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Consultation on the ERGEG Discussion Paper on Gas Balancing

Dear Mrs Shortall,

Shell appreciates the opportunity to respond to the ERGEG Discussion Paper on Gas Balancing, dated 20 April 2006. The following comments are offered on behalf of Shell International Exploration and Production B.V. and Shell Energy Europe B.V.

Shell made a number of comments in response to last year's consultation and is pleased to see that many of those have been taken into account. In that regard, the consultation process has proved invaluable in identifying respondents' areas of concern. Of particular note is what the Guidelines say in relation to:

- a) daily v hourly balancing periods;
- b) the basis on which TSOs should undertake their various activities; and
- c) the basis on which more efficient gas balancing regimes will be developed.

It is important that the Guidelines recognise that while a daily balancing regime is the preferred choice, there exist technical and/or operational reasons that require shorter balancing periods, and this includes for safety & security reasons; networks can differ markedly. Shell, would, however, reiterate its view that the downstream balancing regime should be designed in such a way that is cognisant of its interaction with, and impact on, upstream facilities that help support security of supply.

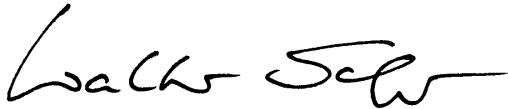
This concern regarding the interaction between the downstream and upstream is also a vital consideration in relation to the question of information to be released to the downstream market. While the requirements contained in 'Annex 2: Market Information and transparency of balancing arrangements' would seem reasonable enough, they are the *minimum* requirements. Therefore, any requirement by an NRA for the downstream balancing regime to publish information in excess of that envisaged by Annex 2 must demonstrate that the benefits for the downstream balancing regime would outweigh the costs in terms of:

- a) the breach of any legitimate commercial confidentiality; and
- b) the ability of upstream facilities to continue to manage its operations in a safe and efficient way, supporting security of supply.

It is also important that the Guidelines recognise the need to restrict the TSO to a residual balancing role. In our response last year, we made clear why, as a natural monopoly and with privileged access to information, a TSO should not engage in any activities in competition with its customers. Although the Guidelines now permit the marketing of linepack services under certain circumstances (Shell did not support this), we are pleased that the intention is that these services should be charged on a cost-reflective basis and to facilitate competition.

Finally, Shell welcomes the fact that the Guidelines do not intend that new and potentially 'one size fits all' legislation, which would be difficult, time consuming and costly to implement, will be the means by which balancing regimes will be harmonised. If the intention is to facilitate trade between Member States, this is best achieved by enhancing the interoperability of networks. However, this aim cannot be achieved on the basis of a bilateral exchange between TSOs and NRAs alone; it also involves other parties in the gas chain would be impacted by changes to the gas balancing regime, eg. producers, industrial consumers, etc. The Guidelines should, therefore, reflect this fact.

I trust that you have found these comments helpful

A handwritten signature in black ink, appearing to read 'Walter Schaefer', written in a cursive style.

Yours sincerely,

Shell Energy Europe B.V.

Walter Schaefer
Regulatory & External Affairs Manager

Shell Energy Europe