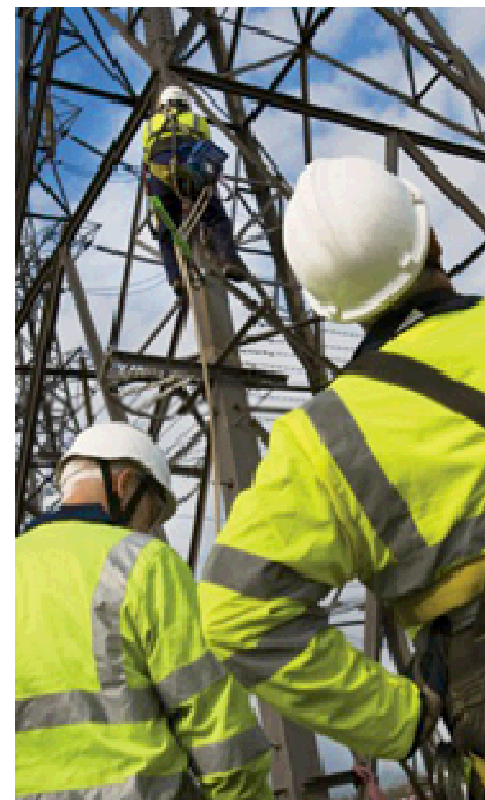
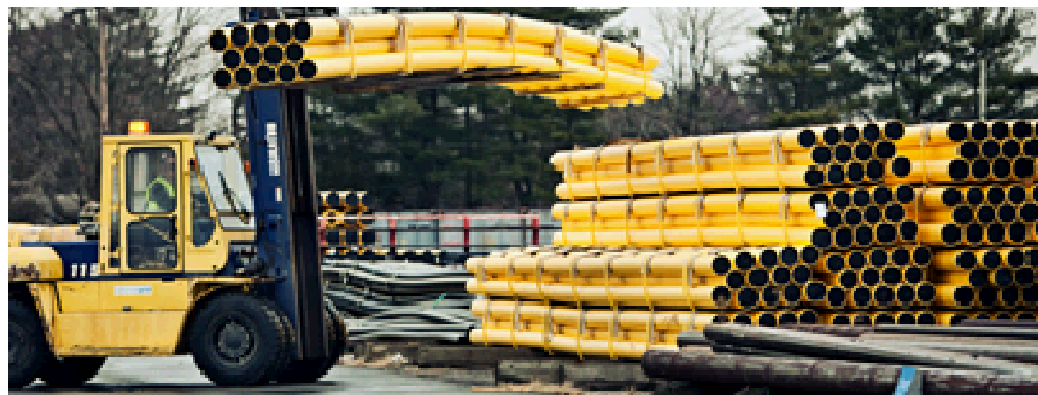


Carbon Capture and Storage

Transmission Workstream meeting, 5th August 2010



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Background

- ◆ At the request of National Grid Carbon, National Grid Gas is proposing that a section of the NTS in Scotland is taken out of service and transferred from NGG to NGC for transportation of carbon dioxide.
- ◆ This proposal has been the subject of various consultations and workshops, the most recent of which was Ofgem's second consultation and initial impact assessment dated 6 May 2010 (Ofgem ref 56/10).
- ◆ This consultation reviewed the earlier consultation, highlighting a number of issues, particularly the need to protect Shippers, and hence consumers, from increased costs resulting from the disposal of the pipeline.
- ◆ This consultation identified that “an agreed methodology will need to be developed and consulted on”. This will cover:
 - ◆ Incremental constraint management costs; and
 - ◆ Incremental compressor fuel usage.

Methodology Statement

- ◆ National Grid Gas will be developing this methodology. Key features are expected to include:
 - ◆ It will be robust, transparent and fair to all.
 - ◆ Identification of increased constraint management actions resulting from the pipeline disposal;
 - ◆ Identification of a representative price to be applied to the constraint management quantity.
 - ◆ Identification of increased compressor fuel usage;
 - ◆ Identification of a representative price to be applied to the incremental CFU, gas and electricity.

Methodology Statement

- ◆ The methodology:
 - ◆ Will only apply if GEMA approve the asset release;
 - ◆ Will only apply if NG Carbon progress in the DECC competition
 - ◆ Will not cover (considered elsewhere):
 - ◆ Physical separation costs;
 - ◆ Asset acquisition costs;
 - ◆ Is expected to be a condition on the pipeline sale and as such may be subject to regulatory approval
 - ◆ NGG intends to follow a process similar to other methodology statements
 - ◆ Development, consultation, revision, submission
 - ◆ NGG expects that the methodology will be approved or rejected as part of the asset release package.

Timeline

- ◆ The timeline for development of the methodology is dictated by the requirement for formal submissions to DECC in respect of their CCS competition. This may be subject to revision.
 - ◆ Currently it is envisaged that NGG will need a suitable methodology for submission to Ofgem in January 2011.
- ◆ To meet this deadline NGG will develop initial proposals in the coming months before consulting industry participants.
 - ◆ **Consultation expected to commence mid-September or mid-October.**
- ◆ Final proposals will be developed following review of consultation responses.