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# Consultation on disposal of part of NTS for CCS

11 May 2009

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**RESPONSE to OFGEM consultation on disposal of  
part of the NTS for CCS**

**CARBONET Ltd on behalf of itself and Denbury  
Resources Inc**

**15<sup>th</sup> May 2009**

**CHAPTER 2: Proposal to dispose of assets for CO<sub>2</sub> transportation**

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

**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 CO<sub>2</sub> 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?

Response:

Q1 – Yes – We offer unqualified support. In our view and experience, the existence of a pipeline network is the essential catalyst to the initiation of real CCS projects and the commitment of funds to them being built. Without a transportation capacity nothing will happen. We see this as the ground breaking initiative that will break the log jam. In the US, the existence of the Denbury CO<sub>2</sub> pipeline network has given rise to investment and potential investment in anthropogenic CO<sub>2</sub> emitting industrial plants along its route. Without the existence of the pipeline network these would not have been committed.

Q2 – If it was to be a free transfer of the asset then compensation for any subsequent impact on the regulated business would have appeared reasonable. As the asset is being sold then the price should allow for such future potential risks. It could be argued that the value of this asset to the regulated business is zero other than the risk cover it offers against future failure to meet demand. Thus, as long as the transfer price exceeds this risk value assessment, no other compensation is necessary.

NOTE: It should be recognised that the maximum pressure spec for this pipeline is not suitable for the transportation of CO<sub>2</sub> in dense phase. This severely limits its CO<sub>2</sub> carrying capacity and will require that a compressor station is built at St Fergus to boost the CO<sub>2</sub> to dense phase before entering an appropriately specified sub-sea pipeline carrying it off-shore oil fields for EOR purposes. Ultimately, a UK network at dense phase spec. is desirable but this is nevertheless a useful/essential first step.

**CHAPTER 3: Regulatory issues**

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

**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?

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

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

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

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

Q1 – Yes broadly speaking but we are not experts in this area

We have no relevant comments on Q2 – Q6

Q7 – We support this and see it as a first step towards the birth of a comprehensive common user CO2 network which will be of enormous strategic value to the UK.

**CHAPTER 4: Valuation of assets**

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

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

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

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

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

Q1 – We agree with the calculations as carried out and presented.

Q2 – We agree with the assumptions attendant upon those valuations if the asset is to be valued as a book cost on the basis of historic cost/depreciation.

Q3 – Value could be also arrived at from a sales perspective and measured in terms of what the asset would fetch on the open market. This would be impossible to ascertain without offering the asset for sale.

Q4 – Broadly in agreement

Q5 - No

#### 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?

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

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

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

Q1 – We believe that a clean break is the preferred approach. Any benefits of CCS per se in commercial terms will be difficult to assess particularly in the early days.

Q2 – This would be conventional and is supported

Q3 – See Q1 above.

Q4 – No