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Monday 8 May 2006

Re: Adjusting National Grid's revenue allowances when large new entry points connect to the gas transmission system

Dear Colin

Please find our response to the questions asked in this consultation.

Overview of issues for consultation

We agree with the scope of the consultation and with the proposed focus of the consultation on estimating actual long-run incremental costs, for the purpose of setting UCAs for large new entry points.

Modelling approach

Q1 We recognise the requirement to define a supply / demand scenario but consider that it may be difficult to meet the number of options, presented. There may be a case for NG presenting options for new entry points, for example, if you pay x, you get a y service, if you pay x+, you get a y+ service.

Q2 We do not agree with setting the base at 2008/9 and ignoring other probable projects as this could lead to undercharging and / or an inefficient network as some projects come on stream. An example is two projects after the same entry point; this is similar to the situation at Milford Haven, where different UCAs were set for different scenarios. It may be possible to run different scenarios and allow the new entrant to choose which one to bid against. We accept, however, that this may be overly complex for all new entry points.

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Registered Office: Westwood Way Westwood Business Park Coventry CV4 8LG **Q3** We believe, at this stage, that the network should be modelled for 5 years to strike a balance between certainty and cost reflectivity.

Q4 We agree that it may be appropriate to determine ranges of flow increments for each large new entry point, based on the incremental flow requests by a new applicant. Furthermore, it might be valuable for NG to advise new entrants of what the optimum might be.

Q5 We agree that it may be appropriate to treat the costs of connecting pipelines differently from other network reinforcement costs. New entrants should also have the option to build a line to a different entry point and receive a different UCA. An iterative process with NG would be desirable, to establish the 'best' physical entry point.

Q6 We agree that the cost allocation between entry and offtake should depend on the approach by which the network is balanced. If the supply substitution approach is adopted, then the costs should be apportioned fully to entry points.

Q7 Supply substitution is the more logical model to use for network balancing purposes as the demand will not increase simply because there is a new entry point, except under the Transit UK scenarios. A difficulty is where to substitute as that could make a significant difference. We agree with the principle of using engineering judgement on what is reasonable but reducing pro rata except in the local vicinity has merit as it should lead to charges which reflect the cost of local infrastructure being targeted at the particular terminal but the cost of any more distant reinforcement is spread wider.

Q8 The most up to date cost data should be used, to enhance cost reflectivity.

Other relevant information

As a general point, if a User is prepared to commit long term, such as fifteen years for capacity, then it is right that the associated charges are set and cannot be changed.

With respect to storage sites, we consider that the only difference in treatment should be around the flow assumptions used to calculate the charges. The supply substitution approach should be used as gas from storage is usually only used when there is insufficient at the beach and so the flow will only correspond with a reduction at other points. It should be assumed that all other similar storage facilities are flowing at the same time and a high level of demand also assumed. As a general principle, reinforcement for a storage facility should not, for example, allow it to flow at full rate when demand is at absolute minimum or when all other storage facilities are injecting gas.

Please do not hesitate to contact me if you wish to discuss any of the above.

Yours sincerely

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