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Dear Bob,

RE: Modification Proposal 0285 – “Use it or lose it” (UIOLI) Interruptible Capacity only to be released when there is at most 10% unsold firm entry capacity

E.ON UK does **not support** implementation of Modification Proposal 0285. Our lack of support for this proposal is based on the following points; most of which have been previously stated in our responses to associated National Grid charging consultation papers NTS GCD 08 & NTS GCM 19.

Incompatible with emerging direction of European Market Rules

In our view, this proposal is incompatible with the recently published ERGEG Capacity Allocation Guidelines¹, which states that “Registered network users are entitled to submit nominations on an interruptible basis at any time.” This Proposal would not facilitate this, since interruptible capacity would only be available once firm capacity has “sold out”.

For the sake of regulatory certainty, we believe that caution should be exercised in implementing fundamental changes to the UK gas charging regime, which may subsequently have to be unwound in the near future. It would be wiser to wait until the standardised range of capacity products has been further defined and the impact on the UK more fully understood.

¹ Capacity Allocation on European Gas Transmission Networks, Pilot Framework Guideline, Ref: E09-GNM-10-05, 10 December 2009

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Firm and Interruptible are fundamentally different products and release of one should not be contingent on the other:

Firm and Interruptible capacity are different products that will be used by different shippers in different ways. A restriction on one in favour of another is likely to result in a distortion to the wholesale traded energy market, ultimately driving up costs faced by consumers. In a report by NERA for the Gas Forum – “Review of the Proposed Gas Exit Arrangements” (and equally applicable to entry capacity), it is noted that:

“[An] Interruptible service allows users to gain access to capacity even if they place a relatively low value on the capacity and would not be willing to pay much more than the operating costs of using it. A tariff policy that removed this possibility would discourage low value users... These users would be prepared to pay for operating costs and make a small contribution towards the fixed costs of investment, but may not be prepared to pay the full costs of capacity. Discouraging such users from using the network would lead to reductions in network utilisation and consumer welfare.”

Proposal will unduly limit the release of Interruptible Capacity

The proposed changes arising from the “Entry Charging Review” (UNC Mods284 & 285) are likely to reduce the amount of interruptible capacity available, given that National Grid NTS is obliged to release it based on the average unused capacity over a 30-day period. Currently, Shippers typically buy more within-day firm capacity than they need to cover volume risk, so this feeds through into a large amount of interruptible capacity being released. However, going forward Shippers will only want to cover their expected flow, buying less within-day firm capacity and so availability of interruptible capacity will be much more limited. This will reduce the options available for efficiently and economically managing volume risk, ultimately increasing costs to consumers.

Availability of Interruptible Capacity will be further limited by this Modification Proposal since the calculation of whether an ASEP is “sold out” does not take into account the results of the day-ahead firm capacity auction. As result, there will be situations when interruptible capacity is not released because there is unsold firm, but then the daily firm auction sells out, leaving the Shipper with no capacity; even though the UIOLI calculation shows that there are Shippers not using their booked firm capacity. We believe this is a fundamental flaw in this Proposal which National Grid has acknowledged, but has failed to properly address. The combined effect of both points raised above will be that availability of interruptible capacity would be unduly and unfairly limited by this Proposal.



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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