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Tuesday, 24th July 2007

Dear Jan,

Re: The Review of the “Incremental Entry Capacity Release (IECR) Methodology Statement” 2007 and Consultation on “The Entry Capacity Substitution Methodology Statement”.

E.ON UK does not support the imposition of a capacity substitution obligation to take effect pre-winter; i.e. to apply to the forthcoming QSEC auction. We are generally supportive of the capacity substitution obligation, but believe it would be most pragmatic to delay implementation until 2008.

In respect of the four options posed in the NG consultation letter, E.ON UK favours Option 1 – current proposals in the IECR. Unless NG is explicitly able to tell us what the lower than 50% NPV hurdle would be (i.e. as proposed by Option 3), before the auction, then we could not support this. For the sake of certainty, we do not believe it is appropriate to introduce further changes to the QSEC auction process at this late stage. We are also concerned that there is insufficient data presented as part of this consultation process to support any of the options put forward. Therefore, it is extremely difficult for Users to understand and assess fully the implications of each alternative.

As we rapidly approach the September QSEC auction, it is very apparent that there are a significant number of major changes to the structure of this particular auction: For instance, new reserve prices introduced following NTS GCM 01 and a new Incremental Entry Capacity Release statement / methodology. With each layer of complexity added, it becomes increasingly difficult to assess the impact of the individual changes. Equally, it is becoming increasingly difficult, from a User’s perspective to understand

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how to bid effectively with so many concurrent changes. Whilst we remain supportive of a capacity substitution obligation in general terms, we do not feel it is appropriate to rush through very significant changes so close to the QSEC auction; particularly where there is no harm done by delaying imposition until 2008.

Finally, it is important to note that the effect of a trade and transfer of capacity is transitory (i.e. transferred for a month, then reverts), but the effects of substitution are permanent and long-term. It is, therefore, more important than ever to ensure the solution is effective and fully evaluated by the industry before implementation. We do not believe this is achievable in the short space of time remaining.

I do hope you find our comments useful.

Yours sincerely

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