



Rob Hetherington - Scotia Gas Networks

Steve Armstrong - National Grid

Anna Taylor - Northern Gas Networks

John Edwards - Wales & West Utilities

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E.ON UK plc
Newstead Court
Sherwood Park
Little Oak Drive
Annesley
Nottinghamshire
NG15 0DR

www.eon-uk.com

Please respond to:
Brian Durber
Tel: 01538 386923
Mob: 07768 031942

Brian.durber@eonenergy.com

Distribution Networks Pricing Consultation Paper DNPC04 Methodology for Determining the Balance of Revenue Recovery between LDZ System Charges and Customer Charges

E.ON UK welcome the intention of the DN's to introduce cost reflective charging at network level and between the LDZ Capacity and Customer charge elements.

We do however have concerns with regard to IGT customers supplied via CSEPs. It is not entirely clear to us what the impact of the suggested change would be on the transportation costs for in excess of 1 million customers currently served in IGT networks. We would therefore like to see a more detail impact assessment of the implications of this change specifically with regard to CSEP charges.

We appreciate that this request may take a little time and would therefore also request that the timing of the implementation of this change be delayed until October 2009.

In answer to the specific questions raised :

- 1. Should the charging methodology be changed so that the balance between LDZ System charges and Customer charges for each DN is based upon a network specific estimate of the relevant costs ?*

We are supportive of cost reflective charging, so therefore support this change. We would not support the alternative methodology (a weighted average) as it takes away the cost reflective element.

Shippers/Suppliers, have always stated that cost reflectively, transparency and predictability are key elements in risk mitigation. As long as the charge setting process is transparent and cost reflective, then as a shipper we have the forecasting tools to make assumptions on the future path of charges.

- 2. Should the DN's rebalance the LDZ System and Customer each time the level of charges is changed or should DN's rebalance the LDZ System and Customer charges only if the forecast revenue split deviates from the cost – reflective target split by more than a set threshold value. If so the DN's would welcome feedback as to whether the threshold should be set at +/- 1%.*

We believe that a review in line with the price control would be preferable, once allowed revenues have been set.

- 3. Is there any reason why the proposal should not be implemented from 1 April 2009 ?*

We would prefer more analysis of the impact of this change on IGT customers to be undertaken. It would appear from this proposal that there may be a significant detrimental affect on IGT customers who are subject to RPC.

The objective of RPC was to ensure that IGT customers are not subjected to excessive transportation charges. If this change results in this objective being missed then alternative amendments may be needed to the RPC mechanism.

We believe that more analysis of this issue should be undertaken before the change is implemented. We would therefore suggest that this analysis is undertaken by the DN's now and that implementation is consequently delayed until October 2009.

Yours sincerely

Brian Durber (by email)
Retail Regulation