



Inveralmond House
200 Dunkeld Road
Perth
PH1 3AQ

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

Telephone: 01738 512909
Facsimile: 01738 456415
Email: Claire.Rathey@SSE.com

Date : 4th June 2010

Dear Bogdan,

**Proposed disposal of part of the NTS for Carbon Capture and Storage:
Second consultation and initial impact assessment**

Thank you for providing SSE with the opportunity to comment on the above consultation. We have detailed our responses to the consultation questions in the attached annex. However, we would like to take the opportunity to reiterate our high level views.

SSE fully supports the objective of the UK Government for CCS to be developed and demonstrated to be a viable low carbon option for deployment post 2020, and recognise the potential of CCS as a tool to tackle climate change. We also have long standing and active interests in developments in CCS technologies, evidenced by the Peterhead DF1 project, our role as prime sponsor in the BERR supported Oxycoal 2 Project, and our collaboration with Doosan Babcock and Vattenfall, through which we are seeking to trial post combustion carbon capture plant at our Ferrybridge Power Station.

Moreover, we support the concept of disposing of redundant assets for alternative uses. We believe doing so could result in: benefit to customers by finding an alternative (or more valuable) use for network assets leading to lower transportation bills; fast track CCS testing; and ultimately avoid unnecessary pipelines and environmental impacts.

On the understanding that gas network users and ultimately gas customers will not be exposed to any downside cost risk associated with the asset disposal, we believe that Ofgem by allowing NGG to appropriately dispose of redundant pipelines for alternative usage, will open a much needed 'fast track' enabling the UK to tackle climate change by allowing faster testing of the feasibility of CCS.

We hope you find this information useful. If you would like to discuss any of the points raised in more detail, please do not hesitate to contact me.

Yours sincerely,

Claire Rathey
Regulation Analyst

Annex: Consultation Questions

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

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

We welcome the independent studies undertaken by Poyry and Wood Mackenzie as they provide a level of reassurance around the accuracy of the forecast supply scenarios which NG have developed indicating the probable levels of future gas flows coming into the St. Fergus entry point, and about the robustness of the network modelling which NG carried out to determine the capability of the network in Scotland with one of the feeders removed. However, we are unable to provide a view as to whether the conclusions reached in regards to the indicated capability are correct, as we do not have access to either: NGG's forecasting models; or the information inputted.

Chapter 5: NG's revised proposal

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

We welcome the revised proposal as it exposes gas customers to a lower level of risk than that proposed in the initial consultation. However, as highlighted in our response to the first consultation dated 22nd May 2009, we strongly believe that gas network users and ultimately gas customers should not be exposed to any downside cost risks associated with the asset disposal. We do not believe customers should be exposed to the risks associated with a non-regulated business i.e. additional compressor costs, or a deficit resulting from the difference between the element of the CO2 tariff revenue earmarked to cover these items and the outturn position for these elements. In order to protect gas customers, we believe this exposure should be removed from the proposal before Ofgem provide consent.

2. What is your view of the treatment of incremental buyback, OPEX, CFU and other costs identified?

Incremental Buyback

We welcome NG's revision to their proposal that, in the event that NGG needs to buy back incremental entry capacity it has sold at St. Fergus as a result of the removal of the feeder, the costs of these incremental buybacks will be met by NG Carbon. However, we request that explicit confirmation is provided that all incremental buy back costs are to be paid by NG Carbon, and that NG no longer propose to cap to these costs as suggested in the previous consultation.

OPEX

We welcome NG's revision to their proposal that, in the event that NGG's OPEX costs increase as a result of the removal of the feeder, the costs of the OPEX will be met by NG Carbon. We request that explicit clarification is provided that no cap will be placed on the level of additional OPEX costs to be paid by NG Carbon.

Compressor Fuel Costs (CFU)

We welcome NG's proposal that the additional compressor fuel costs associated with the disposal of the pipeline will be borne by NG Carbon.

Additional Compressor Requirement

NGG propose to preserve the current natural gas capability of this section of the NTS as far as possible, but if additional compressors are required to meet their entry capacity obligations, NG propose that NGG will pay for the additional compressors. This proposal ultimately results in exposing gas customers to the risk that they may be required to pay for the consequences of the disposal of the pipeline. As noted above, we believe that any commercial option that exposes gas customers to any downside cost risk, is fundamentally wrong. We strongly believe that if additional compressors are required to meet NGG's entry capacity obligations, the cost of the compressors should be faced by NG Carbon, not gas customers.

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

As a matter of principle, we believe the valuation should reflect the relevant risks that the two entities are taking in the transaction. Accordingly, in our view a residual value based on the existing use of the asset, reflecting the remaining life as appropriate. We believe the proposed approach to valuation provides a balanced approach for customers by providing a one-off transfer value and with potential upside for gas customers. The proposal also provides certainty to NGG, and incentivises the NGG to find innovative uses for redundant assets.

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

This approach seems a reasonable way to provide gas consumers with upside value from the disposal in the event that CO₂ throughput increases up to the level when substantial CAPEX would be required, 6Mt/yr.

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

We do not support NG's proposed mechanism for returning value to customer. NGG's proposed ability to carry forward any deficit resulting from the difference between the element of the CO₂ tariff revenue earmarked to cover these items and the outturn position for these elements, exposes gas customers to the downside cost risk of the disposal of the asset. As highlighted in our response to the first consultation, dated 22nd May 2009, we believe that any commercial option that exposes gas customers to any downside risk is fundamentally wrong. Gas customers should not be exposed to the risks associated with a non-regulated business. In order to protect gas customers, we believe this exposure should be removed from the proposal before Ofgem provide consent.

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

We welcome the establishment of NG Carbon as a separate legal entity within the National Grid group of companies. However, we request that confirmation is provided that if NG Carbon were to run into financial difficulties, the financial liabilities would fall to National Grid Holdings One Plc, and not passed via NGG through to gas customers.

Appendix 2: Initial Impact Assessment

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

Yes.

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

Potential additional compressor costs are missing from the impact assessment. NGG propose to preserve the current natural gas capability of this section of the NTS as far as possible, but if additional compressors are required to meet their entry capacity obligations, NG propose that NGG will pay for the additional compressors. This proposal ultimately results in exposing gas customers to the risk that they may be required to pay for the consequences of the disposal of the pipeline. As noted above, we believe that any commercial option that exposes the customer to a level of downside risk is fundamentally wrong. We strongly believe that if additional compressors are required to meet NGG's entry capacity obligations, the cost of the compressors should be faced by NG Carbon, not gas customers.

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

At this stage, we are not aware of any.

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

We have no additional considerations to suggest at this stage.