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Dear Julian

Re UNC Modification Proposals 115/115a: 'Correct Apportionment of NDM Error'

Shell Gas Direct Ltd (SGD), the holder of a gas supplier (non-domestic) and a shipper licence offers the following comments. Please note, this response:

- a) covers both proposals; and
- b) is not confidential, so may be placed on your website.

For the avoidance of doubt, SGD Ltd supports implementation of UNC Modification Proposal 115a ('115a'). We do **not** support UNC Modification Proposal 115 ('115').

SGD acknowledges that the proposer of 115 has identified an issue that should be addressed; it does not seem equitable that SSPs bear all the costs of unallocated energy. However, the manner in which 115 proposes to deal with this situation appears blunt, unfocussed and does not adequately acknowledge that different types of supply point contribute varying amounts to each of the components that make up the volume of unreconciled energy.

It may be that specific commercial interests and not equity are the driving force behind 115. While this is understandable, it is difficult to see how this view could then translate into determining that 115 furthers the relevant objectives.

For instance, 115 does not address:

- a) the negligible contribution of monthly-read sites to the volume of unreconciled energy;
- b) the different costs of transporting gas to different types of site (115 proposes a uniform reconciliation rate); and
- c) evidence from XOSERVE that Large Supply Points (LSPs) account for only 1% of detected theft by number of sites and 8% by volume;

In comparison to 115, there is much in the rationale and arguments put forward in 115a with which SGD can agree.

115a takes a more sophisticated approach. It recognises the effects on the volume of unreconciled energy vary by supply point type; justifies the exclusion of monthly-read sites; and demonstrates the need for two-tier transportation charges for LSP sites that are included in the RBD process.

We note views that 115a could act as an incentive for supply points to elect to be monthly-read in order to avoid the exposure they would otherwise face. We would remark that:

- a) for some customers, the costs and complexity act as a deterrent to doing so; and
- b) surely the greater the number of monthly read sites, the more frequent the meter reads, and thus a smaller volume of unreconciled energy? This would, after all, be an example of customers taking advantage of metering competition.

As such, in relation to the relevant objectives, notably A11.1(c) and A11.1 (d), 115a rather than 115 could be expected to be a step in the right direction. If Ofgem were to approve either proposal, it should therefore be 115a.

Clearly, Ofgem might conclude that there is insufficient evidence that either proposal furthers the relevant objectives and reject both 115 and 115a. If that were the case, then SGD would suggest that, given the lack of agreement over which supply point types contribute to unreconciled energy volumes and by how much, Ofgem charges an industry workgroup to reconsider this matter.

SGD appreciates that industry progress in relation to this matter has thus far been slow. However, we believe that the raising of these two modification proposals has given any future discussions greater urgency. Moreover, such an approach would also allow Ofgem to share with shippers its analysis of the data from its recent information request regarding the incidence of theft of gas.

Yours sincerely



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