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Dear Bob,

RE: UNC 0350 - Combining the NTS Entry Capacity and Exit Capacity Credit Checks

E.ON UK **supports** implementation of this proposal.

We consider that this proposal should incentivise Shipper behaviours that will benefit the whole Shipper community in terms of more prudent credit risk management. The threat of the ultimate sanction of Shipper termination is likely to act as sufficient incentive for Shippers (principally single entry point Users) to provide sufficient credit to cover their capacity bookings, when requested. Should there be any doubts as to whether they can provide the necessary credit in the future and the sanctions which might then apply; this may discourage bids in the QSEC auctions which cannot be adequately secured, in the first place.

However, we believe the benefits of implementation are somewhat over-played by NG NTS and we disagree with the proposer's statement that: *"Implementation would reduce the risk of increased Entry Capacity Commodity charges to the shipper community, from a User signalling and being allocated Enduring Annual NTS Entry Capacity that is subsequently allow to lapse, by that User not providing sufficient security."* We do not believe that this proposal alone will change the risks facing the shipper community overall, since even if a Shipper holding entry capacity is terminated from the UNC, the remaining Shippers would have to fund that capacity in that event that it cannot be re-sold, through increases to commodity charges.

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This issue arises because of National Grid's revenue driver structure, which allows them to continue to claim the value of the revenue driver, irrespective of any individual Shipper's credit worthiness. We therefore believe the risk facing the Shipper community as a whole would be unchanged by this proposal; however, this proposal may reduce the likelihood or incidence of NG NTS having to recover charges from the generality of Users, rather than the User who booked the capacity in the first place.

We note that the recent introduction of an Income Adjusting Event process outside of the UNC may help address Shipper's concerns about the current NG NTS revenue driver structure and we would also expect this to be examined as part of the forthcoming price control review process (RIIO-T1).

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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