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Dear Ian,

RE: National Grid Gas (NTS) System Operator Incentives for 1 April 2010

E.ON UK welcomes the opportunity to comment on Ofgem's proposals for National Grid NTS's 2010 SO incentives and the associated Transporter licence changes.

Whilst the SO incentives seem broadly acceptable, we strongly object to the incentives setting process and the Transporter's Licence being used as a lever by Ofgem to force National Grid NTS to bring forward proposals on introducing a linepack trading product and reviewing default cash-out prices – both within rigid timescales. Whilst we have no problem examining these subjects, we do not agree that licence obligations on National Grid are either the most efficient or transparent way of dealing with Ofgem's perceived shortcomings of the current trading arrangements. Furthermore, we fail to understand why these issues could not be discussed and developed through the Transmission Workstream or a UNC Review Group – both of which are much more flexible, inclusive and effective than taking the extreme measure of imposing rigid licence conditions. Unfortunately, it seems that Ofgem has leapt to the conclusion that introducing a linepack trading product is the only acceptable means to facilitate removal of the linepack incentive. We are disappointed this industry debate could not have been had *before* Ofgem decided, somewhat rashly, to introduce licence obligations.

Ofgem will recall that when the idea of a linepack product was originally floated there was little - if any - Shipper (i.e. customer) interest in such a product; and we are not aware that the situation has changed since. We are conscious that National Grid NTS has been working on the concept over the past year, but given the low level of customer interest, we are not at all surprised that National Grid has not yet brought forward firm proposals.

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Had there been demand for such a product, a Shipper (or Transporter) could have raised a UNC Modification Proposal at any time. Unfortunately, due to licence obligations, the industry now faces the prospect of resource-draining workshops over the next 12 months, developing a product that will rarely - if ever - be used by Shippers. As a result, we urge Ofgem to remove the new licence obligations from the proposed licence drafting and consider a more proportionate and pragmatic approach.

Duration of SO Incentive Schemes

In previous SO incentive consultation responses, we have noted our concern about incentive schemes lasting more than one year. Contrary to Ofgem's view, we do not believe that longer incentives will necessarily result in more efficient and economic outcomes. Rather, the longer the incentive scheme, the greater the risk of industry exposure to unintended consequences and unpredictable Income Adjusting Events. We strongly favour single-year incentives; the main advantage being that the targets can accurately reflect changing market circumstances year-on-year. This does not mean that the incentive parameters necessarily have to change each year, but where an incentive is clearly not delivering the desired outcomes, we would not want to be locked into this arrangement for two (or more) years, which is a real danger posed by introducing long-term SO incentive arrangements.

I hope that the above comments prove useful. Should you wish to discuss our response in any further detail, please do not hesitate to contact me on the number above.

Yours sincerely,

Richard Fairholme (by email)

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