

MODIFICATION PROPOSAL 0049

Response by Corus UK Ltd

Corus has the following comments:-

1. Timing

The issues raised in this modification require careful consideration and then a full explanation of the consequences for all parties, particularly gas users. Transco NTS suggests that “under *most* circumstances [the modification] would lead to *minimal* increases in nitrogen and carbon dioxide in the gas within the system, and therefore the gas delivered to consumers.” (our italics) We believe that it is an explanation of the words in italics that is required.

The potential impact on gas users for CO₂ emissions could be huge, even with minimal increases under most circumstances. With the information available we can only conclude at this stage that this modification will lead to an increase in Corus’ CO₂ emissions potentially costly enough to cause some alarm. Currently we are unable to calculate precisely how large this increase will be, given that quantification relies on understanding “minimal” in the context of a change in the maximum levels of CO₂ content and how often abnormal circumstances arise. Of greater concern, if this modification leads to increased costs for us, we can only assume that such a change could impact a wide range, if not all, consumers.

The impact of this modification will either be to transfer cost from producer to consumer (if the CO₂ is being stripped out at the producer end and accounted for there) or could lead to an increase of CO₂ emissions in the UK sufficiently large to warrant further investigation. Certainly if this is the case then UK government should be made aware of any change that is likely to impact its forecast emissions or indeed undermine its climate change policy.

Further although this modification is partially justified by its claim that it better aligns us to EASEE-gas proposals it was our understanding that DTI had suggested that implementation of any proposals on gas quality would take years. Even if not strictly included in this, the different treatment, in terms of time for consideration and consultation, of what amounts to very similar issues is startling.

Given our concerns above, we feel the case for a 1 November 2005 implementation date should be extremely strong to warrant brushing aside these issues. This case has not been made. Whilst we understand that fully informed and powerful parties may have justified such a shortening of the process, we do not feel we have been given sufficient information as to why the modification is required, nor why it is required in such a short space of time. We do not therefore feel that the process has been sufficiently robust to allow all affected parties (including potentially the UK government) to understand the impact.

We urge the modification panel to extend the time available and to ensure that there is more information on which all affected parties can make a fully considered response.

2. Impact Assessment

We understand that the modification requires a 0.5% increase in maximum CO₂ content for all gas imports into the UK. However we have no understanding of what average CO₂ content currently is and whether the modification could in fact lead to a much greater increase in average CO₂ content. NTS Transco claims that increases will be minimal and yet we have no further explanation as to how this translates into an average percentage change.

As a first check to understand impact we have calculated that an increase of 1% in CO₂ content for input gas would translate directly into a noticeable increase in CO₂ released by this company. This is a change to the basis on which the EU Emissions Trading Scheme calculated the number of permits to be issued by those captured by the scheme in Phase 1 2005-2007 inclusive. Whilst it is not a very straightforward calculation, given the parameters used to calculate actual emissions, we would assume that in the absence of any further adjustments to the scheme (e.g the issue of further P1 allowances) we may need to cover this change with additional purchases of EUETS certificates. This increase in costs is sufficiently large to create some alarm and we believe the change justifies a far more detailed impact assessment than we have seen so far.

As stated above, we are not clear whether this change would translate into a transfer of cost from producer to consumer or if such a change really would increase overall the actual (or calculated, or both) CO₂ emissions across the UK. This is a large omission from the information we have so far. If this is not a transfer of cost (ie if producers are already stripping out the CO₂ and the emissions are accounted for at the production end) then we must surely be talking about an increase of CO₂ emissions from all consumers which in total could be substantial. If this is the case, surely DEFRA would be interested to understand if such a change in inputs would lead to a substantial change in actual emissions. Further DTI must also be interested to understand how such a change would harmonise with the policy it set out at the Madrid Forum.

In considering the modification it has become obvious to us that we have no real knowledge of whether all of the terminals are currently covered by a maximum 2% CO₂ content or whether there have been exemptions. We have tried to understand which terminals would therefore benefit from such an increase and tried to link that with our knowledge of likely new projects to source new gas. It is very difficult to understand what, if any, project is driving this sudden need to change quality parameters. Further it is not clear quite why this is seen as so crucial as to require such a speedy process. Whilst the modification has not been marked urgent, it is clear that it is being treated as something more than a normal modification.

We urge the panel to consider further the impact of the modification and urge it to consider any knock-on effects on the UK Government's climate change policy. To do this we consider that at the very least the timetable needs to be reconsidered urgently and further information needs to be sought from the proposer, including more information about current terminal requirements, current average CO₂ content, the likely change in average CO₂ content and whether this is additional CO₂ or whether it has already been accounted for in UK emissions forecasts. MG 29.09.05