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Dear Tim

UNC Modification Proposal 0224 – Facilitating the Use of AMR in the Daily Metered Elective Regime

Shell Gas Direct (SGD) Ltd, the holder of both gas supplier (non-domestic) and shipper licences, offers the following comments in response to the proposal put forward by GDF Suez Energy UK. Please note, this response is not confidential and so may be placed on your website.

We would make clear that SGD is very sympathetic to the aims of the proposal and the directional change it signals. Moreover, we agree with comments regarding the crucial future role of AMR and indeed are actively promoting it to our customers. At a high-level, therefore, we are supportive of the intent behind UNC Modification Proposal 0224 ('0224'). Indeed, the business rules as drafted seem adequate enough to help support implementation and we feel no need to comment any further in that regard.

However, notwithstanding these remarks we have a number of concerns with the way in which the proposal intends creating a Daily Metered Elective (DME) regime for NDM sites. As such, SGD does not support implementation of 0224 at this particular moment.

Costs and Smearing

The costs associated with 0224 are significant - we understand that overall xoserve development costs will be in the region of £565,000 - and yet its supposed benefits in terms of take-up are, at best, speculative or mere assertions. For example, SGD has seen little to suggest a significant degree of take-up of any service.

However, as currently proposed, 0224 expects shippers such as SGD who see little or no uptake of this service to meet some of the development costs. We are not sure why this should be the case and why the proposal automatically assumes it is appropriate for such shippers to be forced into defraying the costs and mitigate the risks of those who do wish to offer this service. Such a situation can and should be avoided.

This view of the need to target costs has an implicit parallel in the proposal itself wrt the need to focus charges in terms of different EUC bands. The only difference is SGD takes the view that costs should be focussed on the basis of those who use the service and those who do not.

Clearly, shippers who wish to provide a DME service should be allowed to do so and SGD would certainly not wish to constrain them from doing so. However, such shippers should be willing to meet all of the associated costs and we do not think this an unreasonable view. Moreover, shippers should not be concerned at having to do so because, if they are correct in their assessment of the degree of market demand, offering such a service should reflect itself in customer numbers.

Timing and Project Nexus
SGD considers that provision of the DME service envisaged by 0224 should be taken forward as part of Project Nexus. Other things being equal, Project Nexus would appear the more cost and resource-effective approach.

Additionally, we also disagree with the suggestion in 0224 of core service funding under Project Nexus. It would be far more appropriate for Project Nexus to consider this point as this may allow for the identification of alternative and more appropriate funding mechanisms.

Relevant Objectives

Standard Special Condition A11.1(a): the efficient and economic operation of the pipeline to which this licence relates.
In principle, the proposal could be expected to better facilitate this objective. However, given that only a maximum of c4600 supply points are likely to take up the service, the extent to which this will be a demonstrable benefit is a moot point.

Standard Special Condition A11.1(b): so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.
Given that there will be an unnecessary smearing of development costs, some shippers and suppliers will effectively end-up subsiding others. For that reason, we do not think this particular objective will be better facilitated.

In making this comment, SGD does not consider that shipper and suppliers will not be able to offer different products and services if 0224 is rejected - it is just that they will have to pay the full costs of doing so.

Standard Special Condition A11.1 (e): so far as is consistent with sub-paragraphs (a) to (d) the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards are satisfied as respects the availability of gas to their domestic customers.
It is not immediately clear that this objective is impacted by 0224.

Standard Special Condition A11.1 (f): so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code.
It is not immediately clear that this objective is impacted by 0224.

I trust that you find our comments helpful. Please do not hesitate to contact me should you have any questions or require further clarification.

Yours sincerely,

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