Shell Gas Direct Limited

Robert Hull
Director, Networks
Ofgem
9 Millbank
London
SW1P 3GE

Direct line: 020 7257 0132

amrik.bal@shell.com

24 July 2006

Dear Bob

Re Transmission Price Control Review: Initial Proposals

I would like to offer the following comments in response to questions raised in the document published on 26 June. These comments are offered on behalf of Shell Gas Direct Ltd (SGD) the holder of supplier (non-domestic) and shipper licences respectively.

You will have noted that SGD was one of several companies to have submitted a joint paper in response to the issues raised in *Chapter 8: Financial Issues*. Therefore, this letter does not reiterate any points made in that paper but instead gives our views in relation to other issues raised in the document, namely the questions contained in *Chapter 11: Adjustment Mechanisms and Incentives: Gas.*

Please note that our comments refer to entry not exit capacity. Notwithstanding our views on any underlying need for reform, important aspects of the exit proposals are still being developed and we would therefore not wish to comment at this stage.

Question 11.1: What do you think of our revised proposals for setting entry capacity release obligation baselines, and for the proposed mechanism to enable such baselines to be reallocated in some circumstances?

SGD is supportive of the intention to retain the concept of entry point specific baselines. To have moved to the alternative entry model as originally suggested would have added to regulatory uncertainty and possibly deterred shippers from making long-term financial commitments. Moreover, it would also have given an unacceptable degree of discretion to the monopoly transporter and placed a subsequently potentially unserviceable monitoring obligation on Ofgem.

However, there are two specific areas of the proposed arrangements to which we would like to draw your attention: the proposal to set baselines on the basis of the physical limitations of the network; and the substitutability of entry capacity from one point to another.

It is SGD's understanding that baselines had previously been set on the basis of the *theoretical* maximum physical capability at each entry point. The volumes of capacity available then informed the decision on whether or not to book long-term entry rights. Moving to a regime where entry capacity would instead be based on the physical capability at each entry point, with the subsequent knock-on effect on available volumes, runs the risk of undermining the confidence that shippers have in regulatory certainty and affecting their subsequent willingness to make long-term financial commitments.

The substitutability of capacity from one ASEP to another could have merits in terms of a more efficient utilisation of existing entry capacity. If so, SGD assumes that this would reduce the need for further physical reinforcement and the associated CAPEX spend? It is certainly an idea worth further exploration.

However, further clarity is required in relation to the pricing of 'substituted' capacity, and any subsequent buyback costs. In relation to the latter, would it be possible to identify that any need for buy-backs at an entry point had not, at least in part, been the result of a decision to substitute capacity away from that entry point? In the event that it was possible to do so, NGG NTS should subsequently bear all buyback costs.

Question 11.2: Are our proposals for revenue drivers for entry and offtake appropriate and proportionate, given the issues they are seeking to address?

SGD has no comment to make in response to Ofgem's proposals.

Question 11.3: Are our proposals for buyback for entry and offtake appropriate and proportionate, given the issues they are seeking to address?

The demarcation between entry capacity buy-backs due to the late delivery of capacity as opposed to those required for operational reasons seems an appropriate distinction. SGD also welcomes the increased scope for the use of bilateral agreements to vary the buy back-costs for non/late delivery, scope of work, etc. This is something that SGD has advocated on previous occasions, most recently in our response to the Ofgem consultation document on the buy-back arrangements at Milford Haven.

However, as we made clear in that response, SGD would advocate that *all* liabilities between NGG NTS and its customer should be contained in a bilateral agreement, and this includes any buy-back costs. It is still not clear why NGG NTS should not bear the full costs of its inability to meet its contractual agreements, and instead be able to smear on overwhelming proportion of buy-back costs onto system users. Has NGG NTS considered insuring itself against the non-delivery of capacity due to events beyond its control?

Question 11.4: Is there a case for an innovation for NGG NTS?

SGD has no comment to make at this stage. We do, however, look forward to reading any further Ofgem thinking on this issue.

I hope these comments are helpful. Please do not hesitate to contact me should you have any queries.

Yours sincerely

Amrik Bal
UK Regulatory Affairs Manager, Shell Energy Europe