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Dear Mr. Kowalewicz,

Proposed disposal of part of NTS for Carbon Capture and Storage – Second consultation and initial impact assessment

Thank you for the opportunity to respond to this second consultation and initial impact assessment on this proposal. This response is submitted on behalf of the ScottishPower Group.

ScottishPower operates approximately 3.5GW of coal plant and approaching 2GW of gas fired generation stations. In addition we are the holders of a Gas Shipper Licence. Significantly in the context of this consultation we are one of the remaining entrants in the Government's CCS Competition, and in particular we are the operator of the Scottish station referred to in the consultation. For all of those reasons we clearly have a significant interest in these proposals.

The key points we would wish to make in relation to the consultation are as follows: -

- As a Gas Shipper we are comfortable that the package proposed by National Grid strikes a reasonable balance in the peculiar and particular circumstances of this case. Accordingly we support the proposal.
- We consider that it provides adequate safeguards for Gas Shippers/Consumers against any detrimental impacts on system security, capacity or flexibility by providing the following assurances: -
 - Baseline capacities will be unchanged ensuring parties continued contractual access;
 - Gas Shippers will be protected from any additional incremental costs as a result of the removal of the feeder, such as additional buy-back or compression costs – always dependent on those costs being determined in terms of an agreed methodology that will have been the subject of appropriate consultation - with any such costs being met by National Grid Carbon; and
 - National Grid's estimations on future system requirements and current capacity and flexibility have been the subject of independent scrutiny and analysis by Wood MacKenzie and Poyry respectively. That analysis supported the accuracy of the data and forecasts provided by National Grid, and in some instances found them to have been conservatively underestimated

Furthermore, allowing for the absence of risk involved in their future participation, we also believe that the proposal is equitable and proportionate in that Gas Shippers/Consumers should share in any current and future benefits on the following basis: -

- Transfer of the asset at net book value;
 - An agreed share of future revenues to allow for potential upside;
 - An avoidance of future decommissioning costs; and
 - A reduction on ongoing operational maintenance costs
- We fully appreciate that Ofgem's remit in this matter is primarily the consideration of the terms and conditions of the NTS disposal rather than any ongoing regulation of CO₂ transportation or promotion of CCS. Rightly in those circumstances the focus of this consultation is on the safeguards and benefits for Gas Shippers/Consumers. Nonetheless it is appropriate to remain mindful of Ofgem's wider duties in relation to such as climate change where we appreciate that Ofgem recognise the potential significance of CCS as a contributing technology in the government's strategy and are committed to contributing to the Government's plans to bring forward CCS.

In those circumstances it is important to take some account of the wider CCS context and even more particularly the CCS Competition, as a failure to do so may diminish the value of the proposal or even render it nugatory. In particular: -

- Timing - It is vital that a speedy decision is now made following the conclusion of this consultation. To that extent we welcome the indication given at the recent industry event on 24 May that Ofgem anticipate providing a "minded to" decision by June/July and we would urge Ofgem to do so.

This proposal was first consulted upon in April of last year and whilst we appreciate the opportunity that this has presented to allow for a comprehensive and thorough evaluation and consideration, nonetheless this has meant that the finalisation of a significant component of the integrated CCS chain proposed as part of that CCS Competition entry has had to be held in abeyance pending the outcome of this process.

Since that first consultation the Competition has now moved into the detailed FEED study phase with the increasing demands to commit directionally. The consultation states that it is intended to align with the Competition timelines but any further delay may begin to impact adversely on this vital design phase and the shape of the proposition to be advanced as part of the Competition solution. The Competition still has 2014 as an operational go-live date, which is challenging, particularly in the continued absence of certainty on this aspect.

- Certainty – In order to finalise design proposals it is vital that as much certainty as possible is provided. Decisions that are ambiguous or subject to later consideration or review would not be beneficial. CCS Demonstration projects by their very nature involve uncertainties, many of them in areas that are groundbreaking and unconventional. Additional, unnecessary layers of doubt on a material element such as this may simply reduce risk appetite in other, more potentially beneficial areas.

As such we would urge Ofgem to be as unequivocal as possible in their final decision. We believe that any deferral of a decision pending the finalisation of an agreed methodology for determining incremental additional costs would be unnecessary in the circumstances and may be detrimental to the FEED study timelines. We would also request that the final decision is made at the conclusion of this process, rather than when the outcome of the Competition is known, as the consultation currently envisages.

- Innovation - We believe that this proposal is innovative and takes advantage of a unique set of circumstances to move into this novel area at minimum risk, expense and environmental impact, by re-using infrastructure that may otherwise be redundant. This may also serve as a springboard towards developing the wider CCS transportation infrastructure that will be needed to meet the Government's strategic ambitions.

I have attached a supplementary annex that provides our answers to the specific questions posed in the consultation.

If you would like to discuss these or any other issues in further detail then please do not hesitate to contact me.

Yours sincerely

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ANNEX

PROPOSED DISPOSAL OF PART OF NTS FOR CARBON CAPTURE AND STORAGE – SECOND CONSULTATION AND INITIAL IMPACT ASSESSMENT

SCOTTISHPOWER RESPONSE TO SPECIFIC QUESTIONS

CHAPTER 4: Future flows at St. Fergus and pipeline capability

Question 1: What is your view of the conclusions drawn about future flows and capability based on the consultants' reports?

We welcome the involvement of the two respected consultants and support Ofgem's understanding of future capacity and flow requirements based on this work. We would welcome any additional analysis which may be undertaken to confirm these requirements in greater detail.

CHAPTER 5: NGG's revised proposal

Question 1: What is your view of the structure of the revised proposal overall?

We welcome this revised proposal having been brought forward to address some of the concerns of key industry players who demanded greater detail. We believe that initial concerns of the industry were justified and welcome National Grid's conclusions and proposals for potential revenue sharing.

Question 2: What is your view of the treatment of incremental buyback, opex, CFU and other costs identified?

Quite simply NG have indicated that any additional buyback costs will be met by NG Carbon, as will the opex, and the capex associated with additional compression. We are satisfied with this as these then will not impact Gas Shippers and will also provide a strong incentive on NG to manage buybacks at St Fergus and control their overheads.

Question 3: What is your view of the suggested approaches to asset valuation?

We agree to a transfer at the book value. We also welcome a potential upside for gas consumers in terms of an initial payment.

Question 4: What is your view of the proposal for sharing the benefits of increased CO₂ throughput?

As the value of the investment rises we welcome the sharing of benefits, whilst being mindful that there also needs to be an upside for the parties involved to stimulate additional investment.

Question 5: What is your view of the suggested mechanism for returning value to gas consumers?

There are still points of detail that need to be clarified but we understand that a licence condition would be a consistent way forward to ensure that value is returned to consumers.

Question 6: Are there any other considerations which have not been taken into account?

We believe that NG Carbon should earn revenue from making their pipelines available for CO₂ and agree on the 5 years of pass through of benefits from NGG to consumers.

Appendix 2: Initial Impact Assessment

Question 1: Do you agree with our initial assessment of the impacts of the proposal for the disposal of assets?

Yes.

Question 2: Are there any quantitative benefits or costs that have not been included in our assessment?

None that we have identified.

Question 3: Are there any qualitative benefits or costs that have not been included in our assessment?

None that we have identified.

Question 4: Are there any other considerations that have not been included in our assessment?

None that we are aware of.