



Julian Majdanski  
Secretary - UNC Modification Panel  
Joint Office of Gas Transporters  
31 Homer Road  
Solihull  
West Midlands  
B91 3LT

**E.ON UK plc**  
Westwood Way  
Westwood Business Park  
Coventry  
West Midlands  
CV4 8LG  
eon-uk.com

Richard Fairholme  
+44 (0)2476 181421

richard.fairholme@eon-uk.com

Friday, 30 May 2008

Dear Julian,

**RE: Modification Proposal 0216 - Introduction of an additional Discretionary Release Mechanism for NTS Entry Capacity; and**

**Modification Proposal 0216A - Introduction of Additional Pay-as-Bid Auctions for NTS Entry Capacity**

E.ON UK does **not support** implementation of Modification Proposal 0216

E.ON UK **supports** implementation of Modification Proposal 0216A

Whilst there are some meritorious aspects of Mod 216, we do not believe it is appropriate that National Grid NTS should enjoy complete, unfettered discretion about how (including how much) and when to release additional (including associated Unsold) non-obligated NTS Entry Capacity to the market. If National Grid NTS were to have unrestricted discretion to release additional no-obligated capacity, this could introduce previously unexpected amounts of NTS Entry Capacity to the market, which may undermine the value of capacity bought or sold in other auctions and would also weaken the value of existing (and future) Entry Baselines. In response to these concerns, we have raised Mod 216A, which places reasonable limits on National Grid's discretion to release non-obligated (and associated Unsold) capacity, thereby preserving stability and certainty. A set of slides by E.ON UK comparing the key points of the two Mods can also be found here:

<http://www.gasgovernance.com/NR/rdonlyres/B20814B0-1AB8-451B-A84D-8A48C29153CB/25923/ModificationProposal216ASummary.pdf>

For the benefit of potential respondents to either Mod, it is worth noting that both Mod 216 & 216A would deliver *equally* the expected additional Easington Capacity this coming winter. Nothing in Mod 216A prevents or restricts what would otherwise be made available by National Grid through Mod 216 for this particular ASEP. This has been confirmed through discussions between the Proposer and National Grid NTS.

E.ON UK considers that Mod 216A would, if implemented, better facilitate the following Relevant Objectives as set out in National Grid NTS' Gas Transporter Licence:

- In respect of Standard Special Condition A11 paragraph 1(a), the Proposal would provide additional flexibility in the capacity release arrangements to allow National Grid NTS to release additional NTS Entry Capacity only via a pay-as-bid auction. This should result in the release of more capacity to the market than would otherwise be the case, reducing the risk of gas being stranded offshore and better facilitating the achievement of this objective.
- In respect of Standard Special Condition A11 paragraph 1(d), the Proposal would promote effective competition between relevant Shippers by ensuring certainty for Users that capacity bought in previous auctions in the same Capacity Year would not be undermined by release of additional and perhaps unexpected capacity (potentially through an as-yet unspecified release mechanism) called at National Grid's discretion (as proposed in Mod 216).
- In respect of Standard Special Condition A11 paragraph 1(d), the Proposal would further promote effective competition between relevant Shippers by ensuring that both new and existing Users of the NTS are aware of the established structure of entry capacity auctions and are able to plan and manage risk on this basis. In addition, by time-limiting this Proposal, any potential unintended consequences are minimised and the industry has time to robustly review and improve on this new mechanism before September 2009.

It has been suggested that one of the advantages of Mod 216 is that due to shorter User notice periods (7 days) and no restriction on the minimum amount of Capacity to be released, it will potentially better meet the specific demands of LNG Shippers, some of which would like NTS Entry Capacity only when a LNG ship is berthed at an entry terminal. However, National Grid's Licence restricts them from auctioning *any* new, additional Capacity, even daily strips, with less

than 7 days notice to Users. For many LNG Shippers this is *still* too far ahead to be of genuine use and therefore offers no improvement over the current arrangements. As a result, we do not see what advantages Mod 216 has over and above Mod 216A when considering this particular issue. To facilitate shorter notice periods for auctions would require a change to National Grid's Licence, which given the significance of this alteration would clearly demand a specific industry consultation.

Finally, irrespective of which (if any) Mod is implemented, we do not believe it is appropriate to place too much emphasis on the release of additional non-obligated capacity outside of the current auction structure; particularly in the long-term. This diverts attention away from obligated Baseline levels, which are significantly more important from a User's perspective as they provide much-needed certainty. Whilst it may be advantageous for National Grid to have less focus placed on its obligated levels by it releasing more non-obligated capacity, this simply transfers risk from National Grid onto Shippers.

We believe the message that seems to have been relayed by National Grid NTS; that it can "squeeze out" a bit more Capacity through additional non-obligated release to meet customer requirements should be treated with some caution. There is a risk for Users, that at the next Price Control, National Grid could concentrate less on obligated levels, by seemingly providing comfort to both the market and the Regulator that there is always non-obligated release, should more capacity somehow "become available". This approach conflicts with what we see as the very point of NTS Entry Baselines, which is to reflect the maximum physical capability of the system. If additional non-obligated Capacity is released in anything other than truly exceptional circumstances, then we believe there is a risk that the meaning and purpose of entry Baselines will be wholly undermined. As such, we encourage Ofgem to ensure National Grid continues to have high obligated (Baseline) Capacity levels and only makes use of the powers conferred under either Mod 216 or 216A (if implemented) in exceptional circumstances. In doing so, this will provide much-needed certainty, stability and transparency for the market.

Yours sincerely

**Richard Fairholme** (by email)  
Trading Arrangements  
E.ON UK