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**St Fergus Terminal: Consultation on the range of future charging and commercial solutions that should be considered ahead of any proposed investment options**

Dear Mark,

Thank you for the opportunity to respond to the National Grid Gas (NGG) Consultation on the range of future charging and commercial solutions ahead of any proposed investment at the St Fergus Terminal.

This response is made on behalf of Cadent and can be published by NGG. If you have any further questions, please do not hesitate to contact me using the details at the top of this letter.

**St Fergus gas terminal and the most appropriate charging regime.**

We welcome this consultation on the most appropriate charging regime for the St Fergus gas terminal. The terminal has been in continuous operation for over 40 years and plays a fundamental role in the security of gas supply. We therefore support the need for investment to ensure the terminal is able to maintain vital gas supplies for the country at the lowest cost to gas customers.

We believe the party responsible for causing the compression at the North Sea Midstream Partners (NSMP) sub-terminal should be responsible for any investment costs. While recognising the contractual difficulties that arise from such an approach, it is incumbent on NGG to strive for a sustainable agreement with NSMP rather than default to retention of the historical status quo where transmission customers bear the full cost risk of the investment.

Where required, other sub-terminal and delivery facility operators appear to operate and pay for compression to meet the higher minimum pressure requirement for delivery to the NTS. We therefore believe this approach should be applied to the NSMP sub-terminal, with the party responsible for causing the compression, bearing investment costs.

Should this not be possible, then relevant capacity charges should be applied to those users of the NSMP sub-terminal. Although we recognise that the costs must be recovered and paid for ultimately by customers, pricing signals are important to incentivise the most efficient market participation. It therefore would not be appropriate to share the costs arising with NTS exit charges.



We appreciate the engagement to date, and hope that our feedback adds value to future discussions on this matter.

Yours sincerely  
By email

**Gurvinder Dosanjh**  
Industry Codes Manager

## Questions

1. Do you wish your response to remain confidential (Y/N)?  
No
2. Following on from the RIIO-2 process do you agree with our approach to address the requirements of Final Determinations? a. is there anything else we should consider?  
Yes, we do agree with your approach which is to be commended.
3. We would be interested in stakeholder views on whether we should include the wider market impact in our assessment and, if so, what robust method could we utilise?  
It would be interesting to see any assessment of wider market impact, but appreciate this will be sensitive to assumptions made. It may be easier for NGG to propose some alternative methodologies for stakeholders to respond with views.

## Cost targeting

4. Do you support targeted charging where there is demonstrable localised benefits that should be borne by a targeted group of parties / customers? a. Please give your reasoning for your answer  
We support targeted charging as a general regulatory principle where the costs should be borne by those who drive them. This has the added benefit of creating the right market signals that drive more efficient and rationale behaviours by users.
5. If you believe the charge should be targeted, to what degree should this targeting take place i.e. users at entry, users at exit, users at NSMP sub-terminal or some distance-related charge?  
As above, targeting should be most effective when addressed to those who utilise the service and therefore drive more efficient outcomes for customers. In this case ideally those who flow gas at the NSMP sub-terminal should bear the costs rather than sharing at exit for example. We note the consultation refers to the risk of users switching from the NSMP sub-terminal due to additional charges, but this is a logical outcome and may have a bearing on the amount of investment required by those users.

However, before pursuing this approach NGG should enter NEA contract negotiations with NSMP to bear the costs in whole or in part. We note this has been disregarded as too difficult, but there is no evidence of initial engagement to ascertain the position. As part of this approach, which has been covered in the consultation but at relatively high level is a quantified impact assessment of the options associated with minimal or no further investment and whether peak demand could be substituted in whole or part over the period for which the investment would be utilised. We appreciate this may be difficult, but the consultation or UNC work would benefit from further modelling in this regard.

We also note there is reference to issues concerning European Regulations which are not elaborated on and in the context of post Brexit, it would be useful to understand what these are?

6. In terms of the costs that should be reflected in the charge, do you think this should cover all of the following or specific categories. Cost categories are emissions driven,



asset health, cyber security, physical security and decommissioning of redundant assets? a. Please give your reasoning for your answer, including which categories  
It's difficult for us to be specific, but any relevant costs including those related to decommissioning and compressor emissions should be included.

7. Do you believe the introduction of a targeted charge will change shipper behaviours such that flows could be redirected to avoid paying the additional charge? a. Please give your reasoning for your answer

We agree that there is a risk that this may be the case depending on the level of the charge versus other commercial and physical considerations that we are not privy too. This implies that further market research on willingness to pay and options available to users at St Fergus should be undertaken by NGG or Ofgem to inform investment decisions.

If users could re-direct flows and the peak capacity was available elsewhere, then this may indicate lower levels of investment may be required. This could therefore be the most efficient outcome for customers.

#### **Other commercial remedies**

8. Other than the changes to the UNC discussed i.e. cost targeting and limiting liabilities, are there other changes to the UNC that could be made to protect GB consumers?

None that we are aware of at this point, although as the consultation points out the consequential costs to customers needs to be minimised in whichever option is selected.

9. Are there any other commercial options i.e. other than capacity buybacks and turndown arrangements that could be used as a solution?

None that we are aware of.