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Dear Sonia

E.ON UK is generally supportive of the interim incentive arrangements, proposed in the consultation paper. Where practical, we support minimum change in the arrangements, to facilitate a smooth transition from the current arrangements in place and those needed to support a DN sales scenario, thus ensuring minimum impact on customers.

15 days interruption incentive

We concur with Ofgem that the 15 days interruption incentive ought to remain in place through the interim period. The extent to which Transco may interrupt a User for more than 15 days in a particular year may, however, be reduced through the potential implementation of modification proposal 740 / 740a and therefore a reduction in the incentive target may be appropriate, depending the Ofgem decision made. We accept, however, that this is not a matter related to the sale of Transco's Distribution Networks and so should more appropriately be addressed through the next Price Control.

Constrained LNG (CLNG) incentive

On the basis of minimum change, it is appropriate that the form of the existing incentive for constrained LNG is retained in the interim period. The lower band for 2007/8 and 2008/9 is logical given that storage facilities at these constrained locations, other than CLNG, will deliver gas from store at

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their maximum rate on the 1-in-20 peak day, where possible, as such circumstances will naturally lead to an rise in the market price.

Furthermore, it is appropriate that the current parameters for the CLNG incentive are retained in order to ensure Transco's efficient use of LNG storage.

Charges forgone incentive

Option 2 'revision' approach seems to be reasonable in continuing the current target through to 2006/7 with an increase in targets for the remainder of the interim period to reflect the rise in NTS capacity charges.

Please do not hesitate to contact me if you wish to discuss any of the above.

Yours sincerely

Christiane Sykes
Trading Arrangements