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Dear Julian

Re: UNC Modification Proposal 0150: Introduction of the AMTSEC Auction

UNC Modification Proposal 0151: Transfer of Sold Capacity between ASEPs

UNC Modification Proposal 0150a: Introduction of Unsold Entry Capacity Transfers

UNC Modification Proposal 0151a: Transfer of Sold Capacity between ASEPs

Shell Gas Direct (SGD) Ltd, the holder of a gas supplier (non-domestic) and a shipper licence offers the following comments in relation to these four modification proposals. For clarity, please note that SGD is:

- a) against the implementation of 150 and 151 as proposed by NG NTS; and
- b) in favour of the alternative proposals 150a and 151a as put forward by E.ON.

This response is not confidential. It may, therefore, be placed on your website.

Views

As stated in our response to UNC Modification Proposal 0138, SGD is in favour of the general principle of an inter-ASEP capacity transfer mechanism. Such a mechanism has our support given:

- a) that NG NTS agreed to it as part of the recent Transmission Price Control Review (TPCR); and
- b) that it could be expected to lead to a more efficient utilisation of the network.

However, it is important that the characteristics of any transfer and trade mechanism should be seen equally from the perspective of what is wanted by the market, ie. shippers, and not just in terms of what the monopoly transporter thinks can or should be made available. The two views can be very different.

In that context, it is vital that the transfer and trade mechanism is easily understood; offers certainty; and results in the maximum capacity being made available to the market. Otherwise, there is a risk that complexity may result in a lack of shipper participation (which we imagine would be in NG NTS' interests) or inefficient bidding behaviour.

Additionally, SGD has previously stated its position that any trade and transfer mechanism should allow shippers to optimise their existing capacity rights prior to any possible need to purchase unsold capacity (to be then transferred via the same mechanism). It would seem counter-intuitive, for reasons of efficiency if nothing else; to do otherwise runs the risk of overbooking capacity, something that would benefit no one other than NG NTS.

It is for these reasons that SGD favours the approach taken in UNC Modification Proposals 150a and 151a. Moreover, their overall impact could be expected to better facilitate the relevant objectives than would be the case with UNC Modification Proposals 150 and 151. In particular:

UNC Modification Proposal 150 and 150a

Standard Special Condition A11 para 1 (a)

- UNC Mod Proposal 150: given that this proposal would mean the AMTSEC being held before any transfer or trade of already sold capacity, SGD does not believe it would lead to the economic or efficient operation of the pipeline system. Rather, it could be expected to lead to the overbooking of capacity and that would not better facilitate this objective.
- UNC Mod Proposal 150a: as this proposal would allow for the transfer and trade first of already-sold rather unsold capacity, it should have the opposite effect. As such, it could be expected to better facilitate this objective.

Standard Special Condition A11 para 1(b)

- Given the above views in para 1 (a) re efficiency, SGD believes that UNC Mod Prop 150a rather than 150 could be expected to better facilitate this particular objective.

Standard Special Condition A11 para 1(d)

- UNC Mod Proposal 150: it is difficult to understand how the overbooking of capacity could secure effective competition between relevant shippers and suppliers respectively. Rather, it could be expected to have a negative effect on smaller players.
- UNC Mod Proposal 150a: given that this proposal removes the prospect for the overbooking of capacity, SGD would contend that is more likely to better facilitate this relevant objective.

UNC Modification Proposal 151 and 151a

Standard Special Condition A11 para 1 (a)

- UNC Mod Proposal 151: SGD does not believe that this proposal would better facilitate this objective given that shippers would be unable to

optimise existing capacity holdings before entering the market for unsold capacity, consequently leading to the danger of inefficient capacity bookings.

- UNC Mod Proposal 151a: SGD does not believe that the above concerns exist with this proposal, thus our view that this alternative could be expected to better facilitate this objective.

Standard Special Condition A11 para 1 (b)

- Similarly, UNC Mod Proposal 151a, because it is inherently more efficient than UNC Mod Proposal 151 in sending locational signals to the transporter, could be expected to better facilitate this relevant objective.

Standard Special Condition A11 para 1 (d)

- UNC Mod Proposal 151: SGD considers that the considerable uncertainty over the exchange rates that will eventually apply following the AMTSEC could deter shippers from participating in that process. For that reason, it is difficult to conclude that it would help secure effective competition between shippers.
- UNC Mod Proposal 151a: the zonal approach based on a 1:1 transfer rate within the applicable zone offers greater certainty for market participants over volumes and exchange rates. As such, it is more likely to see shipper participation and so could be expected to better facilitate this relevant objective.

Other Comments

It is disappointing that the industry has yet again been asked to comment on urgent modification proposals when this could clearly have been avoided. It was *last* year that NG NTS, as part of the TPCR, agreed, in principle, to accept a licence obligation to introduce a transfer and trade mechanism as, we assume, a quid pro quo for the 13% cut in entry baselines.

This was a major but not particularly well-signalled development. Thus, there is clearly a case for NG NTS to explain when it started work on developing the transfer and trade mechanism. Moreover, Ofgem should also clarify how, if at all, it has been monitoring the speed with which NG NTS has been working towards fulfilling its obligations (and monitoring is very different to micro-managing).

I trust you have found these comments useful.

Yours sincerely



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