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8 May 2009

Dear John

Re: UNC Proposals 0246 (NG NTS), 0246a (EdF) and 0246b (BGT) – Quarterly NTS Entry Capacity User Commitment

Shell Gas Direct (SGD) Ltd, the holder of both gas supplier (non-domestic) and shipper licences, offers the following comments in response to the proposals put forward by NG NTS, EdF and BGT respectively. Please note that this response is not confidential and so may be placed on your website.

For the avoidance of doubt, SGD supports implementation of 0246b. Of the remaining proposals, we can offer qualified support for 0246a but do not support 0246 whatsoever.

Comments

The suite of proposal essentially seek to build on the work of Review Group 221 and specifically seek to address concerns resulting from:

- a) a shipper purchasing QSEC capacity in the long term auctions and yet being able to defer taking the capacity at no financial cost to itself; and
- b) the gap between placing a successful auction bid and posting appropriate credit.

In that context, SGD's support for 0246b is based on the following views:

- a) unlike 246 or 246a, it does not propose any retrospective change to the credit requirements wrt capacity bookings that were made a number of years. The issue of retrospectivity is important in itself with regards to regulatory and investment uncertainty for shippers.
- b) it implicitly recognises the difference between capacity already sold at entry points with multiple shippers and a new entry points with a single shipper. Put another way, is anyone seriously suggesting that there is a danger of a 'no show' from UKCS producers? Or that at entry points with multiple shippers, what is the real risk of Grid not being able to sell the capacity to other shippers?

- c) it also proposes allowing a much wider range of credit tools to be used by shippers (as does 0246a, hence SGD can give that proposal qualified support). By contrast, 0246 proposes a much more restrictive and costly solution limited to the use of a Bank Letter of Credit or a Deposit Deed. It is not clear how this would help new entrants or smaller shippers.....

Relevant Objectives

SGD believes that 246b would better facilitate the relevant objectives, in particular:

Standard Special Condition A11 1(a)- The efficient and economic operation of the pipeline

There would be a greater incentive for shippers to honour their financial commitments. As such, 0246b could be expected to result in less of an incentive for shippers to engage in speculative auction bidding that might otherwise result in inefficient system investment.

Standard Special Condition A11 1(d) - the securing of effective competition between relevant shippers

There would be a reduction in the extent to which there was an inappropriate allocation of the risk faced by all shippers in the event of a User default, the costs of which would eventually feed through to consumers.

Further Comments

SGD would urge Ofgem to conduct an Impact Assessment (IA) in reaching a decision on these proposals. If at all possible, this decision-making process should also consider the following questions:

- a) Does 0246 adequately address the work of Review Group 221?
- b) Notwithstanding this point, in reality, are the concerns highlighted by Grid limited to new, single shipper entry points?
- c) If so, might it not be appropriate to consider why any credit requirements should not be incorporated into a bilateral agreement between Grid and the shipper, as would be the case in a contract anywhere else in the commercial world? Indeed, Grid could access the commercial insurance market and if it was not willing to provide the appropriate insurance, why should, in all reality, other system users?

Yours sincerely



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