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Dear Mark

Income Adjusting Events thresholds for gas distribution networks

I refer to David Gray's letter of 14 December 2005 consulting on potential changes to the thresholds for Income Adjusting Events (IAEs) for Distribution Networks (DNs).

Shell Gas Direct (SGD) is a supplier to business customers who are mainly connected to the DNs. As SGD has set out previously, we consider it paramount to the efficient working of the competitive gas market for there to be stability in gas transportation charges. Some customers have transportation charges passed directly through to them and value predictability. Suppliers need to cover the risk of variable transportation charges for those customers who have transportation included in the price from their supplier: higher risk results in higher charges for customers.

We consider that changing the arrangements at this time to either Option 2 or 3 increases risk of transportation price volatility. For this reason, we support Option 1 to retain the current arrangements. We note that Ofgem states that the cost of administration related to Option 2 is not costless. The introduction of a proportional threshold also appears to have costs in terms of analysis, consultation etc. We do not consider that there has been demonstration of a requirement to expend Ofgem and industry resources on this issue at this time. Further detail would have been welcome on the issues raised in Mr Gray's letter.

It should be noted that SGD reserves its position on these issues as we assume that any decision made by Ofgem in the interim will not presuppose the outcome of the full GPRC.

Yours sincerely

Tanya Morrison

Tanya Morrison
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