity makes this product far less attractive to many Shippers, who will simply move to much less efficient means of managing daily portfolio risk, such as buying more long-term capacity than they are likely to need – in order to accommodate large daily fluctuations in demand. By over-buying capacity, Shippers will be over-stating their entry capacity requirements, giving an erroneous signal of high demand to National Grid and ultimately leading to a National Transmission System (NTS) which is over-built and under-utilised; which must ultimately be funded by consumers. The current arrangements largely avoid this situation arising, by providing Shippers with a means to profile their capacity requirements close to the point of delivery of gas into the System without being penalised financially for doing so.

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As we have stated repeatedly on this issue, a variable TO Commodity charge is an inevitable and unavoidable consequence of using auctions to collect fixed allowed revenue. It could be argued that the current comparatively high level can be attributed largely to the lack of transportation constraints currently on the National Transmission System (NTS). For instance, as recently as 2007 the industry experienced significant TO revenue over-recovery due to high demand for short-term capacity, arising from constraints in the Easington area. As a result of this event, some Shippers may well have become accustomed to an (arguably) unrealistically low TO Commodity charge historically, and hence their calls for an immediate reduction in the TO Commodity charge now, may be misguided.

Furthermore, the implementation of entry capacity substitution, which is designed to create a 'tighter' system, could well result in transportation constraints in the future, which will directly impact on the TO Commodity charge level, due to increased short-term capacity sales. If, as proposed here, the within-day discounts were to be removed, we could see significant auction revenue generated in the event of a transportation constraint, leading to much greater over-recovery than ever seen before. This could then create further charging problems in appropriately re-distributing the large over-recovered amounts.

Finally, we consider that this proposal is fundamentally incompatible with the emerging direction of European gas market rules. Although the relevant rules are at an early stage of development, we are not aware of any signal to the market that Shippers should be securing only long-term access rights. An appropriate and affordable balance has to be struck between long-term user commitment and access to short-term products in order to accommodate the diverse requirements of multiple gas Shippers; all with different business interests. Since there are no within-day interruptible capacity auctions, the barrier of accessing the NTS is immediately raised by this Proposal, closing out "low value" Users and some new entrants and imposing significant additional operating costs for supply portfolio Shippers.

In light of the points raised above, we do not believe this Modification Proposal better facilitates any of the relevant objectives under the Transporter's Licence and we do not support its implementation.

Yours sincerely,

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