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21 May 2009

Distribution Networks Pricing Discussion Paper DNPD04
Proposals for LDZ Exit Capacity Charges

E.ON UK welcomes this discussion paper which sets out the options for DNs to recover NTS exit capacity charges from users connected to the distribution network.

We recognise that the costs themselves will be 'passed through' rather than charged directly and support this as long as transparency is assured. In terms of the methodology, in general we support a balanced approach which takes account of the desire for appropriate cost reflectivity but does not introduce volatility. We would also welcome a solution which does not add administrative complexity and cost due to over burdensome system or process changes.

In answer to the specific questions:

1. *Should LDZ capacity charges be based on a flat rate pence per peak day kWh per day rate in the same way as the NTS Exit Capacity charges are now or should some alternative be considered.*

We do not see any reason why the basis for charging these particular capacity elements should be any different from the existing.

2. *Should LDZ Exit Capacity charges be applied by Offtake, Exit Zone or by Network. Should they be included in the existing LDZ system charges or should some other alternative be considered.*

<u>By offtake</u>
As explained in the paper, due to the dynamics of a gas network and for operational reasons DN supply points cannot all be accurately mapped to a particular offtake. Therefore although this option may be considered to be theoretically the most cost reflective, in practical terms we believe it is not.

<u>By network</u>
This would provide the simplest solution and would be in line with the methodology currently adopted for LDZ capacity charges, i.e. the same across the network. However it would decrease the degree of cost reflectivity as compared with the existing situation.

<u>By exit zone</u>
We believe that the way charges are applied currently provides the best practical degree of cost reflectivity. In particular we also believe that it provides the most stable charging. This is important to shippers as stability lessens the need to consider other risk management tools, the costs of which would ultimately be borne by consumers. To reduce system and process costs they should be included in the existing LDZ system charges.

3. Should the misalignment of NTS & DN dates for changing charges be addressed by the DNs seeking to change the LDZ capacity charges in October or no change be sought until the industry has some experience of the operation of the new regime.

We appreciate the concern around possible instability with regard to DN charges, however we note that the April change date for other LDZ charges was introduced itself to provide a degree of predictability. Therefore any alignment back to October would seem to be contradictory. Consequently we would support the status quo in order to gain experience as suggested in the paper.

Indeed, although we recognise that other NTS charges are not in the scope of these discussions, a move to NTS changes to charges in April may prove a more effective solution in the long term.

Yours sincerely
Brian Durber   Retail Regulation (by email)