

Bogdan Kowalewicz
Gas Transmission
Ofgem
9 Millbank
London SW1P 3GE

22 May 2009

Dear Bogdan,

Proposed disposal of part of the NTS for Carbon Capture and Storage

Thank you for the opportunity to comment on the above consultation.

Statoil (UK) Ltd (STUK) is against the principal of asset disposal in the manner suggested by this consultation. Whilst understanding the UK requirement for CCS to achieve the environmental targets for 2020 and beyond, STUK believe that the negative impact on the UK gas regime would be too great. This is because of the increased emphasis on security of supply in the UK with the decline of the UKCS and the need for more storage.

Shippers wishing to demonstrate a need for capacity at St Fergus or any other UK entry point are required to signal their capacity requirements at the long term entry capacity (QSEC) auctions, this allows shippers to bid and compete for the available capacity at the entry point for the durations that they require. It could be argued that NGs proposal to dispose of part of the NTS should be treated in the same way, with National Grid exposing its requirement for the identified feeder pipe at St Fergus to competition, allowing the requirement for the capability by all parties, to be assessed and valued appropriately.

The feeder pipe at St Fergus highlighted for disposal, has been identified not just for its geographical location and suitability for CCS transportation but also the low level of long term capacity bookings at the entry point for 2015 onwards and therefore a perceived lack of need for the pipe. STUK believe that fundamentally the Entry capacity auction process works, but it is the continual introduction and changing of associated process such as substitution that have created uncertainty and discourage commitment. In addition it could be argued that due to the perverse incentives created by the zero reserve price used for within day entry capacity bookings combined with the rules around the application of the TO commodity charge in the current entry capacity regime, the booked capacities at St Fergus cannot be assumed to be a true picture of future requirements. It should also be considered that while the National Grid Ten Year Statement is a widely accepted view of future supply and demand it is subject to National Grid aggregation and discretion.

With the increased focus on security of supply in the UK and indeed across Europe, it is vital that the UK remains an attractive destination for investment and the delivery of new sources of gas. The consultation states that there will be no change to National Grids current capacity release obligations as the baseline

levels will not change, but STUK note that a Transmission price control review is to be undertaken between now and the proposed asset removal, which is likely to review the baselines as well as other elements of the entry capacity regime. This level of uncertainty over future entry capacity baseline levels is unwelcome. Shippers and investors need assurance that the entry capacity baselines will remain consistent throughout the next price control review, without comfort that these numbers will not change there is a very real risk that such a decision would deny additional volumes particularly from Norway from coming to the UK. Whilst the consultation considers an allowance for additional Norwegian deliveries and volumes from the West of Shetland, the actual levels of these additional supplies are still forecast within a large range and it should be considered that higher than forecast volumes could be delivered, indeed STUK would expect up to an additional 30mcm of gas to be available to the UK from Norway for the forecast period. If demand higher than existing capability is signalled at St Fergus National Grid would be required to buy back capacity. Whilst this would resolve the contractual problems it does little to satisfy the capacity requirements for new projects or the loss of production such a curtailment could lead to.

The high number of changes proposed to the UK Entry capacity regime, including the introduction of Entry capacity substitution and the imminent Transmission price control review creates a significant amount of regulatory uncertainty. No single proposed change should be assessed on its merits in isolation and an in depth, independent and holistic assessment of UK Entry capacity and capability is required to consider the full impact of all changes on the UK Gas Transmission system.

Although the consultation states that a decision on asset disposal is required this year to align with the DECC competition, STUK believe that there is a strong argument for the decision to be delayed until after the implementation of the substitution regime and a subsequent QSEC auction. This process could result in an increase in capacity bookings and a movement in baselines which could change the volume of the capacity available at St Fergus and therefore affect the economics of the project.

STUK trust that our comments will be given due consideration and should you wish to discuss any aspect of this response further please contact me on the above number.

Yours sincerely

Shelley Rouse.
UK Regulatory Affairs Advisor
Statoil (UK) Ltd