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Dear Rachel

Open Letter Consultation on National Grid proposal to commence generating electricity at Gas Distribution pressure reduction sites.

Scotia Gas Networks (SGN) welcomes the opportunity to comment on the above proposal and our summary views are set out below. Our responses to each of the specific questions raised in the consultation are contained in the Appendix to this letter.

In our view, the installation and operation of turbo expanders at certain pressure reduction sites should be encouraged by Ofgem as there is clear potential for significant environmental and financial benefits to be achieved for customers from such technology.

As a matter of principle we believe that a turbo generator is an efficient and legitimate operational asset as an alternative to the more prevalent throttle valve in pressure reduction. When combined with CHP, such a scheme brings additional benefits of reduced shrinkage and reduced carbon emissions.

As Ofgem are aware, SGN already has a turbo expander at its St Mary Cray site which was installed in 1990 generating electricity at a pressure reduction facility. We are currently developing a replacement to the existing St Mary Cray expander, which is at the end of its useful life and beyond economic repair. As far as we can see, our scheme will be similar to that proposed by National Grid Gas (NGG) except for the use of natural gas as the fuel for the CHP plant rather than biomass and that SGN will own and operate the assets.

It should be noted that this is not new technology, there are similar Expander-CHP schemes in operation in Europe. At current electricity prices we expect that there will be more opportunities to increase the efficiency of pressure reduction in this way, at the same time delivering significant savings in shrinkage gas and carbon dioxide emissions. It is not clear why NGG see this as a risk to the regulated business given that there is such experience of operation.

As Ofgem has indicated, the progression of such a project will yield a number of benefits. To the extent that these fall to the DN, we do not believe that there is any need for additional mechanisms for sharing benefits with customers as these will be shared in the normal way at each price control review and through the DNs' shrinkage incentives.

Given the above, our main concerns relate to ensuring that a level playing field exists for schemes developed by other generators, including other DNs who generate electricity from

similar schemes, with those developed by NGG, given that NGG has the unique market role as Transmission System Operator (TSO). In our view, therefore, as a minimum Blue-ng would require to be appropriately ring-fenced and any purchase of electricity or balancing services by NGG would require to be procured on a transparent and non-discriminatory basis. However, provided that the proper and proportionate regulatory controls are put in place (as currently exist elsewhere in the sector), we would have no objection in principle to the proposal.

We would also expect assurances that the Blue-ng plant should have no detrimental impact on the availability of capacity and/or pressure to our networks. NGG must continue to provide the pressures and capacity already agreed with DNs/ customers and Ofgem should be able to monitor this.

Notwithstanding the above, we make two observations in relation to NGG's proposal. Firstly, National Grid are currently arguing vigorously across Europe that there should be full ownership unbundling between transmission and any generation affiliates. This proposal therefore appears to run counter to this publicly stated position on group ownership of transmission and generation interests. Secondly, at the time BETTA was implemented across Great Britain, our understanding was that the TSO was appointed in part on the basis that they did not have any significant electricity generation or trading functions. It is clear that this proposal would open the door for NG to develop a potentially significant interest in electricity generation and trading (initially 1GW of generation capacity, with further growth potential). If the requirement not to have electricity generation or trading functions is no longer a prerequisite for the TSO role, we wonder whether it would be timely to put the TSO role out to tender again to allow other market participants an opportunity to bid to provide this function on this revised basis.

We do not understand why, or agree that, NGG requires a consent from the Authority under SSC A27 for relinquishing operational control of assets. The project description in Annex 1 makes it clear that the expansion turbine will be operated by NGG, that the existing infrastructure can still meet gas flow parameters even in the absence of the expansion turbine, and that NGG remains in sole operation of the gas pipeline system for which it has a licence to operate.

Finally, it is not clear to us from the consultation document why a potential cross-default arises from the contract which NGG is entering into, for which NGG believes it may need a consent from the Authority. We would appreciate clarification on this.

I hope our comments above are helpful. If you would like to discuss any of the points raised, please call.

Yours sincerely

Paul Hemsley
Regulation Manager

Do respondents agree with NG's proposed environmental benefits associated with this technology?

We agree that the Expander-CHP proposal does deliver significant environmental benefits.

Are there any potential benefits, costs or risks to consumers that have not been considered in this letter?

The letter does appear to consider all of the main issues.

Are there any other licence conditions that could be affected by NGG's proposal?

As outlined above, it is important for all National Grid businesses to treat any other generating party, including other DNs who generate electricity from similar schemes, in the same way that they treat Blue-ng.

Should this kind of arrangement be ruled out as it has the potential to dilute the incentive on NG to operate either the transmission or distribution networks efficiently?

There is a strong argument that use of Expander-CHP schemes for pressure reduction is now the best available technique, particularly given current electricity prices. To the extent that they are carried out by the DN, such schemes should be part of the normal regulated business of a gas distribution network and treated as such with a sharing of risk and reward with customers through the normal price control review process.

Should NGG be looking at the opportunities to reduce pressures on the National Transmission System to prevent the need for excessive pressure reduction at these sites?

NGG are already incentivised through the SO Incentives to minimise the use of compression. Given this, they should maintain appropriate pressures that take into account their pressure and flexibility obligations to customers.

Given that NG also owns the England and Wales electricity transmission network, and is therefore not allowed to generate electricity itself, are there any concerns regarding this proposal from this perspective?

As we have explained above, we do not believe this arrangement should be ruled out but that appropriate protections can, and should be, put in place.

Are there any other issues Ofgem should be considering in reviewing NGG's proposal?

The safety and security issues associated with storing large volumes of liquid biomass at key distribution network sites need to be considered, particularly insofar as they might impact on gas supplies both to other DN networks and customers.

Should Ofgem be considering the proposal to reduce own use gas for pre-heat using biomass generators separately from the proposal to convert the energy lost in depressurisation into electricity using turbo-expanders?

SGN believes that the use of natural gas fired CHP to provide the necessary heat for the expander is Best Available Technique for pressure reduction.

The issue of liquid biomass as the fuel for the CHP is a separate matter, bringing with it different operational risks on the one hand and significant income on the other.

Are there any modifications to NGG's gas transportation licences that would be appropriate to safeguard consumers if the Authority grants the relevant consents?

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Also, it is not clear to us from the consultation document why a potential cross-default arises from the contract which NGG is entering into, for which NGG believes it may need a consent from the Authority. We would appreciate clarification on this.