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Dear Sir

Proposed Disposal Of Part Of NTS For Carbon Capture And Storage
Consultation Ref: 56/10

Chevron North Sea Limited welcomes the opportunity to comment on Ofgem's consultation ref 56/10 on the proposed disposal of part of the NTS for carbon capture and storage ("CCS").

As we noted in our response to the previous consultation on this subject (ref 35/09) we recognise that CCS development may bring some CO_2 reduction benefits to the UK in certain circumstances, however we remain concerned at some aspects of National Grid Gas's (NGG's) proposal. The loss of the feeder pipe and the associated linepack will inevitably have an impact on system-wide flexibility and remove a level of optionality from the NTS in times of stress which could impact on security of supply.

Although we are pleased that the current entry capacity baseline at St Fergus will be preserved if this proposal is implemented, there is no guarantee that the baseline will not be lowered as part of the next Transmission Price Control Review ("TPCR") process. We would seek Ofgem's assurance that the current entry capacity baseline at St Fergus will be maintained for at least the duration of the next TPCR period. We would also seek Ofgem's assurance that the pertinent buy-back arrangements will also continue through the next TPCR period. To maintain security of supply through the continual development of new projects, it is critical that there is regulatory certainty in the UK gas market. A loss of confidence in the UK as an area for investment has implications not only for security of supply but also for the wider UK economy with the potential for loss of employment, expenditure on goods and services and of course taxation revenue.

On the general issue of capacity, we note Ofgem's comment that any additional capacity required at St Fergus post disposal of the feeder pipe would need to be triggered via an incremental signal thereby allowing NGG to decide whether to invest to meet the new higher obligation. While the subsequent creation of incremental capacity to accommodate additional production may be theoretically possible and

indeed economically attractive, it may not be technically feasible at that time due to constraints elsewhere on the network.

While we recognise that future throughput at St Fergus has not been assessed solely on the basis of long term entry capacity bookings, we are firmly of the view that current capacity bookings should not form any part of this analysis. The declining trend of capacity bookings at St Fergus does not necessarily indicate that market participants do not intend to land significant quantities of gas at St Fergus in the foreseeable future. It is more likely to be a function of the current entry capacity charging regime under which a number of participants elect to rely on within-day firm and interruptible entry capacity which is typically available at zero cost. The proposed changes to the entry capacity charging regime which are currently the subject of a series of UNC Modification Proposals may well lead to a significant change in the pattern and level of entry capacity bookings at all terminals.

With regard to the forecast data compiled by NGG and Wood Mackenzie, there is a risk that this may underestimate future flows at St Fergus. As a gas producer we are acutely aware of the difficulties in accurately forecasting future gas production rates. This is particularly the case with new developments where the uncertainty envelope on the potential reserves, production levels and timing are wide. As progress is made towards the development phase of such projects, a number of which are likely to flow to St Fergus, actual production rates could change significantly from the current forecasts.

As a significant licence holder in the West of Shetland area it is critical that we have certainty we will be able to produce these resources in due course. As infrastructure is already starting to be built in that area, with recent decisions having been made subsequent to the NGG and Wood Mackenzie forecasts, it would be reasonable to assume that this may encourage further exploration for new resources which may not yet feature in either of their forecasts, thereby increasing demand for capacity at St Fergus. Alternatively a reduction in evacuation capacity, manifesting in increased entry costs, could depress the level of exploration activity in that area.

One of the main uncertainties we perceive in National Grid's proposal is how and where additional compression will be made available should it be required. The proposed removal of the feeder pipe may lead to increased reliance on compression to move gas away from St Fergus. While the consultation document simply refers to "additional compression", the likelihood is that a bank of very large compressors will be required to move the volume of gas necessary to meet peak day demand. This raises questions about both the additional fuel costs and the CO_2 impact arising from this additional load. NGG has indicated that any incremental opex resulting from the removal of a feeder pipe would be borne by NG Carbon however it is unclear if such incremental opex would include the cost of additional compressor maintenance and repair which may well be required. All additional compression costs, whether related to new or existing compressors (capex, opex, CO_2 emissions, etc) in addition to any buy-back costs should be passed back to NG Carbon. It is unclear from the consultation document if the intent is that NG Carbon's commitment will be for a fixed number of years but in our view such commitment should not be time-limited.

While there is existing compression in one of the sub-terminals at St Fergus, our understanding is that the other sub-terminals are not capable of connecting to this compression. Specific questions we have on this issue are:

- Will there be additional compression available for all gas exiting the St Fergus terminal complex?
- If there is no terminal wide additional compression, will each terminal have to provide new compression?
- How will any additional compression be funded (both capex and opex)?
- If NGG has to fund part or all of the costs, how will those costs be recovered?
- What is the lead time and critical path for such work?

Should however the buy-back approach be preferred instead of, or as a complement to, compression we would seek Ofgem's assurance that appropriate regulatory oversight will be in place to ensure that buy-backs are rigorously applied and that there is no inappropriate use by NGG of Terminal Flow Advices (TFAs) to minimise the buy-back costs that NG Carbon may be facing.

In closing, we note that the consultation states that "all of the different components of CCS technology have been demonstrated in isolation from each other" but that "the Government is now seeking to demonstrate the full chain of CCS technology working on a commercial scale". We would like to see all reasonable efforts being made to prove that the integrated chain of technology is likely to be a success before a permanent disposal of a key piece of NTS infrastructure takes place. While transmission and storage of CO_2 is a well established technology, capture of CO_2 from coal-fired power stations is an emerging technology. It would appear prudent to have a phased switchover where the transfer of feeder pipe from natural gas to CO_2 service is conditional on the clearly demonstrated success – both technically and commercially - of both CO2 capture at the input end and storage opportunity at the output end. Due to the multi-layered complexities of this issue it would greatly enhance market participants' level of comfort and understanding to see an overall milestone plan covering the entire CCS technology chain included in the next consultation document.

We hope that you will find these comments useful.

Yours faithfully

Jayne Reader

for **Geoff Freter**
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