

Bogdan Kowalewicz
Gas Transmission
Ofgem
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Dear Bogdan,

Proposed disposal of part of the NTS for Carbon Capture and Storage (CCS)

Thank you for the opportunity to comment on these proposals.

GDF SUEZ Energy UK does not currently have enough information to be able to form a firm view on these specific proposals at this early stage. Consequently we have the following comments to make which largely seek to identify issues that we consider need to be addressed ahead of the next stage of consultation.

CHAPTER 2: Proposal to dispose of assets for CO2 transportation

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

GDF SUEZ Energy UK recognizes the requirement for GB to move towards a lower carbon economy and the important contribution towards carbon targets that the electricity generation sector has to make. We also recognize the significant investments required to continue to introduce cleaner technology techniques into the generation mix and that is crucial to maximize efficient solutions in order to reduce costs to the end consumer. The successful implementation of CCS, if trials prove it to be technically sound and economically viable, could realize a significant step to reaching the UK's carbon targets and at the same time maintain a level of security of supply from high load factor thermal plant.

In relation to the specific issue of disposal of NTS gas transportation assets for CCS use we have no objection in principle for this to be considered further subject to due consideration for the impact on consumers and users of the NTS and connected networks. It is vital that industry participants are allowed to respond to proposals as they emerge throughout the project and that appropriate levels of scrutiny are applied by both National Grid and Ofgem.

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?

There should be no cross-subsidy or additional risks for Gas consumers should the feeder section be removed as described. Additional fuel costs together with the cost of increased emissions should be passed through to the new CO2 transportation business. The extra use of compressors will also introduce additional running costs in addition to the cost of fuel. These costs are associated with extra maintenance and the increased risk of compressor failure and should also form part of the cost pass through on disposal.

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?

GDF SUEZ ENERGY UK is not in a position to validate NG's future flow forecasts at St. Fergus but the information NGG uses in its assessment of this project must be consistent with information available to the industry and there should be scrutiny from an independent audit before final decisions are taken so that gas consumers and industry participants can have confidence in the decision.

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

Given the dependence of GB on imported gas it is crucial for security of supply that any offshore development of new fields can be accommodated onto the system. NGG should work with the offshore industry to produce a well reasoned forecast of potential deliveries with a rating of their chance of success before making any final decision on disposal such that future deliveries are not compromised.

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

It is re-assuring that the current baseline capacity can be maintained should the disposal go ahead.

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

Given the ability of NGG to hold baselines steady as above it seems difficult to justify that there will be additional buy-back risk for participants.

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

Not at this time.

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

See answer to question 1 above.

CHAPTER 4: Valuation of assets

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

The most effective way to test the true valuation of an asset is to open up the bidding process to competitive tender. Given the scope for the potential development of other regional networks in future for CO2 transportation there may be scope for a variety of potential bidders from pipeline operators other than NGG. A competitive tender process may help to identify the appetite for a commercial solution together with as yet unidentified risks or opportunities.

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

See answer to Q1 above.

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

See answer to Q1 above.

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 crucial that the appropriate safeguards have been considered to protect gas consumers and NTS users in the long-term. These concerns are primary to the apportionment of any potential commercial gains, particularly where projects which could, at worst, only be used as a demonstration project for a short period of time.

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

No view at present.

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

There is likely to be uncertainty over royalty payments or reward sharing given that payments are likely to be related to flows of CO2 which are subject to uncertainty relating to the success of the demonstration project.

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

Not at this time.

Further information

I trust this information is helpful and if you have any questions or would like to discuss further, please do not hesitate to contact me on 0113 306 2104 or mobile 07733 322460.

Yours Sincerely,



Phil Broom
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GDF SUEZ ENERGY UK