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Dear Andrew

The Entry Capacity Substitution Methodology Statement – Consultation Draft (Revision 0.4)

Chevron North Sea Limited welcomes the opportunity to comment on National Grid's 24 July 2009 Consultation on the Entry Capacity Substitution Methodology Statement.

As we have stated in our previous responses on this subject, we are one of a number of companies currently involved in exploration activity to the West of Shetland where the estimated reserves represent around 17% of the UK's remaining oil and gas¹. We remain concerned that the introduction of entry capacity substitution could result in West of Shetland gas resources becoming stranded due to lack of entry capacity at St Fergus. It is only as progress is made towards the development phase of a project that it becomes feasible for a developer to make any financial commitments related to that project. Given our understanding of the maturity of West of Shetland development progress, we believe that West of Shetland participants would be unlikely to be able to take out retainers at St Fergus in January 2010.

Moving on to this specific consultation, it is unfortunate that we only have one methodology to comment on. Given Ofgem's view (reference Stuart Cook's letter dated 3 July 2009) that the "mechanical" methodology is not appropriate, we would have expected both the remaining methodologies (the "option" - now retainer - approach and the "two-stage auction" approach) to be issued for formal consultation. It is extremely disappointing that the two-stage auction approach has now also been dismissed at this late stage, solely due to National Grid apparently being unable to implement it in the time available. Given the length of time that substitution has been under discussion, it would seem sensible for Ofgem to relax the implementation timetable in order to ensure the best outcome can be achieved.

One concern we have with the proposed methodology relates to the process for refunds. In the example given in the consultation document, a refund will only apply in respect of a retainer taken out in January 2010 if capacity is allocated at the relevant ASEP for at least one month or quarter in the period October 2013 to September 2014. This approach penalises those Users that are aiming, in good faith, to reserve capacity for a project with a start date beyond September 2014. Based on the current drafting, even if a User that has taken out a retainer subsequently procures an equivalent amount of capacity for a period beyond September 2014, that User will not receive a refund. One solution to this could be for National Grid to refund the retainer if the User that originally took it out procures an equivalent amount of capacity at the relevant ASEP at any point in the future.


With regard to exchange rate caps, we believe these have an important part to play in ensuring the introduction of entry capacity substitution has a “soft-landing”. To minimise the risk of unforeseen or unintended consequences as the substitution process “beds in”, a 1:1 exchange rate cap should initially apply (ie substitutions should not be permitted where the capacity substituted away from a donor ASEP is greater than the amount of capacity created at the recipient ASEP). Over time this could be increased to something closer to National Grid’s proposed 3:1 exchange rate.

Given the complexity and lack of transparency in National Grid’s network model, it is quite possible that implementation of the proposed methodology could lead to unexpected consequences. This is particularly true when the implications of other recent changes to the entry capacity regime are taken into account (eg adjustment of baselines, capacity Transfer and Trades, reduction in capacity withheld from the QSEC auctions, etc). The situation is further complicated at St Fergus given National Grid’s recent proposal to remove part of the St Fergus feeder pipelines from natural gas service in 2013 to facilitate CO2 transportation.

In light of the above, it is imperative that Ofgem’s forthcoming Impact Assessment should not just be limited to this proposed methodology but should be widened to cover all aspects of the entry capacity regime, its implications for West of Shetland developments and any interaction with current carbon capture and storage proposals.

We hope that you will find these comments useful.

Yours sincerely



Geoff Freter
Commercial Manager

¹ Source: DECC Oil and Gas website https://www.og.decc.gov.uk/UKpromote/wos_task.htm