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Monday, 14th January, 2008

Dear Tim,

Modification Proposal 0189 - Amendment to the QSEC Auction Timetable

E.ON UK offers **qualified support** for implementation of this proposal. Although we have no problem in principle with the idea, we have some concerns about how the proposal would operate in practice, given the current absence of legal text.

The proposed change to the timing of the QSEC auction would appear to stem from the increase in the IECR investment lead time to 42 months, which has created a need to realign the release of obligated capacity with the gas year. A benefit of this change is that it removes an 'unnecessary' winter period from the start of the investment lead time. In reality, little or no construction work would take place for a new project during this time, so in this regard, the proposal could be considered to better reflect commercial reality than the *status quo*.

Our main concern with this proposal, however, is the lack of clarity around how the investment lead time would operate in practice, if implemented. For example, if the QSEC auction is moved to April and if the 42 months lead time is applied from April 2008, then this would take us to mid-October 2011. The current, revised IECR states that:

"38. National Grid shall release the incremental NTS Entry Capacity for use subject to a default lead time of 42 months. It is anticipated that the application of the default 42 month lead time shall be as outlined within the GT licence. However, where this is not specified, the lead time will apply following completion of the capacity allocation process, i.e. from the 1st December 2007 for a successful bid placed in a

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September 2007 QSEC auction. As capacity is sold in quarterly units, capacity will be made available from the commencement of the nearest quarter following expiry of the 42 month period¹.

This quite clearly states that capacity is made available in the nearest quarter following the expiry of the 42 month period. Given that 42 months from April 2008 would take us to **mid** October 2011, our concern is that this Mod gives NG discretion over whether or not to release the capacity for the fourth quarter of the year – i.e. first three months of winter following elapse of the lead time. In our view, there should be no element of discretion. Although the Modification Proposal does help the reader by saying that “normally” capacity would be released from 1 October, we have yet to see whether this will feed through into the legal text. We believe that it absolutely must and would like to draw the Mod Panel’s attention to this point when it comes for their consideration to ensure that the legal text accurately reflects the proposal.

Our support for this proposal is also contingent on the assumptions that:

1. Entry capacity substitution will not apply in 2008; and
2. That the revised baselines are published with reasonable notice ahead of the proposed April (or May) QSEC auction. It has been suggested that the post-Ofgem review baseline levels may not now be published until May 2008, which would mean that 2008 QSEC participants would be bidding on current baselines which could then change one month after the auction takes place. This is clearly unsatisfactory, particularly given the very material incremental investment in the NTS that some Shippers may trigger through the auction mechanism.

In the event the new baselines are delayed slightly, we see no obvious reason why we couldn’t support a May QSEC for 2008 *if* National Grid agree to maintain the 1 Oct 2011 incremental capacity release date.

Additional Comments – Capacity Substitution

Although it does not form part of this proposal, we would support National Grid’s recently outlined intention to delay implementation of entry capacity substitution until 2009; a proposition which is intrinsically linked to this Modification Proposal. Appropriate delay will allow full and robust analysis to be carried out on the proposals for capacity substitution, which would support incremental, carefully considered industry change. However, it will

¹ Our own highlighting.



remain critical that Ofgem fully engages in the development process to ensure that National Grid does not benefit unduly by delaying implementation of the substitution Licence obligation.

Yours sincerely

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