



Tim Davies  
Joint Office of Gas Transporters  
Ground Floor  
51 Homer Road  
Solihull  
B91 3QJ

**Direct line:020 7257 5874**

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Dear Tim

**Re: Agency Charging Statement (ACS) Consultation**

As the holder of both shipper and (non-domestic) supplier licences, Shell Gas Direct (SGD) Ltd has a direct interest in the pricing of and access to XOSERVE's services. SGD would therefore like to thank you for the opportunity to comment on this consultation.

In principle, SGD can see merit in some of the arguments put forward in favour of a User Pays model; if competition and innovation increased, it should be welcomed. However, SGD does not consider that the process to date has been adequate enough to produce a User Pays model that:

- a) is transparent;
- b) is robust; and
- c) gives Users sufficient certainty that cost-reflective charges are delivering benefits in a clear and non-discriminatory manner.

As a result, the current ACS has dangerous limitations. It is not clear how:

- a) the proposed charges were derived and therefore it is not possible to conclude the extent to which they are or are not cost reflective. If it is the latter, then, as with any monopoly, there will be the usual impact on output vis-à-vis prices/revenue recovery.

A response to this point could be that there will be competition. Indeed, this *might* be the case. However, if not, the current ACS could result in a negative impact on competition between shippers.

- b) Users are able to make informed comments on proposals published in late January and with a proposed implementation date of 1 April given the lack of readily available information and clarification. By way of illustration, with respect to the issue of IAD, why did it take a (belated) Ofgem intervention to obtain the necessary clarification from XOSERVE regarding the issues costs and usage (see Jon Dixon's e-mail of 22 February)?

- c) The ACS does not allow IAD costs to be recovered twice over. It is SGD's understanding that the set-up costs of these services have already been funded through transportation charges; and
- d) The way in which over and under-recovery of costs are treated will not be another cause of instability, costs and inefficiency.

As stated above, SGD is not against User Pays model in principle. However, SGD cannot give unqualified support for this ACS. For the avoidance of doubt, therefore, SGD does not believe that the ACS meets the requirements of the proposed Gas Transporter Licence Standard Special Condition A15.

I trust you have found these comments helpful.

Yours sincerely

Jemma Woolston  
**Industry Ops Analyst, Shell Gas Direct**  
Jemma.woolston@shell.com