

The Gas Forum



Bogdan Kowalewicz
Gas Transmission
Ofgem
9 Millbank
London
SW1P 3GE

7th Floor Centurion House
24 Monument Street
London
ECR3 8AJ

Tel: 020 7090 1030
Fax: 020 7090 1001
email: gasforum@gemserv.com

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Dear Bogdan

Proposed disposal of part of NTS for Carbon Capture and Storage

The Gas Forum welcomes the opportunity to comment on Ofgem's consultation on NGG's proposal to dispose of part of the NTS for Carbon Capture and Storage. Reducing CO₂ levels is a necessary requirement in tackling climate change and meeting targets, both in the UK and worldwide.

Although we welcome the principle behind this proposal, we consider that further analysis is required to demonstrate that this proposed disposal of gas transmission assets by National Grid will not have a detrimental effect on the economic and efficient operation of the NTS. For instance, there is currently insufficient analysis on the impact of this proposal on system-wide 'flexibility' and linepack, any change in which, may have an impact on our member's interests.

It is imperative that customers, who should be the ultimate beneficiaries as stakeholders who have paid for the network over its life time, should receive fair value for this asset disposal. We would also expect consumers to benefit over and above the benefit from a decrease in transportation charges which arises as a result of decreases in the RAV asset base. We do not believe it is in the consumer's best interests to be exposed to additional buyback risk or costs from extra compressor usage resulting from National Grid NTS maintaining existing baseline capacity levels.

We are concerned at the impact this level of network disposal will have on NTS capacity in Scotland and surrounding areas. We believe an independent audit should be conducted into future use of the UK NTS to independently verify any potential constraints and costs to the system going forward. Members believe there may be significant amounts of gas from the Shetland Islands and Norway targeted for St. Fergus which the UK needs going forward which shouldn't be jeopardised by this project.

We have laid out our views to your specific questions in the document below which we hope you find useful however please feel free to give me a call on 02476 183384 if you wish to discuss this matter further.

Yours sincerely

Peter Bolitho
Chairman of the Gas Forum

CHAPTER 2: Proposal to dispose of assets for CO₂ transportation

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

Yes, the reduction of CO₂ to meet climate change commitments is important however we would like to see valid analysis of the benefits to consumers as a result project before it can be justified as economically viable. Consumers have paid for and maintained these networks since they were built and any disposal should benefit them as a major stakeholder – it has been questionable to what extent this has happened in the past with similar asset disposal such as Distribution Networks sale and Isle of Grain transfer to a separate legal NG entity.

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 agree with this principal – there should not be any cross subsidy from the new project by existing gas customers.

CHAPTER 3: Regulatory issues

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

Currently there is no legislation for dealing with the transportation of pipelined CO₂ however we would expect these to be developed in line with HSE requirements.

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

We cannot comment on whether NGG's analysis of capacity is accurate given the lack of access to information and data relating to the NTS. We would therefore welcome some independent analysis to be done to validate NGG's which should be done by an independent auditor.

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

Detailed consultation on potential gas flows at St. Fergus from Shetland Islands and Norway is paramount especially as the UK is increasing a net importer of gas.

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

We cannot validate NGG's figures however it is encouraging to note that NGG has stated they will continue to guarantee the 154mcm baseline despite the transfer of 300km of pipe under this project, especially since NGG has been worried about meeting its physical capacity obligation in the last TPCR baseline review. We agree that baselines should be maintained and hope that this continues into the next price control to ensure integrity of the long-term auctions signals at St Fergus such that predicted gas flows to the UK are given the best chance of reaching the UK.

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

Whilst we cannot validate these figures the removal of the feeders will obviously reduce the physical capacity of the NTS to transport gas from St Fergus, although NGG has stated it can continue to meet its baseline capacity obligation. The risk of buy back could increase therefore, but to the extent that the baseline exceeds NGG's view of how much gas is likely to be landed at St Fergus in future years it is arguable whether this risk is material

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

There should be no cross subsidies between gas and CCS and vice versa to ensure that current market competition is not distorted or eroded as a result of this project. More information on how the new CO₂ pipeline will be operated, maintained and leased out to the market is essential. We believe access is an issue and that Use-it-or-lose (UIOLI) arrangements should be in place.

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

See answer to question 1.

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 with the potential ranges of asset valuation however believe the range is too wide to provide a meaningful appreciation of the true commercial value that a party would be willing to pay for them.

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

Yes, they seem reasonable however we would question the 16 year DECC competition asset valuation over 16 years for a pipeline that has practically been fully depreciated.

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

The opportunity cost value of building a new pipeline could also be considered either by way of the replacement cost or via an auction. A valuation on this basis could potentially be even greater than the highest valuation in the consultation (£182m).

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?

It is difficult to comment on NGGs risk /reward balance however on the face of it if NGG has stated that it can guarantee its capacity baselines then it should not face any extra buyback risk or compressor costs. To the extent that it does, it should be fully compensated for this by the CO₂ transportation system operator

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

We believe the lump sum payment could co-exist with the royalty payment scheme however; it should only cover buyback risks and the cost of extra compression if it can be proven that these risks and the extra compression are needed. We believe this could be an after-sale condition of the sale as an ex-post payment if needed.

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

We believe this represents a more cost reflective way of remuneration however could lead to uncertainty over payments given the uncertainty of CO₂ flows.

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

Transportation of CO₂ has not been tested in the UK and given the risk of corrosion and high impact of CO₂ leaks we would welcome Ofgem's views and the HSE's to ensure this activity has no risk to industry and local consumers.