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DN Pricing Consultation Paper DNPC03: LDZ System Charges – Capacity / Commodity Split and Interruptible Discounts

Thank you for the opportunity to comment on the issues raised in this pricing consultation paper. The following comments are offered on behalf of Shell Gas Direct (SGD) Ltd, the holder of both gas shipper and supplier (non-domestic) licences respectively.

In our response to the original discussion paper (PDDN02), SGD suggested that additional information and clarity was required in a number of areas before it would be possible to conclude that the proposed changes were appropriate, especially the 95/5 split. It is SGD's view that DNPC03 does not provide this additional clarity. As such, our views have changed little from those provided in response to the discussion paper.

a) should the charging methodology be changed so that the capacity element of the LDZ System charges is set to recover 95% of the revenue from the LDZ system charges, and the commodity element is set to recover 5% of the revenue, compared with the current 50%/50% target split?

At present SGD cannot support this specific proposal.

SGD made clear in its comments on DNDP02 that 95/5 could be appropriate and desirable, especially if it resulted in more stable charges. However, it is also important that charges are cost reflective. Given that Ofgas had previously rejected a 90/10 split, more information and considered analysis with respect to the DNs' costs is required, including the basis for Ofgas' original decision to veto a 90/10 split.

It was suggested at the last Distribution Charging Methodology Forum (DCMF) that the rejection of a 90/10 split was on the basis of the best information available at the time. If so, SGD would expect any approval of DNPC03 be accompanied by an explanation of the qualitative and quantitative differences in the information available then and now.

On a related issue, SGD is not convinced why there should necessarily be the same capacity/commodity split across the DNs. Having a common structure of charges, ie. split up into capacity and commodity elements, is certainly helpful in reducing system complexity and costs. However, that is not say that the capacity/commodity split has to be the same for all the DNs.

SGD would welcome Ofgem's views regarding this point.

b) should interruptible supply points pay 47.37% of the increased LDZ capacity charge so as to maintain the value of the discount received by interruptible supply points at its current level, on average?

If the 95/5 split is implemented, the arguments put forward in the paper with respect to this aspect of the proposals seem a sensible, interim step; large variations in transportation charges should be avoided. However, requiring interruptible sites to pay some element of capacity charges does suggest a fundamental change to the accepted view of the relationship between such sites and the rest of the system.

Clearly, some interruptible sites may, therefore, feel aggrieved that they will not receive as large a capacity discount as they would have anticipated. However, it is up to Ofgem to decide whether this should be a deciding factor in its decision.

Perhaps more important is a suspicion that information held with respect to interruptible sites is far from accurate or up-to-date. Looking at and comparing the information contained in the table in Appendix 1 with similar sites in SGD's own portfolio, it is difficult not to conclude that the SOQ data for interruptible sites may need to be updated.

c) should this change be made with effect from 1 April 2008 or 1 October 2008?

SGD was in favour of a phased implementation; it is disappointing that this option does not appear to have been considered in this pricing consultation. As such, given the choice between the two dates, SGD would opt for a 1 October 2008 implementation as it would enable the maximum amount of time to review existing supply contracts.

I trust that these comments are helpful. Please do not hesitate to contact me should you have any queries. In the meantime, you should note that this response is not confidential, so may be made placed on your website.

Yours sincerely



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