TOTAL E&P UK

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Ofgem Consultation: Proposed disposal of part of the NTS for Carbon Capture and Storage (Ref.:35/0)

Dear Bogdan,

Total E&P UK Ltd welcomes the opportunity to respond to this consultation and provide comments on National Grid's proposal. Ofgem's document presents in depth questions that we find too detailed at this initial stage of the consultation. We will address the main issue which is the possible impact on gas flows from St. Fergus into the NTS. We cannot at this stage address issues such as Asset Valuation and Commercial Options for Disposal.

At Total we understand the important role of CCS in combating climate change. As an integrated oil company with assets both offshore and onshore we are also particularly active in assessing opportunities to undertake capture and storage projects ourselves. In France this year we will commence operation of the world's first fully integrated CCS project that takes carbon dioxide from a gas power plant, transporting it via a redundant onshore gas pipeline for dedicated storage in a fully depleted gas field. We support therefore the principle of reusing existing infrastructure; however this must only be when it is verified as having sufficient surplus capacity. We would like to suggest also that there is the probability that, certainly in the short term, the storage of CO_2 offshore may well lead to enhanced oil and gas recovery opportunities using the CO_2 itself, again something that Total is exploring. This is something that would feasibly enhance the life of fields putting further pressure on the need to maintain the existing oil and gas infrastructure.

Importance of St. Fergus as a key Entry Point:

St. Fergus is a strategic entry point which receives gas flows from both the UK and NW continental shelf. It is the shortest route for Norwegian gas into the UK market and it is the best geographical landing point for future developments from the West of Shetland region.

Unlike other entry points to the UK NTS, if the infrastructure is built to flow gas from offshore into St. Fergus, there is certainty that all available gas will flow to no other market. At other entry points, those linked to interconnectors and LNG re-gasification plants, the infrastructure does not guarantee that the gas will flow, as it will depend on

how the UK gas price compares to the gas price on various foreign markets. This makes St. Fergus a key entry point with regard to UK security of supply.

Currently St. Fergus is the busiest entry point, providing over 33% of gas flows into the UK gas market. Historically, the importance of flows from St. Fergus into the NTS was even greater, although recently we have seen a shift of gas flow patterns into the UK. Total is planning to heavily invest in the West of Shetland area in order to bring gas to the UK via St. Fergus. This will help to maximise UKCS recovery, reduce UK's dependence on imported gas, and contribute to UK security of supply. A stable and predictable structure for entering the onshore transmission system is essential for this type of investment to happen. It is therefore crucial that any changes by Ofgem and National Grid to the onshore system are made acknowledging the strategic importance of the region for UK Security of Supply, and with the intention to promote the maximum possible recovery from our own UKCS.

Need for independent assessment of flow data and system ability

The Consultation document presents National Grid's flow forecasts from St. Fergus and compares them to the capability of the system if the feeder is removed. NG concludes that the remaining infrastructure would be able to cope with future flows under most scenarios. There is insufficient information available for shippers to be able to validate these scenarios. Although we understand the rationale behind our own gas flow forecasts it is impossible for us to challenge the assumptions made on the combined future gas flows used in this study. In addition we have very limited knowledge of the operations of the NTS making it difficult to contest National Grid's conclusions. With this in mind we believe it is imperative that an independent assessment is undertaken by a specialized consultant to review the accuracy of National Grid's assumptions

National Grid receives ten year data from producers, shippers and other industry parties through the Transporting Britain's Energy process, and based on all this data they form a view of future gas flows. There is an element of discretion on the figures published on National Grid's Ten Year Statement, and there is merit in having an independent assessment of this data before using it to determine the decommissioning of existing infrastructure.

Introducing greater Risk in the system and Security of Supply

Once there is reasonable certainty on forecasted flows and the capability of remaining infrastructure to cope with them it is important for Ofgem to look into the level of risk that would be introduced in the NTS by disposing of one feeder line. It is important to understand how the system could perform if any of the remaining compressors were to fail, and what exactly would be the impact of losing the "line-pack" of valuable gas which that feeder provides. Many recent Ofgem policies favour a lean transmission system, but with the end consumer in mind, it is important also to have a system flexible enough to cope under distressed circumstances, and that calls for a system which allows for some spare infrastructure. A balance between avoiding idle capacity in the system and retaining some resilience for security of supply must be struck.

National Grid's proposal can not be assessed in isolation, but must be seen in the context of other changes introduced into the NTS operation; in particular the imminent implementation of Substitution which creates a risk for capacity that actually exists at St. Fergus to be moved to other entry points. Removing capacity away from St. Fergus may jeopardize the flow of future small gas discoveries which may not be able to satisfy the economic tests required by National Grid to trigger the release of incremental capacity, which will leave them stranded in the UKCS and accelerate UK's dependence on foreign gas. It is important to recognize that whilst we are currently assessing the suitability of this proposal under the current framework, implementation is not planned until 2013 which will be under a new Transmission Price Control period. In previous Transmission Price Control Reviews Ofgem have made it clear that they cannot commit to maintaining the level of baselines at entry points from one price control to the next as they cannot fetter the Authority's discretion. This means that whilst we are asked to assess the risk of this important infrastructure change based on current baseline levels, we have no certainty as to future baseline levels which may significantly increase the risks we have highlighted.

User Commitment

Ofgem's consultation highlights that "s*trong user commitment would be a factor in any decision made about consent for disposal of assets and the potential investment in a new compressor by National Grid to maintain capability and maintain the current St. Fergus baseline."* We are concerned that Ofgem will rely solely on Long Term auction signals to demonstrate the "strong user commitment" This would be a sound policy if the current regime did not actively discourage long term commitments. At the moment, despite Ofgem's desire for user's commitment in the Long Term Auctions, the legal text of the Uniform Network Code encourages shippers to wait for the short term auctions where they can buy entry capacity at zero price on the day. Because of this we believe that long term auction bookings should not be used solely to decide on the permanent removal of the abovementioned feeder or to determine that added compression is unnecessary.

Increased Buy-Back Risk assessment

With regards to the increased buy-back risks that are associated with the implementation of this proposal, we would like to see further analysis on National Grid's buy-back price assumption of 1p/kWh. We recall that in 2006 National Grid spent £30m in capacity-buy backs at St. Fergus over a 5 day period. This was caused due to National Grid work on Feeder 7 at Asselby close to Easington and in this case the buy-back cost reached nearly10 p/kWh.

We understand National Grids argument that the multiplicity of lines from St. Fergus to Avonbridge reduces the risk of severe system constraints, nevertheless we believe the risk remains as evidenced by the July 2006 event mentioned above.

It is difficult for us to assess the buy back risk associated with permanently removing part of the network and this reinforces our view that an independent risk assessment by a third party is required.

Conclusion:

Total welcomes the opportunity to comment on this consultation however there is insufficient detail in the document to be able to address the specific questions raised. We believe that there is still a considerable amount of work to be done before any decision on such a permanent impact can be taken. Ofgem's first priority is to protect consumers and ensuring security of gas supply into one of the UK'S main entry points is part of this duty. We trust Ofgem will provide the additional detail required for further analysis to be undertaken and will proceed with an independent risk assessment
The implementation of CCS projects in the UK will help towards achieving our ambitious environmental targets, but it should not be done at the expense of security of gas supply into the UK.

We look forward to the next step in this consultation process.

Yours sincerely

Iain Mccombie
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