

# The Gas Forum

---



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

10 Fenchurch Street  
London  
EC3M 3BE

Tel: 020 7090 1030  
Fax: 020 7090 1001  
email: [gasforum@gemserv.com](mailto:gasforum@gemserv.com)

4<sup>th</sup> June 2010

Dear Bogdan,

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

The Gas Forum 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. We are conscious that our members will be providing detailed responses to both the consultation and Impact Assessment and therefore we have deliberately not answered the detailed questions posed by Ofgem. We trust that you find these more general comments useful in determining the best way forward on this issue.

As noted in our first response, whilst we are not opposed in principle to parts of the NTS being re-used for other purposes, it is clear to us that this should not result in additional costs or risks for gas consumers. It is also important that gas consumers receive 'fair value' for the assets to be disposed of. In addition, from a gas shipper perspective, it is critical that this asset disposal does not adversely impact on the right to, or costs of, flowing gas onto or off the NTS.

We are pleased that National Grid NTS has taken on board the comments received through the first consultation and has decided to revise its initial proposal. Overall, the Gas Forum supports the revised proposals on the basis that:

**Baselines** – Entry capacity baselines would be maintained at existing levels. However, we note that this guarantee from National Grid NTS can only 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.

**Buy-back** – All "incremental" entry capacity buy-back costs resulting from the removal of the feeder would be wholly paid for by NG Carbon.

**Opex** – All "incremental" operating costs would be met by NG Carbon, which would include all additional compressor fuel costs required to maintain existing operational commitments.

**Valuation** – The least risky approach for consumers would be a transfer of the asset at a fixed price plus an upfront payment to reflect future usage, as supported by Ofgem and National Grid NTS. The valuation should reflect the full commercial value of the asset, not just the book value. This would value should reflect the value in the access rights, way leaves, environmental compliance etc that is intrinsic in the current infrastructure but would also be required for a new asset.

**Revenue Sharing** – Were a model to be introduced where gas consumers received a share of profits from CO<sub>2</sub> transportation then the risk level should reflect the current risk/reward balance. If consumers share a greater proportion of risk then the Gas Forum would expect a greater share of any profit.

One key piece of information missing from the proposals is the fine detail describing exactly how “incremental”- both in the contexts of buyback and opex costs – will be defined and calculated. For instance, will this be based on increases in costs above historical average, future predicted, or current levels? We acknowledge Ofgem’s remarks that this will be contained in a separate methodology statement, yet to be published.

However, although we agree in principle with the proposal that NG Carbon should absorb any additional NTS operational costs arising from the asset disposal, we have concerns about the ease with which it will be possible to perform accurate cost allocations between NG Carbon and gas consumers. Understanding this mechanism further and ensuring that gas consumers are not exposed to additional costs or are cross-subsiding NG Carbon will be critical. Hence we would welcome further detail and discussion on this issue as soon as possible.

In the meantime if you wish to discuss our response further please contact the Gas Forum on 0207 090 1015.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Franck Neel', with a horizontal line underneath.

Franck Neel (Chair of the Gas Forum)