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Dear Julian

Re UNC Modification Proposal 086 – Introduction of Gas Demand Management Reserve Arrangements

I would like to offer the following comments on behalf of Shell Gas Direct (SGD), the downstream supply and shipping arm of Shell in GB. SGD, the holder of both supplier (non-domestic) and shipper licences, offers qualified support for this proposal. As such, I would draw your attention to the following comments.

The modification proposal suggests that the involvement of NGG NTS via a tender will remove barriers to entry and therefore result in the availability of higher volumes of demand side response. We can only assume that the implication is that under the current arrangements shippers are unwilling or unable to identify and capture the total volume of available demand-side response. This is not something with which SGD can agree; SGD maintains a highly flexible contractual approach and ample proof of this is the response of our portfolio to the GBA of March 13th.

Indeed, it is interesting that in industry meetings the proposer has been unable to explain why NGG NTS would be more successful than shippers in contracting for demand-side response. Moreover, this proposal does not give any degree of clarity as to how volumes contracted for by NGG NTS could be differentiated from existing commercially contracted volumes.

On that basis, it would seem reasonable to assume that this modification will not result in an increase in the overall volume of demand-side response. Rather, it is probable that it will represent an opportunity for some shippers to bid in their *present* volumes of demand-side response and use this proposal to recover their *existing* costs via the availability and utilisation payments envisaged by 0086.

However, notwithstanding our views on the prospects of 0086 identifying additional volumes of demand-side response, SGD considers that there may nonetheless be some merit in the proposal within the context of this forthcoming winter. Winter 2006/07 will be tight and the availability and use of demand-side response will assume an increased importance in relation to avoiding an emergency situation. It is vital that whatever volumes of demand-side response are available, they are used in the most efficient manner and on the basis of the most up-to-date supply / demand balance.

SGD notes the proposer's comments that 0086 offers a '*more centrally coordinated route of utilisation of affected gas volumes...*', in this case by NGG NTS. We assume that the proposer's views on NGG NTS and the possible upward revision of the GBA trigger levels that would help prevent an emergency, are intended to provide a practical example of the benefits of this more centrally coordinated approach.

While SGD would not advocate a situation whereby NGG NTS is encouraged to compete with shippers for demand-side response, it is our view that a more centrally coordinated approach would bring about practical benefits for this winter. It is on the basis of a more timely and efficient use of available demand-side response that we offer qualified support for this proposal. In the event that Ofgem decides to approve this modification, we would, however, ask for its views on how it would ensure that any demand-side response would be in *addition* to existing commercially-contracted volumes.

I hope these comments are helpful. Please do not hesitate to contact me should you have any queries.

Yours sincerely

Amrik Bal
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