

6<sup>th</sup> December 2010

Andrew Fox  
Transmission Commercial  
National Grid  
National Grid House  
Gallows Hill  
Warwick  
CV34 6DA

Dear Andrew

**Methodology to determine incremental constraint management costs and incremental compressor costs related to removal of an NTS pipeline**

Thank you for the opportunity to comment on the proposals for the Methodology to apportion any additional costs arising from the use of an NTS pipeline for Carbon Capture and Storage.

This response is submitted on behalf of Centrica group companies with the exception of Centrica Storage Limited.

We submitted a detailed response to the proposal to use a section of the NTS pipeline in Scotland for CCS earlier this year. In that we expressed some concerns regarding the treatment of the asset and the manner in which this had been funded and now transferred to other use. We do not believe that these concerns have been fully addressed to date. For information, I also attach a copy of that response.

Turning to the questions posed in this consultation, I have structured the responses as answers to these questions in order to facilitate assessment of the range of responses received.

**Part A: General**

**1. Do you agree that future changes to the methodology should be restricted as envisaged in the proposal?**

We welcome a longer term approach to the methodology as this does provide greater certainty. However, as this project is unprecedented, we would not want to exclude the possibility of some revision which may become necessary in light of events or outcomes currently unforeseen.

It is also unclear how any such change would be initiated or progressed.

**2. Do you agree that charges calculated according to the methodology should be open to challenge by the pipeline owner?**

We do agree that a challenge should be available to the pipeline owner. However, with the same provisions to avoid spurious challenges etc., we believe that this challenge could be open to challenge by other parties due to their interest in the assets being utilised. For example, system users and gas consumers.

**3. Notwithstanding your answer to 2, are the cut-off values used to prevent spurious challenges set at a fair and reasonable level?**

We believe that these cut-off values are reasonable and prevent arbitrary and vexatious challenge.

**4. Do you agree that administrative / processing charges incurred by xoserve should be included within the scope of the methodology?**

It is reasonable to include these necessary costs subject to these obligations being discharged in an efficient manner. xoserve would appear to be best placed to provide this efficient service.

**5. Do you agree that the application of the methodology to any specific pipeline disposal should be time limited?**

Largely due to the uncertain development of this application on the network, it does make good sense to time limit this methodology. It is not clear whether this application is in line with any other decommissioning. We do have a concern about the longer term effect of the removal of a section of the NTS, As is inferred, this could affect baselines, although this is not a direct consequence. We are not convinced that this project can be totally ring-fenced from future changes on the NTS, given that there cannot be a clear division of ownership.

**6. Notwithstanding your answer to 5, do you agree with the proposed criteria for determining the duration of the methodology for specific projects?**

It would appear reasonable to retain the potential for alternative approaches, as considered, due to the unusual nature of this project.

**Part B: Constraint Management Actions**

**7. Do you agree that Users should not be compensated for any costs incurred as a result of the curtailment of interruptible capacity rights where the curtailment is triggered by a pipeline disposal and hence that NGG should not seek any payment from the pipeline owner?**

It is an accepted practice that interruptible capacity rights offer no compensation on curtailment. Transparency is relevant here also, not only in respect of the likelihood of interruption, but whether this is impacted by the use.

**8. If you disagree with the proposal in question 7, what costs should be recovered, and how should these be determined?**

We agree with the proposal in Q7

**9. Do you agree with an approach that models both the “with pipeline”, and “without pipeline”, scenarios to determine theoretical constraint management action quantities, and hence a theoretical incremental quantity?**

We believe that this approach is key to demonstration of the impact of removal of the pipeline from the NTS. Although it can only be theoretical, NG’s modelling these constraints with and without the removed section applies proven methodology. We recognise that this is largely opaque to the industry but this need for wider understanding of NG’s modelling is not unique to this application.

**10. Do you agree with the approach to scenario modelling that uses actual operational data? Are there any other criteria that should be considered?**

As with our answer to Q9, this is an accepted approach to have forms of “ what/if” that use, wherever possible, operational data.

**11. Do you agree that the methodology should attempt to align the cost of those specific constraint management actions that result from incremental constraints or**

**should an average of all constraint management actions at the relevant point be used, i.e. do you prefer “specific incremental” or WAP prices?**

We agree that the methodology should align cost of the specific constraints and it would seem to follow that specific incremental approach is going to be more representative than weighted average, as this will be a better representation of actual costs passed on to system users.

**12. Do you agree that attributing the later constraint management actions to incremental constraints and hence to the pipeline owner is a reasonable approach? If not, what criteria should be used? Is this approach unreasonable in that it exposes the pipeline owner to the most costly buy-back actions?**

This is addressed in Q11.

**13. Do you agree that the cost of any counter-balancing actions for locational sells/buys should be included in the determination of costs?**

Again this is a relevant cost to be included

**14. Do you agree that, in respect of locational actions where income exceeds costs, the surplus should not be paid to the pipeline owner?**

Again this is a relevant cost to be included

### **Part C: Incremental Compressor Fuel Usage (CFU)**

**15. To enable modelling of electrically driven compressors, is it appropriate to use the conversion factor of 3:1 taken from the Licence?**

The current ratio should apply, including any changes

**16. Do you agree with the look-up table approach to determination of incremental CFU quantity? Are there any practical alternatives?**

This is a practical solution which is relevant in the circumstances. An automated process would be more accurate but may not be practical at this time.

**17. Do you agree that an automated approach is preferable and should be used when available?**

An automated approach would be preferable and should be used if this becomes practical and economic.

**18. Based on the look-up table, do you agree that the two modelled quantities should be used to determine the incremental quantity by ratio, rather than by difference?**

We recognise that a daily approach is necessary and can see the merit in determining a proportionate increase, rather than simply the difference between the with and without scenarios.

**19. Should analysis be limited to specified compressors as determined by paragraph 3.54? If not, which compressors should be included and how should such analysis be undertaken?**

It is appropriate to “draw the line” and include those units which are most directly affected.

**20. Do you agree with the use of reference prices for the determination of incremental CFU price? Are there any practical alternatives that should be considered?**

This is appropriate and seems the most practical approach

## **Part D: Incremental Compressor Emissions Costs**

**21. Do you agree that incremental compressor related costs that fall on Users should be included in the methodology statement? Have these been fully identified by NGG?**

This is appropriate to be included, we believe all are identified.

**22. Do you agree with NGG's proposal that incremental costs not falling on Users should be excluded from the methodology?**

Again this exclusion is sensible.

**23. Do you agree with NGG's conclusion that incremental venting losses are likely to be small and not justifying of the additional resource required for their determination?**

The approach is reasonable.

**24. If in disagreement with 23, how would you suggest that incremental venting losses might be determined?**

We are in agreement

**25. Do you agree with the pass through of incremental shrinkage incentive costs as detailed?**

This is a further relevant cost and should be included.

## **Part E: Incremental Compressor Maintenance Costs**

**26. Do you agree that unplanned maintenance and routine annual maintenance should be excluded from the methodology?**

Any routine maintenance due to normal operation should be excluded. However, these events should be monitored to ensure that additional maintenance is required as a direct consequence of higher usage.

**27. Do you agree with the proposed methodology to determine incremental compressor running hours? If not, what alternatives would you propose?**

This is reasonable.

**28. Do you agree that incremental compressor running hours should be re-assessed annually?**

This is a practical approach

**29. Do you agree with the indexation of overhaul costs? Should an alternative, e.g. cost pass through, be used? Would this create unnecessary uncertainty?**

Increasing costs must be reflected and indexation seems a reasonable approach

**30. Should full analysis of incremental compressor running time be assessed in advance, using projected demand and flow levels, or should the methodology be backward looking and use actual demand and flow?**

It would be more accurate to use actual data where this is available, combined with any anticipated increase or decrease for the forward period.

## **Annexes**

**31. Is the example useful and/or relevant?**

The examples are helpful in understanding the methodology

**32. Do you agree that the automated approach to determining incremental CFU should be introduced when available or should the look-up table be continued?**

Refer to answer above Q16

**33. Is it appropriate to provide the information stated in Annex 3 in the methodology statement or should this be stated elsewhere? If not, where should it be stated?**

This data is relevant to the methodology and should be published.

**34. Is the data provided in Annex 3 accurate and complete?**

As far as we can be aware

I trust that these comments and suggestions are helpful and constructive in determining the methodology for sharing costs arising from use of the NTS for Carbon Capture and Storage. Please let me know if you require any further information on our response.

I would confirm that nothing in this response is regarded as confidential and we have no concern about it being available to others via your web-site.

Yours sincerely

*sent by e-mail and therefore unsigned*

Mike Young  
Business Development Manager, Industry & Regulation, Gas