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Bogdan Kowalewicz
Senior Manager, Gas Transmission Policy
Ofgem
9 Millbank
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Dear Sir

Gas Entry Capacity Substitution Methodology
Initial Impact Assessment
Consultation Ref: 136/09

Chevron North Sea Limited welcomes the opportunity to comment on Ofgem's consultation ref 136/09 on the Gas Entry Capacity Substitution Methodology.

We are one of a number of companies currently involved in exploration activity to the West of Shetland where the estimated reserves represent around 17% of the UK's remaining oil and gas[1]. St Fergus is likely to be the landing point for gas from this area. While we note Ofgem's observation in section 1.10 of the Impact Assessment that *"substitution of entry capacity will only occur in response to a signal for increased entry capacity elsewhere.... this additional capacity might be expected to reduce wholesale prices and improve security of supply"* that ignores the risk that indigenous gas resources could become stranded if entry capacity is substituted away from key entry points such as St Fergus. Once capacity has been substituted away from an entry point, there is no guarantee that it can be replaced in later years as the subsequent creation of incremental capacity, even if theoretically possible, may not be technically feasible at that time due to constraints elsewhere on the network.

The situation at St Fergus is further complicated by National Grid's recent proposal to remove part of the St Fergus feeder pipelines from natural gas service in 2013 to facilitate CO2 transportation. Reference is made to this proposal in section 1.15 of the Impact Assessment which states *"we will make the decision on any proposal to dispose of part of the gas transportation system for CCS purposes on its own merits, taking account of NGG's ability to meet future demands for capacity and other relevant considerations"*. It is not clear if "future demands for capacity" in this case would include all forecast capacity requirements (as indicated through the "Transporting Britain's Energy" process) or just capacity which is sold or covered by a retainer.

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It is only as progress is made towards the development phase of a project that it becomes feasible for a developer to make financial commitments related to that project. Given our understanding of the maturity of West of Shetland development progress, we believe that West of Shetland participants would be unlikely to be able to take out retainers at St Fergus in advance of the March 2010 QSEC auction and we remain concerned that capacity may not be available there when it is required.

Finally, while we are pleased that Ofgem is endorsing the use of an exchange rate cap to reduce the risk of large-scale unanticipated consequences, we remain concerned that the cap has been set at 3:1. To minimise the risk of any unforeseen or unintended consequences as the substitution process "beds in", we remain of the view that a 1:1 exchange rate cap should initially apply (ie substitutions should not be permitted where the capacity substituted away from a donor ASEP is greater than the amount of capacity created at the recipient ASEP). Over time this cap could be increased as confidence increases in the substitution process and, as suggested in section 1.5 of Appendix 6 of the Impact Assessment, the annual review process would seem to be an appropriate vehicle for this.

We hope that you will find these comments useful.

Yours sincerely

Jayne Reader

Jayne Reader
Commercial Advisor

[1] Source: DECC Oil and Gas website https://www.og.decc.gov.uk/UKpromote/wos_task.htm