

Proposed disposal of part of NTS for Carbon Capture and Storage

Ofgem Consultation

Comments from CO2DeepStore

CO2DeepStore overview

CO2DeepStore Ltd is a CO2 storage operator with interest in the transport and deep geological storage of CO2. We are committed to making CCS happen with some urgency in order to mitigate the worst impact of climate change. CO2DeepStore provides a sequestration service to major emitters and will hold CO2 storage licences and own assets and transport infrastructure. www.CO2DeepStore.com

Is the consultation framing correct?

Ofgem's role of providing drive to mitigate climate change, when considered with the fact that electricity generation is the major creator of CO2, would suggest that Ofgem should be doing all in its power to encourage CCS to happen. Climate change is a real and urgent issue which will have an impact on all consumers.

It appears to us that the framing of the consultation is not quite right for the following two reasons;

1. The emphasis appears to be that changing the use of NTS infrastructure from natural gas to CO2 presents a supply and price risk to gas consumers and is presumed to be a revenue generating opportunity.
2. It takes a short term view and consequently appears to miss the longer term implications. The sector will need to transport (and store) around 55 million cubic metres of CO2 daily, within the next 15 years

Implementing Carbon Capture, Transportation and Storage technology will increase the cost of generating and distributing electricity, this will inevitably lead to price increases for electricity consumers – increases of approximately 30% have been posited. The price consumers pay for electricity is (and will continue to be) proportional to the cost of generation and supply.

In this context we suggest that this consultation should be focusing on how NTS assets in Scotland and elsewhere in the UK could be used to accelerate CCS by creating an early CO2 transport network. The emphasis should not be on how much revenue can be created by a change of use of the asset, but how any value available can support the development of a CO2 transport network.

The real risk to electricity consumers is to not develop such CO2 transport systems. Given UK policy regarding the fitting of CCS to all new power plants and the planned Consultation regarding retrofitting to existing plants, the absence of a CO2 transport network will prevent new fossil fuel plants being built, which would result in an energy shortfall such that demand for electricity cannot be met

This presents unacceptable risk to consumers and therefore Ofgem should be actively supporting the creation of a UK onshore CO2 transport network.

General comments

1. The onshore transport of CO2 will be an essential part of the future UK electricity market, given that CO2 from fossil fuel power generation must be captured and stored in order to support the meeting of carbon reduction targets. Furthermore the early creation of onshore CO2 pipeline routes would stimulate early adoption of CCS. Ofgem should seek to take on responsibility for onshore UK CO2 transport pipelines in the same way it regulates natural gas pipelines. We suggest that onshore CO2 transport should be regulated in the same way as gas and electricity distribution. The best deal for consumers would be to treat CO2 transport pipelines in the same way as gas transport pipelines. In this context a ‘disposal’ of part of the NTS is not the correct term, rather it would be a ‘change of use’ remaining within an extended NTS system operated by NGG.
2. Whilst the stimulus for the NG approach to Ofgem was the UK CCS Demonstration Competition, the consultation has much wider long term implications. It would be a risk to focus the consultation only on the UK CCS Demonstration Competition as outlined in Section 1, Background.
3. If the process adopted is one of asset ‘disposal’, then it is unclear why a NG subsidiary should necessarily be the acquirer. Other parties may be interested in the acquisition for the purposes of CO2 transport.
4. It is essential that any party interested in transporting CO2 through these pipelines should be able to secure terms which are fair and equitable in a process which is simple and effective. The infrastructure owner must not be allowed to use a monopoly position to charge a “ransom” tariff. As a company with interest in transporting and storing CO2, CO2DeepStore consider such cost effective and open access to be essential.

Question by Question responses (numbered accordingly)

Proposal to dispose of assets for CO2 transportation**Question 1: Do you think that this proposal is a good idea in principle?****Question 2: What is your view of this proposed treatment of these additional compressor fuel costs?**

1. We support the change of use of part of the NTS from natural gas to CO2 service. However we suggest that this should not be regarded as a 'disposal', but as a 'change of use' within a wider NTS operated by NGG, which includes CO2 transport infrastructure. A widespread UK CO2 transport network will be an essential part of our future energy distribution system and should therefore be regulated by Ofgem in the same way as gas and electricity distribution systems. Furthermore the active support by Ofgem for this initial transport route would help stimulate early adoption of CCS.
2. If the assets remain within NGG ownership and regulated by Ofgem, then no special treatment of additional compressor costs is required

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?**

1. Whilst we do not disagree with your view of the regulatory issues of the proposed asset disposal, we suggest that ***a review of the strategic context is required***. In line with Ofgem's role for sustainability, assurance of electricity supply and support of the UK government's CO2 reduction objectives, it would appear essential that CO2 infrastructure remains within the regulatory control of Ofgem. We do not feel that an asset 'disposal' is in the best interest of

consumers, who will be impacted by CO2 transport costs as part of their energy bill.

2. No comment
3. No comment
4. No comment
5. No comment
6. We believe that the interests of consumers are best served by minimising the costs of developing and maintaining CO2 transportation infrastructure and not by considering this matter only as a reduction in natural gas capacity. A holistic view is required which considers the importance of establishing a CO2 pipeline route along with the gas transport capacity
7. We support the use of the pipelines for CO2 transport, but feel that a 'disposal' out of NGG and beyond the regulation of Ofgem is not in the best interests of consumers. The pipelines should be subject to a 'change of use' within NGG and remain subject to Ofgem regulation

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?

1. No comment
2. No comment
3. No comment
4. No comment
5. If the assets remained within NGG, but were subject to a 'change of use' then no asset valuation would be required and consumers would be assured of the

best possible value. This would avoid the situations where a) the valuation was too low and NG benefit at the expense of consumers or b) the valuation was too high and progress on CCS was stalled

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?

1. CO2 transport as part of the CCS value chain is waste disposal process required to mitigate climate change. As such the value of the process is not as high as the value of hydrocarbon gas transport process. Any costs applied to the CO2 transport pipeline either 'capital' transfer payments or fee/tonne payments will inhibit CCS. Keeping the assets within the NGG business avoids these unnecessary costs.
2. Any significant lump sum payment will inhibit development of CCS
3. A participatory royalty arrangement is not appropriate. CO2 transport cannot bear such additional costs
4. No further comments