



Ofgem Consultation – Proposed disposal of part of NTS for Carbon Capture and Storage **Comments from AEP¹**

The Association welcomes the opportunity to comment on this consultation, we present our views in response to the questions listed below.

CHAPTER 2: Proposal to dispose of assets for CO₂ transportation

Question 1: Do you think this proposal is a good idea in principle?

The Association recognises the importance of CCS and its potential in making a contribution towards long term CO₂ targets. The Association also notes that CCS, may enable the UK to maintain diverse fuel sources going forward and therefore support security of supply.

The potential disposal of NTS assets currently forms one element of one of the proposals seeking funding whilst all proposals will have to develop CO₂ transportation options. We therefore consider it is appropriate to investigate the issues surrounding a potential asset disposal in this context. Clearly it will be important to assess the impact on the gas network and consequences for gas shippers and customers.

Question 2: In the event that a feeder section is removed, existing compressors may be required to work harder to transport the same volumes of gas through fewer pipes. It is proposed to capture these additional compressor fuel costs and to introduce a capped volume for these additional fuel costs, based on pre-disposal levels, over which the new CO₂ transportation business would bear the costs and make payment to NGG. What is your view of this proposed treatment of these additional compressor fuel costs?

We consider a mechanism of this type is important to protect gas shippers and customers from facing any additional costs post-disposal, where those costs arise from additional compressor use, installation of a new compressor

¹ The Association of Electricity Producers (AEP) represents large, medium and small companies accounting for more than 95 per cent of the UK generating capacity, together with a number of businesses that provide equipment and services to the generating industry. Between them, the members embrace all of the generating technologies used commercially in the UK, from coal, gas and nuclear power, to a wide range of renewable energies.

or buyback to maintain the capability of the system. Clearly this would need to be taken into account in the shrinkage and other incentives and include electric drive compressor costs if relevant.

We welcome the proposal to retain the baseline level at St Fergus but are uncertain what comfort this gives going forward with the introduction of entry substitution and a new transmission price control review in 2012.

CHAPTER 3: Regulatory issues

Question 1: *Do you agree with our view of the regulatory issues of the proposed asset disposal?*

Broadly yes although there is no consideration of whether the assets could or should be sold to a third party or whether the assets could have other uses within the NGG business eg. Linepack buffer. There is also no consideration of whether this should be a regulated business or not given NG's apparent aspirations for CO₂ transportation from multiple sources to multiple sinks.

It is also not apparent whether this is a one off issue or whether decisions made in respect of these assets could set a precedent for future disposals. We accept that it is not currently apparent that there are lots of 'spare' pipes but consider this should be examined further given the changing supply patterns on the NTS it is not inconceivable that other pipe sections may become significantly under utilised.

Question 2: *Do you agree with the projected forecast flows at St. Fergus?*

Question 3: *Are there other flow forecasts or scenarios which should be taken into account?*

We note the flow forecasts are consistent with the Ten Year Statement (TYS) and that NG has sought views from Wood Mackenzie, which has identified possible higher peak flows from 2011 to 2014 than the TYS. As we represent downstream gas consumers in respect of the gas market we do not have a particular view on this nor additional information. However we think it would be appropriate for NG's forecast to be subject to independent audit and for other views sought concerning the potential for additional flows at St Fergus if for example West of Shetland was larger or if there were additional developments in the Norwegian Continental Shelf that might be landed at St Fergus. It would be unfortunate if such supplies could not be landed as the capability had been reduced.

Question 4: *What is your view of the indicated capability at St. Fergus with the feeder removed, with and without additional compression?*

See comment above we consider this should also be subject to external scrutiny

Question 5: *What is your view of the projected buyback costs which have been identified?*

Noting all the uncertainties over flows these estimates seem reasonable, but account should also be taken of the additional costs of sourcing gas to meet the supply shortfall that may arise. However on the basis of the data presented we agree it would be inefficient to invest in further compression

Question 6: *Are there any other issues that you believe are relevant?*

There is little mention of the impact on NTS linepack and system flexibility, with the consequences thought to have limited operation implications. We consider this should be examined in more detail, given concerns over system wide flexibility in the context significant installed capacity for wind generation with gas fired generation expected to provide back up to this both within day and day on day.

Question 7: *What is your view of the proposed disposal of these assets?*

Our initial view is that there may be merits in disposing of these assets and for them to be re-used for CO₂ transportation however we think there needs to be further analysis and scrutiny of NG's data to fully understand the impact on the gas network and its capability to meet future capacity and flow requirements.

CHAPTER 4: Valuation of assets

Question 1: *Do you agree with the possible ranges of valuations for the assets which have been identified?*

We agree there is a wide range of possible valuation methods which could all give valid valuations.

Question 2: *Do you agree with the assumptions which underpin the asset valuations?*

The assumptions seem reasonable

Question 3: *Is there an alternative method of asset valuation which should be considered?*

We wonder if there are any examples from past disposals that might inform which approach is reasonable

Question 4: *Do you agree with the assessment of benefits associated with asset disposal and alternative use?*

It is not entirely clear to us that once the assets are fully depreciated that any further benefits should fall to consumers. As stated this would be a disincentive for NG to dispose of or find alternative use of assets once the end of their assets lives have been reached. We agree that an additional benefit of disposal would be for gas shippers and consumers to avoid decommissioning costs but it is not clear how this would be charged for or whether it is allowed for in the RAV.

Question 5: *Are there any other considerations that should be taken into account?*

At this stage we have nothing further to add.

CHAPTER 5: Commercial options

Question 1: *Do you consider that the opportunity to potentially share in the benefits of CCS using ex NTS assets represents an appropriate balance of risk and reward?*

Our initial view is that it is not immediately obvious why gas shippers and customers should wish to be exposed to risk and uncertainty in the CCS business that NG is seeking to develop, this is not their main business. We believe this would increase uncertainty in transportation charges at a time when steps are being taken to increase understanding and transparency in charges and to improve predictability. However it would be unwise to rule out the possibility of a reduction in transportation charges via a royalty mechanism.

Question 2: *What is your view of a lump sum payment, in the event that consent is granted for disposal?*

This would be a simpler transaction although it is not entirely clear how a cash sum translates into a RAV reduction.

Question 3: *What is your view of a participatory royalty arrangement, in the event that consent is granted for disposal?*

There may be merits in this approach if stability in transportation charges is not undermined, the actual mechanisms and uncertainties would need to be understood.

Question 4: *Are there other risks / benefits which should be taken into account?*

At this stage we have nothing further to add.

May 22, 2009