

Mr. Bogdan Kowalewicz,
Gas Transmission,
Ofgem,
9 Millbank,
London, SW1P 3GE.

21st May 2009

Dear Bogdan,

Proposed Disposal of Part of the NTS for Carbon Capture and Storage

Thank you for an opportunity to comment on this proposal by National Grid Gas. We are probably not best placed to reply in detail and so we are confining our comments to higher level considerations, but taking account of the questions which have been posed in your consultation document, ref. 35/09.

1. We recognise that all organisations should use their assets efficiently, but we find it difficult to be convinced that sufficient regard has been taken within the proposals for the security of national gas supplies. This is dealt with in three short paragraphs, 3.63–3.65, but there are no questions posed. Furthermore, some of the wording does not inspire confidence: "... as to try and preserve current natural gas capability as far as possible" (ref 3.63); "From the wider standpoint of the security of UK energy supplies, ..., this should help secure the long term future of Scottish power generation" (ref 3.65).

The risk to security of gas supply should be taken fully into account and not just for a short time, but also for an extended period in winter.

2. The European Commission has tabled a revision to the Security of Gas Supply Directive which is currently being debated in Brussels. If approved, it would apply more stringent standards for security of supply. The outcome of this will also have to be taken into account, therefore.
3. NGG has used the base case from its Ten Year Statement for its forecasts which seems reasonable in the first instance. However, has NGG validated the underlying data to take account of possible new flows from Norway and/or the UKCS? Not all operators are asked to provide TBE data in NGG's annual exercise; there is a variety of new operators offshore, i.e. not only the well established names, with more likely to come, so data gathering needs to be more comprehensive. A permanent change to the NTS of this nature should be founded on robust information; it is far from clear that this is the case.

4. We suggest that, as a minimum, a full impact assessment is required, but it would be preferable to have an independent audit of NGG's numbers. From the evidence presented, it is not possible to reach a properly informed conclusion. Were the numbers to be incorrect, resulting in gas being backed out of the NTS as happened a few years ago at St Fergus, the consequence would be significantly higher commodity prices, affecting all consumers.
5. Pricing at St Fergus is already anomalous, with long term capacity being more expensive than elsewhere, but short term capacity inexpensive. There is, therefore, no incentive currently to book long term. Has this been adequately considered within the proposal? Again, it is not clear.
6. Producers/shippers are more interested in the certainty of physical capacity being available in order to flow gas than in NGG being forced to buy back capacity. It should always be remembered that total transmission costs for gas represent only some 2% of the prices paid by consumers; commodity prices are of much greater significance (ref point 4 above).
7. As is noted in Ofgem's document, the matter of substitution of entry capacity remains unresolved which adds to the uncertainty. We strongly suggest that no decision should be taken on this proposal, until there is an agreed solution to substitution.
8. We note that NGG is planning that, if this proposal is approved, it will decommission the affected pipeline in 2013 which will be after the next Price Control takes effect. This then raises the question of potential changes to capacity baselines at NTS entry points which caused considerable difficulty when the current Price Control was implemented. There may well be implications which should be considered in this regard, but on which the document is silent.

From all of the above, you will understand that we find it very difficult to come to any clear conclusions about the risks posed by this proposal; there are too many unknowns and imponderables; the data are inadequate. Above all, though, the security of national gas supplies has not been thoroughly assessed and presented.

At the very least, therefore, no decision should be taken until market participants are assured that the unknowns and imponderables have been satisfactorily resolved, full data are made available and independently audited, and the risks to security of supply have been taken properly into account. Only then will it become possible to make an informed decision.

Yours sincerely,

A handwritten signature in black ink that reads "David." with a horizontal line underneath.

David Odling,
Energy Policy Manager.

Copy: Simon Toole, DECC
John Havard, DECC
Peter Kershaw, DECC