



Bogdan Kowalewicz  
Senior Manager, Gas Transmission Policy  
Ofgem  
9 Millbank  
London  
SW1P 3GE

**E.ON UK plc**  
Westwood Way  
Westwood Business Park  
Coventry  
West Midlands  
CV4 8LG  
eon-uk.com  
  
Richard Fairholme  
Trading Arrangements  
T: 02476 181421  
richard.fairholme@eon-uk.com

4 June 2010

Dear Bogdan,

**RE: Proposed Disposal of part of NTS for Carbon Capture and Storage – Second Consultation and Impact Assessment**

E.ON welcomes the opportunity to respond to this second consultation on the proposed disposal of part of the National Transmission System (NTS) for Carbon Capture and Storage purposes. E.ON believes that carbon capture and storage technologies are key to meeting the government's energy policy objectives. We are committed to supporting the UK's energy policy goals of reducing carbon emissions and maintaining security of supply, whilst keeping energy affordable and competitive. We are expecting to invest significant sums in energy infrastructure projects in the UK in the next few years, including CCS projects.

Please note that our response to this consultation paper is in the context of E.ON UK as a holder of gas Shipper licences under the UNC and as a major user of the NTS.

Our key concerns in respect of this proposal remain that gas consumers should receive fair value for any NTS asset disposal and that existing shipper access rights to the NTS should not be compromised. Although we have no strong objections in principle to the concept proposed here, our support is dependent on the fine detail of the commercial arrangements, which disappointingly has yet to be published. The content of the methodology statement(s) will ultimately determine the level of potential exposure of shippers (and ultimately consumers) to cross-subsidies or inappropriate cost allocations.

E.ON UK plc  
Registered in  
England and Wales  
No 2366970  
  
Registered Office:  
Westwood Way  
Westwood Business Park  
Coventry CV4 8LG

We believe that a number of issues, outlined below, require further consideration particularly when formulating the methodology statements:

1. **NTS capacity buy-back** – It is proposed that all “incremental” entry capacity buy-back costs resulting from the removal of the feeder would be wholly paid for by NG Carbon. In recent years, the level of buy-backs by NG NTS has been very low. Therefore, are we to assume that anything above this near-zero level this would be targeted at NG Carbon in future? The lack of significant buy-backs is indicative of an absence of constraints on the NTS, but if a constraint were to arise, NG Carbon could be faced with very substantial financial liabilities under such a proposal. Furthermore, it is unclear how the methodology for allocating costs will interact with the current NG NTS operational buy-back incentive arrangements. For instance, do NG Carbon’s entry capacity buy-back liabilities only begin when the buy-back cost cap is exceeded? If so, is this really what is intended to be meant by “incremental”, as this could mean that shippers (and ultimately consumers) are potentially cross-subsiding NG Carbon up to the value of the buy-back cap. Finding the point where “incremental” begins and “normal operational” ends will likely be a difficult task and the ease of achieving agreement amongst affected parties should not be underestimated by Ofgem. Hence, we would urge industry-wide discussion on this point to begin as soon as possible.
2. **NTS OPEX** – It is proposed that all “incremental” operating costs would be met by NG Carbon, which would include all additional compressor fuel costs required to maintain existing operational commitments. As noted in our previous response on this issue, “[NTS] *compression fuel usage varies significantly according to system throughput. It is also our understanding that there has been a dramatic reduction in the use of compressors on the NTS and that this is expected to continue. Therefore, Ofgem should think very carefully about how to set a cap which would be based on “pre-disposal levels”*”. Since the detailed methodologies describing the allocation of costs have yet to be published, our concerns remain about how “incremental” costs will be determined and allocated between NG Carbon and gas consumers. As is the case with incremental buy-back costs, understanding this mechanism further and ensuring that gas consumers are not exposed to additional costs or are cross-subsiding NG Carbon will be critical.
3. **Financial Liabilities** – It is unclear if NG Carbon is faced with significant (and unexpected) buy-back or OPEX “incremental” costs, how it would expect to finance this. Above all, there should be no risk of the National Grid regulated businesses (and therefore ultimately consumers) being in any way exposed to the costs of financial failure of NG Carbon.
4. **Entry Baselines** – It is proposed that entry capacity baselines would be maintained at existing levels. We support this proposal, but we note that this obligation on

National Grid NTS can only really last as long as the current price control, since the future St. Fergus baseline level (or indeed whether the concept of baselines will continue into the next price control) is, as yet, unknown.

5. **Pipeline Valuation** – As Ofgem notes at para 5.38 of the consultation paper: *“The greater the proportion of transfer value that is attached to the initial payment the lower the risk to consumers”*. In our view, the proposed transfer value of £250,000 feels small. Since the proposal by NG Carbon is to pay a share of benefits back to consumers (net of costs), this in effect caps the risk NG Carbon is taking, as it pays a small amount for the pipeline and if the project is not successful, NG Carbon has no obligation to make further payments if there are no “benefits” to share. We would prefer to see a larger initial payment to reduce the risks to gas consumers of under-performance or failure of the project.
6. **Ofgem decision** – It is not clear in the consultation paper what the rationale is for Ofgem not publishing its decision until after the outcome of the DECC CCS Competition is known and why this is in the best interests of gas consumers. We would welcome further guidance from Ofgem on this point.

Yours sincerely,

**Richard Fairholme**  
Trading Arrangements  
E.ON UK