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Dear Bogdan

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 latest consultation. The following comments are offered on behalf of Shell UK Exploration & Production Limited and Shell Energy Europe Ltd (which, through Shell Gas Direct Ltd, is a licensed GB gas shipper and supplier). This response is not confidential and we consent to it being placed on your website or otherwise made public as part of the consultation process.

At Shell we believe CCS has the potential to play a major role in mitigating greenhouse gas emissions. We are therefore working with others on both a political and technical level to facilitate the development and wide-scale deployment of this technology. This includes development of large-scale commercial projects and multiple research partnerships with industry and leading academic institutes throughout the world. At this stage the focus is on how to reduce costs, accelerate technology deployment, effectively engage local communities and ultimately make CCS commercially viable – and since atmospheric CO₂ is a cumulative issue there is a need to move fast. We firmly believe in the “learning by doing” approach to the demonstration of CCS and to this end we are presently pursuing a number of different projects across Europe. This includes participation in the ScottishPower-led Longannet Consortium entry into the UK Government’s CCS Competition, together with National Grid.

As regards the consultation report, we are content that this provides a broad and balanced assessment of relevant valuation methodologies and potential commercial options for transferring asset ownership. In particular, we agree that neither gas shippers nor gas consumers should be exposed to the costs, risks and uncertainties of the future re-use of assets in CCS projects and that, therefore, a ‘clean-break’ of the type proposed is appropriate. In that context, the view expressed by Ofgem and National Grid for a transfer of the asset at a fixed price plus an upfront payment, along with some means of sharing future upside with gas consumers to reflect future usage, seems an appropriate way forward.

Of perhaps greatest importance is that this project does not present undue risk to future natural gas deliveries into the St Fergus terminals. In this context we welcome the work undertaken by Wood Mackenzie and Poyry Energy Consulting to provide an independent audit of National Grid’s network modelling and its forecast of future gas flows. We note Poyry’s conclusions that the figures in last year’s consultation are both appropriate and reliable, and the work of Wood Mackenzie which appears to confirm the adequacy of remaining capacity for reasonable forecasts of future gas flows in to the St Fergus terminal.

We also note that in earlier stages of this consultation process some parties raised questions regarding the potential impact of this proposal on National Grid's gas transportation activities. Alongside the helpful conclusions of the independent reports referred to above, we believe shippers and consumers will welcome the following two aspects of these revised proposals:

- a) National Grid's commitment to maintaining current baseline entry capacity volumes at St Fergus. Any uncertainty in this area would have been unhelpful and we believe that gas shippers will appreciate this clarity. Clearly, baseline levels may change from one price control period to another but not as a result of this proposal ; and
- b) The publication of the separate methodology statement detailing how additional or incremental buyback costs will be identified.

Clearly, Ofgem will need to consider respondents' views to this latest consultation. However, in light of the need to finalise terms under which a CCS demonstration may take place, we hope that Ofgem is now in a position to reach a speedy decision on allowing release of the pipe, especially given National Grid's commitment regarding 'no net harm' to consumers and retaining the current baselines.

Moreover, a timely decision would be helpful in allowing National Grid to undertake associated time critical investments and commercial decisions, whilst also providing the necessary confidence to other parties in the consortium to progress the project

I trust that you have found the comments useful. However, should you have any questions or require any further clarification, please do not hesitate to contact me or my colleague Dr Christopher Mansfield. The contact details are as follows:

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Yours sincerely



Amrik Bal

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