

Bogdan Kowalewicz
Gas Transmission
Ofgem
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20.05.2009

Dear Bogdan

Re: Proposed disposal of part of NTS for Carbon Capture and Storage Consultation Ref: 35/09

Please find enclosed comments on the above consultation document. These comments are made on behalf of INEOS Manufacturing Scotland Limited, a consumer of natural gas from the NTS (over 72 million therms per annum) and a producer of carbon dioxide from combustion and reaction processes (c. 4 million tonnes per annum over three EU ETS permits).

We support the concept of changing the use of a portion of the NTS to allow improved access to offshore carbon dioxide storage; this is significant in being able to demonstrate the large scale applicability of the CCS technologies. There are several over-arching principles that we believe should apply:

- There should be no detrimental impact to the NTS operations or charges as a direct consequence of this change of use / divestment. Shippers and end consumers should see no decline in service or increase in costs.
- The divestment should be managed as a true commercial sale, where the price payable for the asset reflects the seller's and buyer's alternative use / option. This should allow the sale to be clean; that is to say there should be no mechanism for possibly charging the CO2 transportation company if additional compression is required, this should be included in the agreed sale price.
- Access to the CO2 transportation services should be regulated, potentially by Ofgem, in a similar manner to the NTS, to ensure equal rights of access and transparency over charging. This is essential to ensure that transportation costs do not become a barrier to successful commercialisation of Carbon Capture and Storage.

.If you require any further details / explanation of the detailed comments, please do not hesitate to contact me as detailed above.

Yours sincerely,



Colin Pritchard
Energy Analyst

Chapter 2

Questions:

1. Yes, the proposal is a good idea in principle.
2. The sale of the asset should be made to be as “clean” as possible. It is not “fair” to start the CO2 transportation company with a potential and yet uncertain liability for costs that may be out with their direct control and are also likely to be complicated leading to wasted energy explaining and understanding. The agreed sale price should be such that it compensates National Grid Gas for the risk of needing to operate additional compressors at additional cost – it is also true that there should be no way in which this cost finds its way to the users of the system and consumers of gas. The proposed mechanism

Additional Comments:

- a. Paragraphs 2.6 & 2.9: this scheme appears to be a very good concept and should continue to be developed by NGG whether or not their partners bid in relation to the DECC demonstration competition is successful.
- b. Paragraph 2.8: further to the comments made above on question 2, the agreed asset sale price should be a proper commercial negotiation, reflecting the alternative uses / options that exist for seller and buyer.
- c. Paragraph 2.4: the issue with respect to compressor costs – it should be a principle that the shippers and end consumers are not dis-advantaged as a consequence of this sale, either in the service they are provided or the costs they pay for it.

Chapter 3

Questions:

1. – 5. INEOS Manufacturing Scotland Limited does not feel it has sufficient knowledge to make comment on the data provided.
6. The major issues with respect to shippers and end consumers are the price for delivery and the security of supply – both of these issues should not be adversely impacted as a consequence of any asset divestment by NGG. Notwithstanding this, the agreed sale price should reflect the risks / issues inherent in the buyback analysis.
7. Repeat of Chapter 2 Question 1: In principle, INEOS Manufacturing Scotland Limited is in favour of the sale.

Chapter 4

Questions:

1. The fundamental question here is what is the true market value of the asset? The only way in which this will be determined is by offering the asset for sale on the open market (and this should be done as a “clean” sale with no potential for additional charges due to compression etc as per previous comments). If there is true competition for the asset then a price reflecting its value to the buyer should be arrived at; the calculations are different methodologies for determining the value to the seller:
 - The valuations based on pro-rating the Modern Equivalent Asset values have two fundamental failings: i. the time used is arbitrary and does not consider the actual life of asset based on inspection data; and ii. the use of MEA assumes the full capacity of the asset is required for CCS.
 - The valuations based up on accounting practices do not reflect the true value of the asset to the buyer (they are significantly below market value).
 - A forward process would be:
 - a. Make the assets available on the open market for sale by sealed bids (the above analysis should assist in determining whether the offer price exceeds the value to the seller). The expectation is that bids would reflect the cost of the alternative option to potential purchasers.
 - b. Should there be no successful bid, then the transfer of ownership between wholly owned National Grid plc subsidiaries should reflect the book value plus the cost of the risks associated with decrease in capacity / compression costs.

2. The significant benefit of using the potentially redundant NTS capacity comes from being able to re-use an existing way-leave agreement. In terms of value, this has not depreciated over the 30+ years since commissioning – indeed it may have arguably appreciated. The second benefit is being able to re-use the pipeline, and here the valuation should reflect the useful life remaining in the asset, based up inspection data, rather than arbitrary time assumptions un-related to the physical condition of the line.
3. The best alternative asset value is the open market valuation from offering the asset for sale.
4. The consideration of benefits / Ofgem view set out in paragraphs 4.18 to 4.20:
 - The shareholders should be compensated for the market value of their asset, not the book value (in the same way that if there was insufficient demand for gas transportation services the pipeline system would be worthless and not as high as any residual book value).
 - Whilst it is true that a higher sale price would potentially result in a commercial impediment to the successful commercialisation of CCS, it would and should reflect the true market price of CCS. Otherwise, the new company, or any acquiring company, would have a demonstrably unfair advantage in the market place for provision of CCS services / CO₂ transportation.
 - Considering the options to “ensure” that this CCS option is realised:
 - a. If the sale price is below market value, the company will be at a significant advantage and should therefore be subject to tight regulation.
 - b. If a market value is too high to allow commercialisation, then potential for Government assistance to realise the concept could be sought. In this case, again, tight regulation would be required to ensure that all benefit from this Government assistance.
5. No further comments.

Chapter 5

Questions:

1. – 4. The options for sharing benefits on a risk / reward basis could be explored with any potential purchaser, but should work from the basis of valuing the asset in a “clean” sale (i.e. NGG accepts a fair price based on the market value of the asset, and this is to be greater than the residual value for gas transportation and the cost of the risk of buyback).