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22 May 2009

Bogdan Kowalewicz  
Senior Manager, Gas Transmission Policy  
Ofgem  
9 Millbank  
London SW1P 3GE  
By email

Dear Mr Kowalewicz,

**Consultation: Proposed Disposal Of Part Of The NTS For Carbon  
Capture And Storage (Ref 35/09)**

We refer to the above consultation dated 8 April 2009 and thank you for the opportunity to comment upon it.

We are pleased to see that, in conducting this initial consultation, NGG and Ofgem are pressing forward with consideration of this opportunity while recognising that there are many issues to be addressed.

At this initial stage in the process, our comments set out below are of a more general nature in the expectation that additional work and discussion will further clarify the appropriate way forward on the many aspects of this proposal.

Chapter 2

Overall, while we believe this proposal to be a good idea in principle (ref 2 - Question 1) we support the further stages of consultation envisaged to ensure all issues are fully addressed as NGG seeks to progress this within the timescale indicated for the DECC competition to demonstrate CCS in the UK.

If the envisaged change of use of assets proceeds, we believe in principle that it should be on the basis that shippers should not be required to take on risk additional to that which would have been the case were such change not to proceed. In that context, in relation to the specific question raised concerning additional compressor fuel costs, we believe such costs should not fall to shippers (ref 2 - Question 2). Any capping of such costs should take account of the requirements foreseen over time prior to the change of use.

Chapter 3

We agree that a full evaluation of future network requirements/St Fergus capability is a key ingredient of the considerations for this proposal, including in particular from a UK security of supply perspective. As part of this, full



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M. J. Ash  
Manager Energy Sales & Trading

Yours sincerely,

Should you have any questions on the above or wish to discuss further then please contact me. (Direct line as noted above.)

Chapter 5  
We believe that it is not appropriate for shippers to have to take risk with regard to the consequences of any disposal. The commercial arrangements should therefore be structured accordingly. The upfront lump sum payment approach has the benefit of simplicity, although it might nevertheless be appropriate also to consider a combination of this approach and simple royalty.

Chapter 4  
We have no particular comments regarding specific asset valuation methodology other than that it should provide a fair balance between the interests of NGA and shippers; and should not be set at such a level that the alternative use opportunity would be discouraged. In this respect it would appear that MEA based valuations would be more likely to discourage the alternative use opportunity.

Regarding any disposition of the feeder sections, it would seem appropriate that, given the decommissioning that would otherwise occur around 2020, these assets should be disposed of for re-use with decommissioning costs borne by the CCS project. (Ref 3 - Question 7.)

Chapter 3  
Given the on-going development of entry capacity substitution methodology, it seems prudent that this be taken into account, when finalised, in future decision making on this proposal.

recognition also needs to be taken of the range of potential Norwegian imports as well as UKCS developments. While we have no particular comments regarding the initial analysis undertaken to date by NGA, it remains important that shippers have confidence that the required physical flows will be achievable. While the proposal that existing capacity baselines be maintained following a feeder section disposal provides comfort, undue reliance on buyback does not appear to be an appropriate strategy. (Ref: 3 - Questions 2-6.)

