



Tim Davis
Joint Office of Gas Transporters
51 Homer Road
Solihull
West Midlands
B91 3QJ

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, 3rd August 2007

Dear Tim,

RE: Modification Proposal 0163 (Urgent) - Offering Capacity at Donor ASEP in Trades & Transfers Process

E.ON UK **does not support** Modification Proposal 0163. As far as we can understand this Proposal, it would appear to place an artificial restriction on Users' freedom to trade and transfer capacity and the prices they are willing to pay this winter. It also potentially rewards speculative bidding behaviour in the last AMSEC. In addition, we fail to understand how capacity that is not surrendered or unsold can be moved away from where it is required. This would not happen under either Mod Proposal 0156 or 0156A, if implemented. The fact that capacity is either surrendered or unsold indicates that it is not wanted by one or more Users. Under the proposed arrangements in 0156/0156A, any "unwanted" capacity can then be reallocated to where it is valued most. For clarity, any capacity that a User wishes to use this winter and has booked already will be available to use and cannot be transferred away under Mod Proposal 0156 / 0156A.

This Proposal seems to suggest that if a User has bought capacity speculatively at a terminal with a view to transferring it to another terminal then he is guaranteed at least 'a price' paid in the AMSEC auction, if surrendered into the proposed auctions. This potentially rewards speculative behaviour in the AMSEC auction and would artificially inflate prices to distort simple price-based signals for demand for capacity. It also remains significantly unclear as to what reserve price would be paid and we find it wholly unsatisfactory that the legal text should be used to clarify intent or potentially add or amend the proposal now being consulted on. It is clear that the Proposal requires further development.

E.ON UK plc
Registered in
England and Wales
No 2366970

The purpose of Modification Proposals 0156 and 0156A is to re-allocate capacity to where it is valued most this winter using simple price-based

Registered Office:
Westwood Way
Westwood Business Park
Coventry CV4 8LG



auction signals. By interfering with the prices, Mod 0163 undermines the simplicity and efficiency of the proposed auctions. As such, we do not believe the Proposal better facilitates any of the relevant objectives and indeed would likely restrict competition between shippers.

Yours sincerely

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