



Tim Davis  
Joint Office of Gas Transporters  
51 Homer Road  
Solihull  
West Midlands  
B91 3QJ

**E.ON UK plc**  
Westwood Way  
Westwood Business Park  
Coventry  
CV4 8LG  
eon-uk.com

Richard Fairholme  
Tel: 02476 181421  
richard.fairholme@eon-uk.com

November 30, 2006

Dear Tim,

**RE: Modification Proposal 0119 – Amendment to the Entry Overrun Charge**

E.ON UK does not support this Modification, as currently drafted.

Whilst we agree that there is clearly a need to address the perverse incentive that exists currently to flow gas where insufficient capacity is booked at an ASEP, we do not support the proposed methodology for calculating the new overrun price.

In respect of the revised methodology, as described in Mod 0119:

*(1.1 \* B) where B is the **highest** accepted offer, forward or exercise price in respect of the Day*

We do not agree that National Grid (NG) should use the *highest* accepted offer price. If this is adopted, there is a real danger that an erroneous offer from a User, which was accepted by NG could become the prevailing overrun price for the day. As a result, we would strongly favour the continuation of a weighted average; although it is apparent that the current average of the top 25% may not be satisfactory.

E.ON UK plc  
Registered in  
England and Wales  
No 2366970  
Registered Office:  
Westwood Way  
Westwood Business Park  
Coventry CV4 8LG

In Ofgem's decision document on "The New Gas Trading Arrangements" in 2000, it was highlighted, in regard to Modification 408, that:

*One shipper commented that the overrun modification increases the need for effective manifest error provisions, as these errors may significantly increase overrun charges set for the day. Another suggested that the term related to within day entry capacity sales should be set as a weighted average price of the top accepted bids rather than the highest accepted bid in order to prevent potential gaming of the overrun charge.*<sup>1</sup>

E.ON UK agrees that these points remain valid and that weighted averages should continue to play a role in calculating the overrun prices. Indeed, Ofgem has also previously commented in favour of a weighted average approach to calculating overrun prices:

*Ofgem recognises respondents' views that linking the daily sales component to the marginal price trade could allow individual participants to bid up the overrun price on certain days. We believe this component should be set on a similar basis to the monthly price component and be **a multiple of the weighted average daily price paid for capacity.***<sup>2</sup>

In conclusion, we consider that a weighted average price would be a more economic approach that would guard against any erroneous offers unfairly dictating the overrun price for the day. As an alternative, we suggest perhaps using a weighted average of the top few accepted offers. This would give a more cost-reflective price and significantly mitigate the financial risk of applying an overrun charge derived from an accepted erroneous offer. As it currently stands, we believe that the charging methodology underpinning this Modification does not further the relevant objectives of Standard Special Condition A11.1 (a).

If you have any questions or queries regarding this response, please do not hesitate to contact me on 02476 181421.

Yours sincerely

**Richard Fairholme (by email)**  
Trading Arrangements  
E.ON UK

---

<sup>1</sup> Ofgem, 'The New Gas Trading Arrangements - A review of the new arrangements and further development of the regime: A review and decision document', July 2000

<sup>2</sup> *Ibid.* (Our highlighting)