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Wednesday, 15th August 2007

**Proposal to modify Standard Special licence conditions A4, A5 and D11 of
the Gas Transporters licence**

Dear Indra,

We are supportive of changes to the regime governing gas transportation charges that will increase their stability and predictability.

These two factors are crucial to gas shippers and suppliers in setting contract and tariff prices for customers. Greater stability and predictability reduces the commercial risk to gas suppliers and consequently can ensure that consumers receive the most competitive price.

Recommendation 1 – Twice annual charge updates

Your first recommendation to limit the times that Gas Distribution Network businesses can vary their charges is consistent with this objective and therefore we would support its implementation.

Recommendation 2 – Notice period for indicative charges

We are not convinced that the second recommendation to reduce the notice period for indicative charges from 150 days to three months will increase the predictability of charges by gas shippers and suppliers.

We appreciate the argument that reducing the period of time should increase the accuracy of indicative values.

However the Gas Distribution Network businesses have recently suggested changing their charging methodology to recover 95% of their revenue based upon capacity. The argument for this change is based upon the greater level of stability

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to charges that this will introduce. This greater degree of stability should ensure that in the future GDN indicative charges at 150 days will be more accurate than they have been in the recent past.

The indicative charges for 2005 and 2006 were used as a justification for demonstrating the inaccuracies of the 150 day indicative values. Although they proved somewhat less than accurate they did at least give gas shippers and suppliers a fairly good indication about the general change in prices that could be expected (e.g. charges in London would be dramatically falling whilst those in the North West would increase significantly).

This advanced warning was useful to gas shippers and suppliers in predicting how costs would be altering and allowed them to include these changes in their future contract prices.

Reducing this advanced warning will reduce the ability of gas shippers and suppliers to predict charges and therefore we are not in favour of this recommendation being implemented.

Yours sincerely

Alex Travell
Retail Regulation
E.ON UK