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March 19, 2007

Dear Jan,

Re: NTS GCM 04: Introduction of NTS Exit (Flexibility) Capacity Charges under the Enduring Offtake Arrangements

E.ON UK does not support the introduction of NTS Exit (Flexibility) Capacity charges. This was the view outlined in our response to National Grid's previous consultation on this issue (NTS GCD 02). We consider that the new auction arrangements for flexibility capacity will introduce artificial restrictions on the amount of NTS flexibility that can be made available.

Although it should not be interpreted as support for the proposed flexibility product; to respond to the specific issue identified in this consultation paper, we would support a zero reserve price for NTS Exit (Flexibility) capacity for both the proposed daily and annual auctions.

We do not believe there is likely to be a correlation between specific NTS TO costs and the crudely designed flexibility product, so it will be impossible to derive a charge that could be described as cost-reflective. This is also supported by the fact that National Grid has no intention of investing in their system to provide additional flexibility capacity, given that flexibility capacity is a by-product of investment in flat capacity. Since it is so difficult to link particular costs with the use of flexibility capacity, the reserve price (of zero) should apply to all NTS exit zones.

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As stated previously, the unbundling of exit charges into flat and flexibility elements will also inevitable create huge uncertainty in the levels of exit TO and SO charges from year-to-year. This unpredictability will add to shippers' risks which will ultimately be reflected in increased charges to customers.

Finally, as a general principle, we would much prefer to see all inter-related charging consultation papers issued on the same timescales, so that the interactions between them can be assessed more accurately. Whilst we appreciate that much depends on the forthcoming decision on Modification Proposal 116 and alternatives, this piecemeal approach to issuing consultations has not been helpful in attempting to understand how such a critical and complicated change could operate. In this case, the current absence of an Enduring Exit Capacity Release Methodology Statement makes it extremely difficult to see definitively how the reform proposals will work in practice.

Please feel free to contact me on 02476 181421, if you wish to discuss any of the points raised above.

Yours sincerely

Richard Fairholme (by email)
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