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Dear Bob,

**RE: Modification Proposal 0315 - To Enhance Section X of the UNC Transportation Principal Document to improve the Energy Balancing Further Security Process**

E.ON UK supports implementation of this proposal.

The overarching aim of this proposal is to better protect the whole industry from the risk of Shipper default, by ensuring that as far as possible Shippers are posting sufficient security to cover their energy balancing position. As noted in the proposal, this was the rationale for introducing the Further Security Request process to the UNC. The FSR process has been demonstrated to work effectively to the benefit of the industry and it is important for market confidence that the integrity of this process is maintained. Posting sufficient credit to adequately cover your position is a fundamental requirement for all parties wishing to trade energy and applies to all Shippers equally. Receiving three FSRs in 28 days suggests a serious problem with a Shipper maintaining appropriate credit and therefore, in line with the view of the proposer, we believe this situation warrants the remedial action, as proposed here.

Previous Shipper failures leading to termination under the UNC suggest that there is no pattern to the nature or type of Shippers involved. What is established is that there is a proven risk in the event of a Shipper's failure for very significant energy imbalance charges to be accrued, which must be recovered from all physical Shippers.

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The impact of such charges can be substantial (e.g. Lehmann Brothers in 2008) and could in the worst-case lead to a 'domino effect' of failures, as Shippers are faced with serious cash-flow problems due to large unexpected bills through energy balancing neutrality. Potential failure would seem more likely for those Shippers who may currently be doing the bare minimum (in respect of credit requirements) to continue participating in the energy balancing market and therefore may be ill-equipped to cope with potentially large, unexpected neutrality charges.

By promoting a reasonable and prudent approach by Shippers to managing their energy balancing credit position, the impact of this Modification Proposal should be to enhance market confidence that the risk of Shipper default (and the potential industry liabilities) is being managed effectively. This should promote confidence in the market, improving investor confidence and the willingness of parties to enter the market, thereby securing effective competition between Shippers (SSC A11.1 (d) (i)).

In practice, we would not expect this proposal, if implemented, to have any day-to-day operational impact for the vast majority of Shippers. We would also expect the Transporter's agent to work with Shippers who may be approaching their third FSR in 28 days to encourage them to post additional credit voluntarily before the utilised value (Cash Call Limit) of the User's existing Security held is scaled back. We note that the EBCC is also expected to be consulted and kept up to date where appropriate, which provides additional safeguards that actions taken by the Transporter's agent are in the best interests of the whole energy balancing community.

If you wish to discuss this response in any more detail, please do not hesitate to contact me on T: 02476 181421

Yours sincerely,

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