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Dear Cemil

**Developing network monopoly price controls**

I write in response to the above consultation document which sets out Ofgem's approach to developing and improving the network monopoly price controls. Our comments as set out below are mainly focussed on the network controls on Transco as owner of the National Transmission System (NTS) and local distribution zones (LDZs).

Shell Gas Direct welcomes the consideration of the approach to the different network controls together. However, we caution against assuming that an approach for one network should be applied to another, particularly when looking for points of comparison between gas and electricity. There are sufficient differences between gas and electricity to justify different approaches and what works well for one may not necessarily be a good approach for the other. Similarly, the system operator incentives approach being used for NGC and Transco's NTS should not be considered for the lower tier networks until they can be evaluated and shown to be successful.

We note that electricity suppliers wish to be considered as customers of the networks in their own right. This is equally true for shippers in the gas industry as we pay for the network services. Shippers (and suppliers) should be considered as customers of the network owner.

The issue of regulatory risk and burden should be considered but not only for those whose price control is under review but also for those affected by the changes (eg shippers, customers). Although the burden of providing information does not apply, there is a considerable burden introduced by the extensive information that is published and consulted upon when developing a price control. It is important for the networks' customers to be able to understand and forecast how the proposals will work to be able to predict the prices which be charged once the price control is introduced.

Ofgem should also be aware of the effect that rebalancing prices and changing price structures can have on shipper/suppliers and ensure that sufficient notice is given of any major change to minimise the risk for us associated with price controls. While lower network costs generally can be expected to be passed on to customers, changes which increase risk, significantly rebalance prices or introduce new costs for shippers will offset (and in some cases even reverse) these reductions. Ofgem should aim to keep the regulation keeping the scope of price controls for the monopolies as minimal

as possible and to every extent possible attempt not to affect the operation of the competitive market through price controls.

In its documents, Ofgem makes reference to related documents or areas of work being developed. It is helpful if, as much as possible, an overview of the inter-relationships can be provided as well and some indication of the sequencing of change to be introduced. For example, while we note that this document focuses on the next distribution price controls, we remain uncertain as to how the proposed work on separation of LDZs will be developed in line with preparations for Transco's price control from 2007.

Shell Gas Direct welcomes consideration of the network price controls collectively. It is useful to learn lessons from past reviews to apply in future. We would welcome the opportunity to participate in any future workshops or discussions on this issue.

Yours sincerely

**Tanya Morrison**  
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