

Our date
2010-06-04

Our reference
NG NTS pipeline disposal 2

Administrative officer
Shelley Rouse



Statoil (U.K.) Limited

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Your date
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56/10

Attn.: Bogdan Kowalewicz, Senior Manager Gas Transmission Policy
Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE
United Kingdom

Dear Bogdan,

RE: Proposed Disposal of Part of the NTS for Carbon Capture and Storage – Second Consultation and Initial Impact Assessment

Thank you for the opportunity to comment on the above consultation.

Statoil (UK) Ltd (STUK) welcomes the work done by National Grid in drafting its revised proposal on the Proposed Disposal of Part of the NTS for CCS. The revised proposal recognises a number of the concerns expressed by the industry and attempts to provide solutions. STUK particularly welcome the confirmation by NG Carbon that the baseline level at St Fergus will remain unchanged by this proposal and the suggestion that Incremental Buyback and Opex costs will be met by NG Carbon.

However, many of the concerns raised by STUK in its response to the Initial consultation on disposal of part of the NTS for Carbon Capture and Storage remain. These are highlighted below:

- Whilst there will be no change to baseline levels at St Fergus, STUK note that a Transmission price control review is to be undertaken between now and the proposed asset removal which is likely to review the baselines as well as other elements of the entry capacity regime.
- This level of uncertainty over future entry capacity baseline levels is unwelcome. Shippers and investors need assurance that the entry capacity baselines will remain consistent throughout the next price control review, without comfort that these numbers will not change there is a very real risk that such a decision would deny additional volumes particularly from Norway from coming to the UK.
- STUK believe that fundamentally the Entry capacity auction process works, but it is the continual introduction and changing of associated process such as substitution that have created uncertainty and has discouraged longer term commitment.
- The perverse incentives created by the zero reserve price used for within day entry capacity bookings combined with the rules around the application of the TO commodity charge in the current entry capacity regime mean that the booked capacities at St Fergus cannot be assumed to be a true picture of future requirements.
- It should be considered that while the National Grid Ten Year Statement is a widely accepted view of future supply and demand it is subject to National Grid aggregation and discretion.

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- Whilst the consultation considers an allowance for additional Norwegian deliveries and volumes from the West of Shetland, the actual levels of these additional supplies are still uncertain forecast within a large range and it should be considered that higher than forecast volumes (particularly with increased fiscal incentives for UKCS) could be delivered, indeed STUK would expect up to an additional 30mcm of gas to be available to the UK from Norway for the forecast period.

Whilst supporting the development of CCS and understanding the UK requirement to achieve the environmental targets for 2020 and beyond, STUK believe that the negative impact of disposal of part of the NTS, on the UK gas regime would be too great. It is not only the provision of import capacity for new or increased gas supply volumes that needs to be considered but also the future requirement for system flexibility. As the UK moves toward a Low Carbon future with an increased reliance on intermittent generation the NTS will be required to provide increased levels of flexibility for back up generation.

DECC's recent policy statement on Gas Security of Supply recognises that 'gas is likely to continue to be a central part of the UK's energy mix' and that it is 'Important that the gas market delivers the necessary infrastructure and suppliers to enable flexible gas-fired generation to meet peak electricity demand to support the development of wind generation'. STUK consider that a reduction of capability of the UK gas transmission network does not support these views.

Indeed with the increased focus on security of supply in the UK and indeed across Europe, it is vital that the UK remains an attractive destination for investment and the delivery of new sources of gas. Constant changes to the UK entry capacity regime and uncertainty over future baselines will deter investment and potentially lead to issues with security of gas supply.

Kind regards

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