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Via e-mail: enquiries@gasgovernance.com

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Dear Tim

Re Modification 0317 & 0317A '*Interim Allocation of Unidentified Gas Costs*' and Modification 0327 '*Alternative to Interim Allocation of Unidentified Gas*'

Thank you for the opportunity to comment on these proposals. The following comments are offered on behalf of Shell Gas Direct (SGD) Ltd and are not confidential. For the avoidance of doubt, SGD **supports** implementation of 0317 but does **not support** implementation of either 0317A or 0327.

All three proposals are interim measures designed to address a concern with UNC Modification Proposal '0229' – Mechanism for Apportionment of Unidentified Gas Costs – raised by SGD and approved by Ofgem. The concern in question is the length of time between the process for appointing the Allocation of Unidentified Gas Expert (AUGE) and the application of the first set of charges.

However, it is only 0317 – also raised by SGD – that is line with the core principles of 0229, namely that:

- a) The calculation of gas volumes should be based on an impartial and independent assessment;
and
- b) Subsequent charges should be recovered on a prospective basis.

0317 is based on the same independent report commissioned by ICOSS (to look into the causes of unidentified gas and the associated costs) that accompanied consideration of 0229. Using data provided by xoserve, the report concluded that costs anywhere between £60,000 and £4.9m might reasonably be attributed to the LSP sector.

0317 quite simply takes the mid-range of these figures – and the fact that the report has been in the public domain for some months now should not be missed - and puts this figure forward as an interim measure until such time as the AUGE is appointed and can begin its work in April 2011 to calculate gas volumes, with the first set of charges to be applicable from April 2012.

As such, 0317 is in line with the two principles referred to above, ie. impartiality and a prospective application. It is not clear that the same could be said for 0317A and 0327.

The methodology for the two proposals could not reasonably be described as impartial, independent or objective. Moreover, while it is possible to criticize some apparent assumptions behind the figures, eg. AQ accuracy across the industry, to do so misses the point – this should be the work of an independent expert.

Another fundamental objection to 0317A and 0327 is that both proposals seek the retrospective application of charges. In this case, charges are to be backdated to 1 April 2011.

In broad terms, the problem of retrospectivity is the uncertainty it creates. For the I&C supplier this uncertainty manifests itself in not being able to factor the uncertain level of backward looking charges into their own forward pricing activities. This is an issue in the contract rather than tariff market and were it to come about would have significant implications for competition.

Notwithstanding this point, page 8 of Ofgem's approval letter clearly states that it is the AUGE's work that will begin on the date referred to above.

'Once the AUGE is in place, we expect industry parties to agree the allocation methodology promptly. However, we note that the AUGE process will take effect from 1 April 2011 regardless of the time taken to reach consensus.'

I hope you have found these comments useful. However, please do not hesitate to contact me should you have any further queries. My contact details are as follows: amrik.bal@shell.com or 020 7257 0132

Yours sincerely

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

Amrik Bal
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