



John Bradley
Secretary, UNC Modification Panel
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Tuesday, 9th December 2008

Dear John,

RE: Modification Proposal 0235 - Recovery of Debt and Smearing of Revenues via Energy Balancing Neutrality

As proposer, E.ON UK **supports** the implementation of this Proposal, which forms part of a trio of separate Modification Proposals raised following a review of Code credit rules undertaken recently by the Energy Balancing Credit Committee (EBCC).

We believe this proposal addresses an inequity in the current UNC credit rules whereby all Users (including, importantly, those who were not in the market at the time of another User's default), would be liable (to the value of their percentage share of total system physical throughput) for the defaulting User's energy balancing indebtedness. In short, this means that any new entrants to the market subsequent to a User's default would be liable, as a part of the physical gas shipping community, for debts accrued, but would also receive any monies subsequently recovered. This proposal addresses this inequity by ensuring the relevant costs / benefits are targeted appropriately on those Users who were actually in the market at the point of User default.

E.ON UK recognises that this proposal addresses one of a number of perceived inequities in the current energy balancing credit arrangements. In particular, we have concerns about the current practice of smearing energy balancing indebtedness following termination of User purely on the basis of physical throughput. In doing so, this clearly excludes non-physical

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(i.e. pure NBP) traders from any resultant liabilities in the event of a User termination. We believe a review of this apportionment mechanism may be warranted to ensure all market participants are facing an appropriate level of risk. In doing so, it will be important to ensure there is currently no undue discrimination whereby certain categories of Users receive different treatment where this is not warranted.

Yours sincerely

Richard Fairholme (by email)

Trading Arrangements

E.ON UK