



Bogdan Kowalewicz
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22 May 2009

Dear Mr. Kowalewicz,

Proposed disposal of part of NTS for Carbon Capture and Storage

Thank you for the opportunity to respond to Ofgem's Consultation "Proposed disposal of part of NTS for Carbon Capture and Storage". This response is submitted on behalf of the ScottishPower Group.

ScottishPower operates some 3.5GW of coal plant and nearly 2GW of gas fired stations. In addition we are the holders of a Gas Shipper Licence and significantly in the context of this consultation are one of the remaining entrants in the Government's CCS Competition. For all of those reasons we clearly have a significant interest in these proposals.

The key points we would wish to make in relation to the consultation are as follows: -

- We firmly believe that fossil fuels, particularly coal, will remain a vital part of our diverse electricity generation mix as an essential contributor to our security of supply. However, we recognise the high level of emissions associated with such generation. Accordingly we consider that the capture and storage of CO₂ from these forms of generation will become increasingly important if emissions targets are to be achieved and a substantial contribution made to tackling climate change.
- With that goal in mind, it is vital to push ahead with demonstrating the full CCS chain – capture, transportation and storage – on a commercial scale to gain a clear understanding of technical feasibility and economic costs.
- We fully support the Government's current Competition as a means of delivering such a successful demonstration and welcome the leading role that the UK has taken in promoting the development of this technology. However to this point we have had some misgivings over an apparent lack of vision of what the transportation component of the CCS chain would look like and how it would operate.
- For that reason we particularly welcome this proposal and the potential that it represents to develop the current fledgling thinking around onshore transportation options. We believe that it takes advantage of a unique set of circumstances to move into this novel area at minimum risk, expense and environmental impact. The re-use of infrastructure that may otherwise be redundant represents an innovative approach that maximises returns on that infrastructure. Hopefully it too will represent a basis and even a springboard to expand that current thinking to wider onshore and perhaps offshore options, with the ultimate goal of the creation of an integrated "emitter to store" transportation solution.

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- Furthermore it provides an opportunity to engage with the wider energy community in the CCS debate and to highlight the potential benefits that CCS can deliver. To that end National Grid are to be commended for taking the initiative to promote their proposals via the recent industry events that they hosted. Likewise Ofgem are to be congratulated for sharing a platform with them to explain the regulatory issues involved, as well as the form and timetable that the consultation process would take.
- We recognise the legitimate concerns of those involved in the gas market, on issues such as safety, remaining transportation capacity, asset valuation and regulatory framework, but are confident that such concerns will be fully articulated and allayed during this consultation process.

I have attached a supplementary annex that provides our answers to the specific questions posed in the consultation.

If you would like to discuss these or any other issues in further detail then please do not hesitate to contact me.

Yours sincerely

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ANNEX

PROPOSED DISPOSAL OF PART OF NTS FOR CARBON CAPTURE AND STORAGE

SCOTTISHPOWER RESPONSE TO SPECIFIC QUESTIONS

CHAPTER 2: PROPOSAL TO DISPOSE OF ASSETS FOR CO₂ TRANSPORTATION

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

For the reasons stated above we believe that this is a good idea in principle and one that merits being further explored and developed. That having been said we recognise some of the issues that will have to be addressed as part of the overall consideration, particularly as regards potential impact on safety and transportation capacity, as well as issues around asset valuation and regulatory framework.

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 welcome this suggestion as a means of insulating gas shippers from any additional risks. However we do not yet believe that the immediate case for it has been made. We believe that as much of the status quo should be retained as possible. For that reason we particularly welcome the proposal to retain the current St. Fergus baseline capacity.

CHAPTER 3: REGULATORY ISSUES

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

We believe that further consideration must be given to the overall regulatory framework to apply to transportation, both onshore and offshore. This proposal provides an opportunity to develop such thinking and may well set the precedent for such arrangements going forward.

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

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

We have taken these two questions together. The forecast flow figures are consistent with the Ten Year Statement but beyond that we have no reason to query the possible higher rates quoted as a result of additional flows from Norway/UKCS/West Shetland. However we appreciate that these figures are central to the proposal and therefore would like to see as robust a justification as can reasonably be provided. Only in that way will the concerns of upstream producers be adequately addressed. We have to be satisfied that even by the more optimistic predictions there will still be sufficient capacity available.

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

See above

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

These estimates seem reasonable. We remain to be convinced that additional compression will be needed and subject to lead times would suggest that this should be left until more substantive evidence is available to make that case.

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

Issues around system flexibility are likely to be significant going forward and we would like to see some additional analysis on how this proposal may impact that.

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

We believe that this is a sensible balanced conclusion, although we have no particular view on the basis of valuation at this time. Our views may crystallise as the consultation process develops and we have a greater understanding of some of the implications.

CHAPTER 4: VALUATION OF ASSETS

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

See above.

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

We agree that the assumptions appear reasonable.

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

We are not immediately aware of any other basis that may be appropriate. However this is a fairly unique proposal without much in the way of precedent. Are there any such similar precedents that could be drawn from such as the disposal of the distribution networks?

Question 4: *Do you agree with the assessment of benefits associated with asset disposal and alternative use?*

We agree with the various points made. In particular National Grid must be incentivised to find alternative uses, particularly once an asset has been fully depreciated. In particular we believe that such a disposal should result in a reduction in overall transportation costs for Gas Shippers.

Question 5: *Are there any other considerations that should be taken into account?*

We are not aware of any other such considerations.

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?*

We believe that this would detract from our core business and interests in the shipping of natural gas. To that end we would rather that a simple one off payment structure was agreed. This would be simpler and would reduce uncertainties over charges. .

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

See above.

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

See above.

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

We are not aware of any other such risks or benefits.