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Wednesday, 15th August 2007

DISTRIBUTION NETWORKS PRICING CONSULTATION PAPER DNPC03

LDZ System Charges Capacity / Commodity Split and Interruptible Discounts

Capacity/Commodity split

E.ON UK appreciates the intentions of the Gas Distribution Businesses by proposing to amend the split between capacity and commodity for LDZ System Charges. The added stability in gas distribution transportation charges that it has been suggested would result from this change would be welcome.

We are comfortable with the suggestion that charging methodology for larger supply points is changed so that the capacity element of the LDZ system charges are set to recover 95% of the costs.

We have considered the responses by the Gas Distribution Networks to the points that we mentioned in our reply to PPDN2 in May 2007 and have some sympathies with their views.

However we are still concerned about the impact that this change may have on

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shippers and suppliers active in the Smaller Supply Point market.

Smaller Supply Points are generally domestic customers and this change may have unforeseen impacts

Cash-flow Affects

Gas is principally used as a fuel for heating for domestic customers. One of the principle benefits for this change to Gas Transporters is a reduced risk in managing cash flow in years when temperatures vary considerably from seasonal average. If the proposal is accepted then the risk will be passed to gas suppliers active in the domestic sector.

Competition between gas suppliers may therefore be distorted with those companies that are more able to manage this financial risk being at an advantage to those who can't. It may therefore be seen as a barrier to new entrants into the domestic gas supply sector and could therefore be seen as being inconsistent with the objective for Gas Transporters to ensure that their charging methodologies facilities relevant competition between gas shippers and between gas suppliers.

For this reason E.ON UK can only support this proposal in so far as it is applied to larger supply points.

Interruptible Supply Points

The proposals by the Gas Distribution Networks that interruptible supply points should pay 47.37% of the increased LDZ capacity charge seem appropriate. This should ensure that they continue to receive the existing level of discount in their transportation charges.

As an operator of a number of interruptible sites we are concerned that the proposal is somewhat vague. It does not give individual interruptible customers an indication of the costs that they will incur should this proposal be accepted.

For this reason we can only offer qualified support for this proposal at this time.



Effective Date for Change

We are comfortable with either the introduction of these proposed changes on the 1st April or the 1st October 2008. The arguments put forward for delaying the introduction of the changes until the 1st October seem valid. Mitigation of the risks to the industry of these changes would appear to outweigh the benefits of introducing the charges earlier in April. For this reason we would support the introduction of the proposal changes on 1st October 2008.

Yours sincerely

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