



## Andrew Pearce

European Regulatory Affairs  
Gas Trading Europe and LNG

BP Gas Marketing  
20 Canada Square  
Canary Wharf  
London  
E14 5NJ

28 May 2009  
Bogdan Kowalewicz  
Gas Transmission  
Ofgem  
9 Millbank  
London  
SW1P 3GE

Direct: +44 (0)20 7948 4027  
Main: +44 (0)20 7948 4000  
Mobile: +44 (0)7900 654136  
Fax: +44(0)2079487844  
Main: +44 (0)20 7948 5000  
Andrew.Pearce2@bp.com

Dear Bogdan

### **Proposed disposal of part of the NTS for Carbon Capture and Storage**

Thank you for the opportunity to comment on the above consultation document. These comments are not confidential and may be placed on your website.

Please note that BP Gas Marketing is submitting comments to this consultation as a gas shipper and is not responding to this consultation on behalf of any other part of the BP Group or affiliate companies.

BP Gas Marketing is supportive of efforts to reduce carbon emissions and any remedies that may be found to assist in that process should be welcomed. However thought must be given to the consequences on the current operations of the NTS that a transfer of assets from National Grid Gas (NGG) to another wholly owned National Grid company could cause.

Our comments to the specific questions in the consultation are set out below.

### **CHAPTER 2: Proposal to dispose of assets for CO2 transportation**

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

As stated above we are supportive of efforts to reduce carbon emissions.

We note that the consultation states that National Grid intend to join one of the consortiums bidding in the DECC competition by "the re-use of existing gas feeders which are near to or at the end of their regulatory economic life". We would argue that using the end of regulatory economic life is not the appropriate measure to use for these assets. The assets may be nearing the end of their regulatory economic life but they could still have many years of useful life as part of the NTS. Meaning

BP Gas Marketing Ltd  
Registered in England and Wales No. 908982  
Registered Office:  
Chertsey Road  
Sunbury on Thames  
Middlesex  
TW16 7BP

that they would continue to be part of the RAB, the economic test should be if the feeders are nearing the end of their useful life as pipelines that could be used in the transportation of natural gas.

***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?***

Any measures that are put in place must be designed so that additional costs are not passed on to shippers which in turn will be passed onto consumers. The gas transmission operations of National Grid should not be used to subsidise a non gas activity partaken by another National Grid company.

### **CHAPTER 3: Regulatory issues**

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

Within the consultation there are a number of scenarios used to value the assets that are required to be taken out of service if this proposal goes ahead. We would like to see more data being made available on the valuation of these assets and the impact on the allowed revenue these different scenarios could have.

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

It is important to recognise that as the aggregator of the industry data supplied for example via the “Transporting Britain’s Energy” (TBE) process; National Grid is uniquely placed to assess the overall supply and demand situation regarding the GB market. This includes having a view of the supply picture at St Fergus. As an individual market participant, there are significant limitations on the comments that BP or other participants are able to make in relation any forecast flows. We cannot therefore offer assurance on the accuracy of the scenarios that National Grid presents.

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

The consultation states that it has taken into account the flows from the TBE data that National Grid compiles. But there is no indication if this data makes any allowance for the GB network becoming a transit route for Norwegian flows to Continental Europe and the ability for the NTS to accept these flows.

The consultation states that all forecast flows include provision for West of Shetland gas and future Norwegian imports. At the seminar that was held in London on the 11 May it was clear that some attendees were not in agreement with the projected forecast flows from St Fergus and were questioning why potential projects in the NCS had not been taken into account. It was pointed out that St Fergus was the obvious place to land any additional flows. It would be helpful in any future consultations if Ofgem and National Grid could clearly state why they have not taken these forecasts into account.

National Grid has also modelled different supply/demand scenarios. They have also shown peak historic flows from 2003/04 to 2007/08. As last winter was the most severe winter we have had since 1996/97 it would be helpful to see additional modelling to show how the system would have coped during last winter with the feeder removed and no additional compression installed.

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

National Grid Gas has the access to the most up to date modelling of the NTS and its capabilities. Only National Grid is in a position to aggregate all the information relevant to predicted flows. For this reason we can not comment on the predicted effect the removal of this section of pipeline would have on the capabilities at St Fergus.

We would suggest that an independent audit of NGG's modelling is carried out to assure interested parties that the modelling is accurate. Any such audit results should be published in the next consultation.

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

While the removal of a major pipeline may be accommodated without harm in normal situations, we remain concerned that this removes a level of optionality from the system in times of stress. This places additional costs and risks on shippers and consumers which do not appear to be valued under this exercise.

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

The consultation and the National Grid presentation at the seminar on the 11 May state that the current baseline for St Fergus is 154 mcm/d and that there is no intention to change this figure. What is not covered is the fact that from April 2012 we are due to enter into the next Transmission Price Control. For shippers to be able to make informed comments in any future consultations it would be helpful if Ofgem were to give assurance now that they will not lower the St Fergus baseline in the licence changes that may be made in order to implement the next Price Control. Without this assurance any forecasts that NGG publish on the capabilities of the NTS around St Fergus to meet their obligation to provide baseline capacity could be irrelevant by 2012.

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

This seems to be a repeat of Question 1, in chapter one.

#### **CHAPTER 4: Valuation of assets**

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

With such a wide range of valuations it is hard to understand what reasoning was used between the different scenarios. As a shipper we can not see all the data used by NGG to reach these assumptions, so are unable to make a detailed analysis of the valuations and to assess if they are a fair and economic valuation. However, the likely cost to the CCS business to construct a pipeline for their own use will be substantially greater than the lower values shown, and the transfer values should take this into account.

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

As stated above we can not see all the data that NGG used to value these assets so it is difficult for us to make any comments on the assumptions which underpin the asset valuations.

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

National Grid indicates that to maintain the capabilities of the NTS to pre-disposal levels an additional compressor would be needed. The cost of a new compressor is put at around £80m within the consultation. If that is the amount that NGG have to spend on replacing the lost capability then it could be argued that this is also the value that could be placed on these assets. The cost to the CCS business of constructing an equivalent asset for their own use should also be considered (as a cap).

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

We do not agree that there are benefits associated with the disposal of these assets to users of the NTS apart from some reduction in transmission charges. But as the consultation shows there are a wide range of valuation and some of these would lead to a very small value being placed on the asset which would have a negligible effect on the RAB. This small benefit should be weighed against the increased risk to shippers that a reduction in capability of the NTS in Scotland could have.

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

The issue of a perceived shortage of St Fergus capability pushing up the price of entry capacity at St Fergus should be taken into account. Likewise any increase in entry capacity prices could make the future development of some marginal fields uneconomic. As pointed out above a reduction in capability could reduce the competitiveness of the GB system in transporting Norwegian gas.

**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?***

We do not agree that sharing the risk with shippers is appropriate. NGG are the owners and operators of the gas transmission system, they should not be using any potential sale of parts of that system to add additional risk to shippers balancing requirements.

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

If a disposal were to go ahead then this should be the option carried forward. It is not NGG's responsibility to share the risk of a non-regulated business of National Grid plc. Shippers likewise should not have to share the risk.

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

See answer above.

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

Any increased risk to the security of supply should be taken into account and weighed up against the perceived benefits this asset transfer might have on National Grid's income.

Taking one of the four feeders out of service from St Fergus will have an effect on the amount of linepack that this part of the NTS can provide. The consultation only touches on this in one paragraph. In any future consultation we would like to see further analysis carried out into the loss of 25% of this linepack.

To summarise this proposal needs to be looked at carefully before any decision is made. To assist shippers and other interested parties to be able to comment on any further consultations, it would help if future documents included Ofgem/independent analysis of:

- NGG's predictions for flows into St Fergus and the likelihood that the GB grid could be used as a transit route for Norwegian gas.
- NGG's asset valuations
- The consequences associated with a 25% reduction in linepack availability within the St Fergus to Avonbridge feeder system

We hope that you find these comments helpful. If you wish to discuss further please don't hesitate to contact me on the number above.

Yours sincerely

**Andrew Pearce**  
**Regulatory Affairs**