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Dear Tim

Re: UNC Modification Proposal 194 - Framework for correct apportionment of NDM error; and UNC 194A - Framework for correct apportionment of LSP unidentified gas

Thank you for the opportunity to comment on the above proposals. The following comments are offered on behalf of Shell Gas Direct (SGD) Ltd, the holder of both gas supplier (non-domestic) and shipper licences. This response is not confidential and so may be placed on your website.

For the avoidance of doubt, SGD:

- does not support implementation of UNC Mod Prop 194; but
- does, however, support implementation of UNC Mod Prop 194a.

General Comments

The intention behind both proposals is clear: to identify the extent to which LSPs may contribute to unallocated gas volumes, eg. due to theft of gas, and to attribute the costs associated with such volumes to the LSP sector. This is a perfectly reasonable aim and SGD does not dispute this principle; it is important that costs should be accurately targeted or else risk distorting competition.

However, as we explain below, UNC Mod Prop 194 does this in such a way as to put at risk the viability of an I&C-only sector. The net impact of this proposal would be to leave I&C-only players unable to compete with the 'Big Six'. SGD does not believe that such an outcome would be beneficial for a whole host of reasons, not least of which is that it would be to the detriment of consumers.

Moreover, any further market concentration would give added impetus to those who challenge Ofgem's view that the supply market is competitive. It would also run contrary to the concerns expressed through the recent BERR Parliamentary Select Committee investigation and Ofgem's own Gas Probe.

UNC Mod Prop 194a, however, provides a more constructive way forward and one that appears to be based on general principles that all market participants should be able to

support: transparency, predictability and and non-discrimination. As such, this proposal could be expected to avoid the anti-competitive effects of UNC Mod Prop 194.

UNC Mod Prop 194

UNC Mod Prop 194 seeks to target unallocated gas costs via the RbD mechanism. This is a totally erroneous and dangerous link to make. It is important to remember that the RbD mechanism was created to help facilitate competition in domestic supply; the mechanism was a practical solution to the difficulties caused by the infrequency of domestic meter reads.

However, there are a number of factors that contribute to the overall level of the RbD smear, theft being one of them. To propose a percentage of the overall RbD 'pot' to be smeared across LSPs risks therefore puts at risk the principle of accurate cost targeting.

The use of the RbD mechanism also would impact on the ability of I&C-only shippers to compete with shippers who have a combined I&C and domestic portfolio, ie. the Big Six. For the latter, UNC Mod Prop 194 would result in a change to the level of an existing charge, ie. their RbD smear, and one that could be absorbed into overall gas costs (domestic and I&C).

For I&C-only shippers, however, the use of the RbD mechanism would effectively result in a new and specific charge. BGT has previously suggested that such charge could be in the region of approximately £75m. I&C shippers would either have to absorb such costs or pass them on to customers in the form of higher tariffs. It is difficult to conclude that such shippers could do either and stay in business and/or competitive (with Big Six shippers).

UNC Mod Prop 194a

UNC Mod Prop 194a considers that LSPs may make some contribution to unallocated gas costs. However, unlike UNC Mod Prop 194, 194a does not propose a link with the RbD process and also proposes a fixed volume of gas to be allocated.

UNC Mod Prop 194a also provides a clear and predictable framework and one that does not risk distorting the supply market as would be the case with UNC Mod Prop 194. As such, SGD would support 194a.

Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Standard Special Condition A11.1 (c): so far as is consistent with sub-paragraphs (a) to (b), the efficient discharge of the licensee's obligations under this licence:

SGD believes that UNC Mod Prop 194a, unlike UNC Mod Prop 194, would not discriminate between market participants. In this case, market participants who supply domestic and I&C customers, as opposed to those who supply only the latter.

Standard Special Condition A11.1 (d): so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition between relevant Shippers:

SGD considers that UNC Mod Prop 194a, unlike UNC Mod Prop 194, is transparent, promotes predictability and is non-discriminatory. As such, this proposal would not distort the market and would also be consistent with the principle of accurate cost targeting. These characteristics could be expected to lead to effective competition between relevant shippers.

I hope that you have found these comments useful. Please do not hesitate to contact me should you have any queries or require further clarification.

Yours sincerely

A handwritten signature in purple ink, appearing to read 'Amrik Bal', with a small flourish at the end.

Amrik Bal

UK Regulatory Affairs Manager, Shell Energy Europe