

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

**13 September 2021**

## About Energy UK

Energy UK is the trade association for the energy industry with over 100 members spanning every aspect of the energy sector – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership. We represent the diverse nature of the UK's energy industry with our members delivering over 80% of both the UK's power generation and energy supply for the 28 million UK homes as well as businesses.

The energy industry invests £13bn annually, delivers £31bn in gross value added on top of the £95bn in economic activity through its supply chain and interaction with other sectors, and supports 738,000 jobs in every corner of the country.

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Energy UK welcomes the opportunity to respond to this consultation, we provide comments to the questions below:

**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?**

Energy UK agrees it is appropriate to consult with industry on the charging elements of this proposed reopener. However, it is difficult to respond to this in isolation as the consultation document naturally leads the reader to explore the work that is required and the needs case. This is mostly covered in a separate document which is based on 2018 FES scenarios which do not achieve net zero by 2050, which is now a legally binding commitment.

The 2021 FES scenarios all show zero or very, very low flows from UKCS and much reduced flows from Norway by 2050. The net zero compliant scenarios show rapidly declining flows from 2030 to very low levels from 2040. This is apart from system transformation which maintains flows from Norway. The data that is publicly available does not break this down by terminal or sub-terminal. This means it is vital that the justification for this work is reworked based on more upto date FES scenarios, and reworked against the latest FES scenarios at the time of the reopener submission.

**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 is essential that wider market impacts are assessed, given the magnitude of the proposed spend. In simple terms if the expenditure is incorporated into allowed revenue and recovered by charges at entry uniformly there will be an uplift in NBP prices for every kWh flowed. If recovered at exit the charge will be reflected in end consumer tariffs.

If revenue recovery is focussed at the St Fergus Terminal or the NSMP sub-terminal the additional charge will be higher but will only be reflected in NBP prices when those flows are the marginal source of supply. Therefore, it will be necessary to undertake this analysis. National Grid may not have the modelling capability for this and may need to retain consultants for this work.

**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**

Energy UK supports a targeted charging approach as there are demonstrable localised benefits in gas at NSMP being able to flow into the NTS, we also note that the Tariff code as now applicable in the UK via retained EU law provides for this at Article 4.4(b). This also provides for Ofgem assessing whether the service provided benefits all network users.

We recognise that the situation at NSMP is unique across the NTS and there are already charges which only apply at this point. These charges recover the operating costs from the parties that benefit from the service provided by National Grid. We believe there is a strong case for this approach to also apply to the asset health and capital costs, to maintain cost reflectivity of the service provided, subject to wider market impact assessment.

If charges were to be recovered from a wider set of Users then this would create a cross subsidy as National Grid does not offer a compression service at other sub-terminals, and this may be considered discriminatory. Other sub-terminals need to invest and recover those costs from gas producers before gas enters the National Grid system so they could be at a competitive disadvantage by this approach.

**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?**

Users at NSMP, as beneficiaries of the service provided which is not provided to other entry points. This is consistent with the approach for the operational costs currently recovered by the compression charge at this point.

**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**

Our initial view is that all categories should be included in the charge

**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**

Energy UK considers that shippers will respond to commercial signals, but we do not have information to understand whether gas that flows to NSMP has options to be delivered at other entry points. This should be included in the wider market assessment considered in Qn 3 above.

### **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?**

Beyond those suggested there seem to be limited options for protecting GB consumers. From the consumer perspective it is hard to understand and justify costs they may face arising from agreements dating back before the gas industry was privatised 35 years ago, it would seem to be a deficiency that should have been addressed at that time.

It sits with Ofgem to determine if this investment is needed, the scale of that investment and to protect the interests of consumers.

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

The challenge here is the balance between NSMP and associated parties and National Grid, with the latter being a regulated entity bound by the NEA. Whilst there is no transparency of the NEA or legacy agreement, it is assumed it does not cover the need for capital spend for environmental compliance, asset health and asset replacement. This should be something considered for new agreements so the responsibilities are clear at the outset, as they would

be in any well drafted commercial arrangement, which may also include, for example; an end date or termination provisions.

A full commercial agreement would be more likely to lead to the parties finding a joint solution to this legacy issue, which would be more likely be more economically efficient overall.

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