



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

November 2021

nationalgrid

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1. About this document

In August 2021 National Grid Gas (NGG) consulted with its customers and stakeholders to seek views on the range of future charging and commercial solutions that should be considered ahead of any proposed investment options at St Fergus¹. We would like to thank those parties who took the time to respond.

The purpose of this document is to:

- Re-cap our reasons and background for consulting (Section 3)
- Summarise the responses we received and our views in response (Sections 4 and 5) and
- Present our conclusions (Section 6) and proposed next steps (section 7).

An Executive Summary is provided in Section 2.

If you require further details about any of the information contained within this document please contact mark.freeman1@nationalgrid.com

¹ <https://www.nationalgrid.com/uk/gas-transmission/document/136381/download>

2. Executive Summary

The consultation builds upon the extensive feedback we had from our stakeholders during RIIO-2 and forms part of a wider piece of work to establish:

- the most appropriate level of future entry capability at the St Fergus gas terminal and
- the most appropriate charging regime.

The latter being the focus of this specific consultation.

The initial consultation issued in August 2021 provided background to the history, current and future use of the St Fergus terminal, the environmental legislation, RIIO-2 arrangements and our current view of the level of investment required and timescales. Our initial analysis was provided plus some options for how investment could be funded, work that was first presented as part of the RIIO-2 process.

We asked for stakeholder input around a number of themes:

- **Approach** – including whether stakeholders agreed with how we are addressing our requirements of Final Determinations and whether we should include wider market impacts in our analysis
- **Cost Targeting** – including whether there was support or not for targeted charging and to what degree and costs should be reflected in the charge and whether stakeholders felt the charge will change shipper behaviours
- **Other Commercial Remedies** – including whether stakeholders felt there were any other changes to the Uniform Network Code that could protect consumers and whether there were any other commercial options to consider

We received 12 responses to the consultation, 5 of which were confidential, the conclusions from which are summarised below:

In terms of our approach we welcome the broad level of support, even those that are not in support of targeted charging either recognised the need for consultation on the issues at St Fergus or provided helpful suggestions on the best way forward

We recognise that there was almost universal support for inclusion of the wider market impacts in our analysis and consideration will be given on how to include a verifiable analysis in our assessment of options.

In terms of targeted charging it is noteworthy that whilst there was a majority of respondents that were in favour of targeted charging this was by no means unanimous. Of those that expressed a view opposing cost targeting they were by and large upstream parties. Those that were in favour of targeted charging represented a range of stakeholders (upstream, shippers and representatives). We do however feel the level of support merits further discussion in the UNC forums and it is proposed to raise topics in the NTS Charging Methodology Forum (NTSCMF) in 2022. Timing of any potential modification will be part of these discussions.

There were a diverse range of views on whether targeted charging would change shipper behaviour ranging from a “definite yes” to “it should not even be a consideration”,

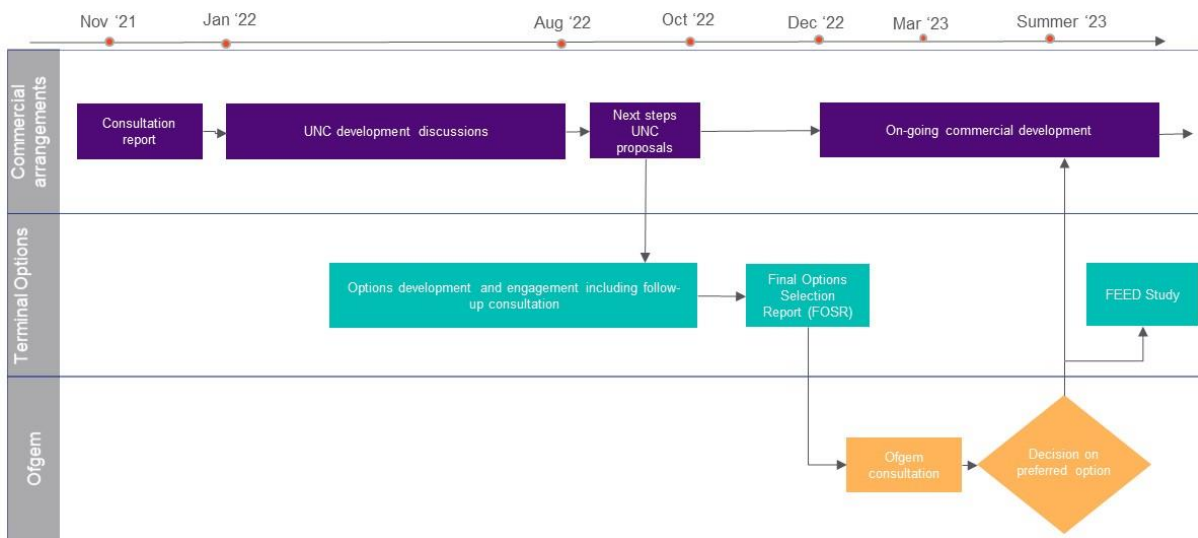
We draw some comfort from the responses that we have covered most of the potential options for UNC changes or other commercial remedies although more than one user did suggest some market-driven solutions to provide a signal for investment. These discussions will complement the further work to gain the best available information to support our Final Options Selection Report (FOSR) and will focus on further developing:

- Sensitivity to Future Energy Scenarios
- Potential market-driven solutions
- Options for running the compressors at reduced hours
- Feasibility of asset-sharing or replumbing to potentially reduce the need for investment
- Wider market impact analysis including potential changes to shipper behaviour

In terms of next steps, as this consultation report demonstrates, there are a number of issues to work through which are often inter-dependent. However, we appreciate that some parties want us to arrive at the most appropriate solution as soon as possible and we are therefore committed to working through these issues at pace in conjunction with our customers and stakeholders next year.

We will playback the findings from this consultation at an industry webinar and during 2022 we will be engaging with the industry either on a one to one basis or through industry forums ahead of a follow-up consultation in Summer 2022 when we will have a better idea of our proposed future option.

Here is the estimated timeline for next steps out to the FEED study in 2023:



3. Background

The consultation builds upon the extensive feedback we had from our stakeholders during RIIO-2 and forms part of a wider piece of work to establish:

- the most appropriate level of future entry capability at the St Fergus gas terminal and
- the most appropriate charging regime.

The latter being the focus of this specific consultation.

The St Fergus gas terminal, which accepts gas in from three sub-terminals, is currently one of the highest utilised sites on the NTS. It is a site of fundamental importance to the UK in that it currently provides flexibility, supports security of supply and supports access to UK Continental Shelf (UKCS) gas, helping to keep gas prices low. The access to UKCS gas also allows access to oil production, another benefit to the UK economy.

The terminal has been in continuous operation for over 40 years and requires a level of investment to both re-life a number of assets on the terminal and (subject to establishing the future operation) to make the compressors that receive gas from the North Sea Midstream Partners (NSMP) sub-terminal compliant with new environmental legislation².

For the avoidance of doubt the consultation is specific to the options regarding works related to the NSMP sub-terminal, namely the compression equipment and directly associated assets and comes as part of our RIIO-2 price control and the need for a re-opener in June 2025 to agree the funding for the capability that is needed for customers and consumers.

Given the importance of the terminal, the issues presented in this consultation affect a broad spectrum of users in the UK, as any potential change in entry capability at St Fergus may result in the need to make or accelerate other consequential investments. We were therefore keen to hear not just from St Fergus users, but users at all terminals, storage users, LNG terminal users, consumers and others across the UK energy industry.

During the RIIO-2 process and in our Business Plan³ we set out the investment proposals and also showed how we had considered alternative commercial options. Ofgem set out the next steps in the Draft and Final Determinations and have asked us to do further (feasibility) studies on the most appropriate option and also look at who should pay for any investment. We consulted with stakeholders to ensure we haven't missed anything as part of the RIIO-2 process, seek views as to whether we should include the wider market impact in our assessment of final options and how to recover assumed funded works via charges.

Funding has been provided for essential asset health works whilst the studies are in progress and we have agreed with Ofgem a Project Assessment Process, which provides a two-step process whereby Ofgem would review a Final Option Selection Report (FOSR) in December 2022 and then a separate cost submission once a project had gone through our Front-End Engineering and Design (FEED) and tender process in June 2025.

Ofgem requires that the Final Preferred Option in the FOSR should contain both the investment proposal and supporting commercial arrangements. As part of that decision Ofgem will approve or reject the Final Preferred Option, approve another of the options or reject the Final Preferred Option

² Industrial Emissions Directive <https://ec.europa.eu/environment/industry/stationary/ied/legislation.htm>, and Medium Combustion Plant Directive <https://ec.europa.eu/environment/industry/stationary/mcp.htm>, see Section 3

³ <https://www.nationalgrid.com/uk/gas-transmission/document/129016/download> (p122-125)

and set out the additional information that is required to identify the best option ahead of resubmission of the FOSR.

The initial consultation forms a key part of our FOSR and will be utilised to set out the forward engagement plan associated to any changes required to the commercial arrangements, such as including potential changes to the Uniform Network Code (UNC) provisions relating to the recovery of St Fergus compression costs. These requirements are set out Special Condition 13 of our Gas Transporters Licence⁴. We will also consider potential changes to UNC provisions for limiting liabilities where there was a lack of investment to make the compressors compliant with environmental legislation and the liabilities would reflect asset availability.

Following this initial consultation, the outcome of the feasibility studies and the future commercial arrangements in mid-2022 we anticipate there will be an NGG follow-up consultation that will revisit the wider requirements of the site. This follow-up consultation will ask stakeholders for input into the future operation of the site, asking whether they support investment to ensure compression is compliant with applicable emissions legislation, who would be best placed to invest, own and operate such assets and who should pay for such assets and how associated capital and operational costs should be recovered.

Then both the decision on any investment and requirements regarding future commercial arrangements will be set out in an Ofgem consultation, which will provide a further opportunity for stakeholders, customers and consumers to input into the decision. It is then anticipated that Ofgem would make a decision on the final option mid-2023 ahead of a price control reopener in June 2025.

The initial consultation provided background to the history, current and future use of the St Fergus terminal, the environmental legislation, RIIO-2 arrangements and our current view of the level of investment required and timescales. Our initial analysis was provided plus some options for how investment could be funded, work that was first presented as part of the RIIO-2 process. The potential impact on charges was presented together with some high-level examples of indicative charges. The mechanism for implementing changes in charges is presented with the expectation that UNC modification(s) will be raised at a suitable point after consultation. The associated workgroup development and consultation process will be part of further stakeholder engagement.

The consultation document issued in August 2021 asked for stakeholder input as to whether we should include the wider market impact in our assessment of final options, how to recover assumed funded works via charges and are also asking for stakeholder input into the potential range of commercial remedies that may be available as an alternative to investment that we haven't yet considered.

⁴ <https://epr.ofgem.gov.uk/Content/Documents/National%20Grid%20Gas%20Plc%20-%20Special%20Conditions%20Consolidated%20-%20Current%20Version.pdf>

4. Consultation Responses Summary

We received 12 responses to the consultation, five of which were confidential. The 7 non-confidential responses were received from the following parties:

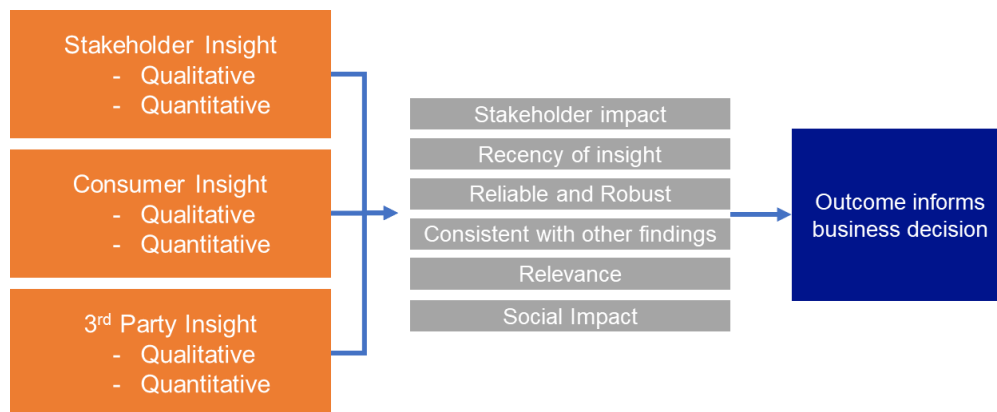
- Oil & Gas UK
- Shell Energy Europe Limited (SEEL)
- Cadent Gas Limited
- Energy UK
- Equinor UK Limited
- Gassco
- Citizens Advice

The 7 non-confidential responses have been published on our webpage and can be found [here](#). The contents of these responses together with unattributed responses have been summarised in this report.

We have triangulated the responses and set out how we intend to proceed based on the feedback.

Our approach took the feedback and insight we received from stakeholders and assessed it against a number of factors (please see below).

This process therefore allows us to weight insight to ensure a fair and transparent assessment of insight.



5. Consultation Questions and Responses

There was one question on confidentiality.

1. Do you wish your response to remain confidential (Y/N)?

Of the 12 responses received, 5 were confidential.

The following sections are split into themes for the consultation questions.

Theme: Approach

With such a complicated and critical programme of works, we wanted to validate that our approach to assessing the risks, impacts and benefits of the work was robust and in line with our stakeholders' expectations.

We asked two questions one based on our approach (Q2) the other based on wider market impacts (Q3):

- 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?**

Respondents views:

There were nine direct responses to this question, five of which agreed with our approach and the remaining four provided suggestions on the best way forward. Two further respondents provided comments on the issue.

There were a range of supporting comments;

- strong case to meet the RIIO-2 Final Determination requirement
- robust, commendable, elicit appropriate outcome
- support need for consultation and understand why NGG is required to develop proposals

In addition, there were other helpful suggestions and comments:

- options should be explored whereby assets could be shared across the sub-terminals at St Fergus to utilise the assets more efficiently and alleviate any potential underutilisation.
- sensitivity to the Future Energy Scenarios should be explored further using the most up to date information at sub-terminal level
- there should be a robust analysis of capacity requirements post-2025 including behaviours of users/shippers
- there should be a robust analysis of reduced hours operations
- Asset health expenditure should be out of scope
- Will the proposed charging mechanism have broader impacts on the structure of the NTS?
- Is a follow-up consultation necessary and is this anti-competitive for those organisations reliant on a single entry point?

Of the two respondents providing comments:

- one felt that investment should be funded by parties who will benefit most from the investment – i.e. NSMP, NSMP shippers and related upstream parties. This is consistent with other entry point customers on the NTS who have to deliver gas at NTS
- The other respondent believed that NSMP is the best-placed party to deliver this decision because their users have the knowledge of the best quality long-term production forecast. However, to ensure that this decision is objective, the same party who is to deliver the investment decision must at the same time own the compression plant.

NGG Response:

We welcome the broad level of support for our approach, even those that are not in support of targeted charging either recognised the need for consultation on the issues at St Fergus or provided helpful suggestions on the best way forward.

For those in support there is clearly a sensitivity around the Future Energy Scenarios and we will have to look at this in more detail and we take on board comments to other questions in relation to user commitment which, if this can be adopted, may alleviate some of this sensitivity.

In terms of other helpful suggestions, those linked to potential future underutilisation of the site and whether we have exhausted all the options for replumbing or asset-sharing with the other sub-terminals have given food for thought. We will be following up with the owner/operators of the sub-terminals to look at this further.

Other comments on the options to be explored including running the compressors at reduced hours is already part of our options analysis and a robust analysis in terms of predicted volumes is obviously paramount to the needs case. We will be doing our utmost to get the best available information on this future flows and capacity requirements including considering market solutions to this issue.

In terms of whether further consultation is required, we certainly do not regard this as anti-competitive and want to give stakeholders as much opportunity as possible to be part of the process in determining the future asset requirements at St Fergus.

We take on board the comments in relation to the asset health costs in relation to supporting the compression assets at NSMP sub-terminal and this will be explored further as detailed later in the document.

In terms of the other comments on who is best placed to make the decision on the investment and who should own the asset are points we made ourselves in the consultation. We continue to explore the avenue of an asset transfer as part of our options analysis and without that as we are currently asset owner we will continue to try and obtain the best available information to inform the decision on investment and use the best available physical and/or commercial tools to deliver the most appropriate solution on behalf of all users.

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?

Respondents views:

Of the nine responses to this question there was unanimous support for the assessment of wider market impacts, in some shape or form, to be considered. There was a wide variety of comments and suggestions in this area.

One respondent felt that although some UK fields are declining newer fields coming on stream and the Acorn Carbon Capture and Storage / hydrogen project being considered for government support St Fergus was likely to become increasingly important. Suggested areas to consider were provided:

- Loss of UK gas to market and possible impact on price from imports of Russian gas or LNG
- Knock-on impact of price rise on fuel poverty

- Volume of imports required to support UK market and impact on balance of payments-
- Carbon cost of LNG shipment compared to pipeline supply of “local” gas
- The importance of the need to retain the current charging mechanism (“socialised cost”) which supports the supply of gas into the only NTS entry point in Scotland
- Costs to ship gas to Scotland/Ireland from other entry points
- Impact on end consumer bill from socialising the compression cost compared to other charges to the consumer

One respondent felt that flows being redirected will create security of supply issues for the UK which will result in price volatility and increased costs being suffered by the consumer. Consideration should be given to the impact on the wider market of:

- Reduced capacity availability
- The likelihood of shippers only using the entry point when there is a high price signal in the UK

Two respondents welcomed that wider market impacts should be taken into account but recognised that this may be sensitive to the assumptions made, one suggesting that NGG should suggest some alternative methodologies, the other proposing some factors to be taken in to account including future gas demand, change of shipper behaviour in response to price changes, alternative investment requirements to meet supply security obligations, and prevalence of decarbonised gases etc. but no suggestions as to how these impacts might be modelled or evidence provided on the potential financial impact to consumers. This respondent urged caution about trying to include impacts on oil production if the ability to handle associated gas is reduced because if these assets provide a benefit to the oil market, there is an argument that costs should be at least partially targeted to oil production that may be a complication too far.

One respondent stated that it is essential that wider market impacts are assessed and carefully considered before future consultations take place, given the importance of St Fergus as a landing point for significant quantities of gas. The impacts of additional targeted flows into the UK and wholesale prices should also be carefully considered.

One respondent added that it looked forward to the analysis to ensure NGG can continue to fulfil its duty to ensure that non-discrimination between parties, particularly such that they do not distort competitive markets.

One respondent commented that modelling with respect to Mod 0678 carried out by CEPA showed that tariff structure could be expected to have some impact on wholesale market prices and therefore consumer welfare. Generally, socialisation showed a modest benefit to consumers compared to targeted charges. Given the importance of St Fergus as a landing point for significant quantities of UK natural gas, this impact of the targeting of specific charges on users of St Fergus should be considered as part of an impact assessment.

One respondent provided some impact into the potential market impacts on prices stating 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 National Balancing Point 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

Another respondent took a slightly different stance in its approach stating it was their view that it is critical that NGG review the wider market impact to provide a holistic view of the efficient overall impact of the proposals for St Fergus Terminal. Without this, consumers are likely to end up paying more overall for the interventions required at St Fergus and want to be able to understand the least-

worst-regrets options on overall consumer costs with sensitivity analysis around the major uncertainties that will impact future exposure to costs

NGG Response:

It is clear from the responses that participants feel wider market impacts are an important area to consider. Whilst we had many useful suggestions on what needs to be considered there was less emphasis on the most suitable method to carry out this analysis. We will need to work out how best to carry out this analysis which can also be independently verified. As this type of analysis is typically outside of our licence requirements the outcome maybe that the analysis would form an addendum to the cost benefit analysis of the options to be included in the Final Options Selection Report.

Theme: Cost Targeting

There were four consultation questions on this theme, three (Q4, Q5, Q6) on support or not for targeted charging and to what degree and costs should be reflected in the charge and the other on whether the charge will change shipper behaviours (Q7).

- 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**

Respondents views:

Of the ten responses to this question three were against targeted charging and one felt there were pros and cons of targeted charging suggesting that moving away from socialised costs represented a high hurdle to overcome. Four respondents were supportive and one was broadly supportive but suggested that a charge should be based on a market rate for compression and one was concerned about the wider market impacts which required further analysis. In addition, although not directly responding to the question, one respondent felt that NSMP were in the best position to decide on the level of investment required.

Of those that weren't supportive of targeted charging, the following reasons were given:

- It would cut across the single pricing methodology currently in force
- It would result in distortions in the market with unpredictable long-term consequences
- No demonstrable benefits
- Impinges on NG licence
- Less gas and lower security of supply
- Consumers ultimately bear the cost
- The entry point could become uncompetitive to others e.g. Easington
- Barrier to new investment in new fields
- Upgrades should be paid by all consumers and daily operations costs should be paid by NSMP shippers

Of those that were supportive of targeted charging, the following reasons were given:

- If charges are recovered from a wider set of users then there would be a cross-subsidy because National Grid Gas does not provide this service at other sub-terminals which would also be discriminatory
- It would be more cost-reflective

- It provides the right market signals
- It is aligned with the existing St Fergus compression charge
- The existing St Fergus compression charge creates a precedent
- Socialising costs creates an unlevel playing field
- Without cost targeting the NSMP sub-terminal would enjoy competitive advantage over the other sub-terminals
- Principles of user commitment should apply
- 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

NGG Response:

Of those that expressed a view opposing cost targeting they were by and large upstream parties. Those that were in favour of targeted charging were two upstream parties that do not use the compression services at St Fergus users of the network or their representatives.

The comments against targeted charging are largely centred on concerns that targeted charging will make the NSMP sub-terminal less competitive resulting in distortions in the market, a barrier to investment in new gas fields and lower security of supply. We are conscious of these concerns and will address them as part of the study on wider market impacts. There were also comments that targeted charging will cut across a single pricing methodology and it could impinge on our licence obligations. As part of discussions going forward we will explore these points further either with the respondent on a one to one basis or in the industry forums.

In terms of those that were in favour of targeted charging the reasoning centred around cost-reflectivity, alignment with existing St Fergus charging and providing the right market signals and without targeting then there is potentially a competitive advantage for the NSMP terminal, an unlevel playing field and a cross-subsidy where NGG does not provide this service. We are also cognisant of the comments on user commitment and compliance with the EU tariff code and would like to discuss all of these points further in industry forums.

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?

Respondents views:

The three respondents who were against targeted charging confirmed that they felt there should be no degree of targeting. In addition one respondent felt that the transmission system, including compression, benefits both entry and exit network users and there is no case for departing from the generally applied split, currently 50:50. A similar comment was received from another respondent who felt that the transmission system benefited both entry and exit users and did not support a distance related charge.

Of those who supported the targeted charge they all felt that this should be targeted at those benefiting from the service i.e. users at the NSMP sub-terminal.

NGG Response:

Not surprisingly the responses to this question reflected those in Q4 whereby those not in favour of targeted charging did not think there should be a departure from the split between entry and exit charges of 50:50. We note that those in favour of targeting should be at the NSMP sub-terminal level. The intention is that this will be taken forward for further discussion in industry forums.

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

Respondents views:

Of those against targeted charging two respondents felt that none of the categories should be included and another respondent felt that the costs associated with emissions was outside of normal business and consideration should be given as to how these are accommodated within the economics of the energy system as a whole.

One respondent felt that only the clearly identifiable compression costs should be in the frame for targeted charges the other categories could be seen as joint and common costs associated with the operation of the terminal as a whole and should not be included in the assessment. A similar comment was received from another respondent such that all costs that are directly and solely attributable to the provision of compression for the NSMP sub-terminal should be targeted. Another respondent felt it was difficult to be specific but any relevant costs including those related to decommissioning and compressor emissions should be included.

One respondent felt that their initial view is that all categories should be included in the charge.

NGG Response:

Of those that supported targeting there is a general consensus that the costs to be targeted should at least cover those that are clearly identifiable supporting compression for the NSMP sub-terminal. The intention is that this will be taken forward for further discussion in industry forums.

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

Respondents views:

There were nine responses to this question.

Two respondents felt sure that shipper behaviour would change as Norwegian gas producers have more than one export route, one of these provided data designed to show that Norwegian gas will flow to other markets according to price signals.

A further five respondents felt there was a possibility of a change in shipper behaviour, three of which felt this was as a result of responding to market signals two of these felt this should be included in the wider market analysis, the other felt that willingness to pay analysis should be considered and that redirection of flows as a result of price signals may be the most efficient outcome for customers. One respondent felt that the change in behaviours may be detrimental to the UK with costs borne by upstream parties which will shorten the economic life of existing fields and deter upstream investment and absent any demand response the shortfall will be made up of LNG imports which have a higher carbon footprint than UKCS gas. Another respondent felt that the shipper behaviours might change but this shouldn't be a consideration as with other pricing methodology changes haven't considered this.

One further respondent supported this latter statement and stated that this should not be a consideration and should not be discussed further.

One respondent felt that targeted charging won't change behaviour particularly for UKCS gas but will affect the economics of the gas fields, particularly new gas fields which were they not developed and would result in more LNG imports and a higher carbon footprint. It was recognised

that Norwegian gas would be redirected but the respondent's intelligence suggests Norwegian imports will increase in future and this will be encouraged by the development of the Acorn Blue Hydrogen project at the St Fergus site.

NGG Response:

It is interesting that the majority of respondents feel that targeted charging will or possibly will change shipper behaviour by responding to market signals and the flexibility that Norwegian has to flow to other markets. In terms of other upstream behaviour two of the respondents that the targeted charging could have an impact on the economics of existing or new gas fields and deter investment which may result in higher LNG imports with the concomitant effect of a higher carbon footprint. This is clearly linked to the analysis of wider market impacts and will be taken forward as such.

In terms of the market intelligence of the one respondent of increased Norwegian flows going forward we will be taking this point up with that respondent to access that intelligence.

It is also interesting to recognise that two respondents felt that any change in shipper behaviour should not be a consideration as this has not been a consideration for other similar pricing methodology changes.

Theme: Other commercial remedies

There were two consultation questions on this theme one on changes to the UNC (Q8) and the other on other commercial options to consider (Q9).

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?

Respondents views:

There were 8 responses to this question, of these 4 respondents felt there weren't any other changes to protect GB consumers, although one of these felt that cost targeting would not protect GB consumers at all and another respondent felt it was Ofgem who would make the final decision on the level of investment and how to protect GB consumers.

One respondent felt that it would be up to Ofgem to determine what changes should be made to the UNC as part of their final decision.

One respondent felt that it was important to relax the gas specification for entry in to the national transmission network as this will help safeguard supply to GB consumers during a period of transition in terms of both the move towards sustainable sources of energy and anticipated natural declines in UKCS gas supply.

One respondent was of the opinion that it was not clear that the GB consumer should be protected against specific costs, based on some assumptions about investment costs over an operational life of 25 years spread over 21 million domestic consumers with annual average consumption of 410 therms then the amortised cost per household per year is around 28p.

One respondent wondered if it were possible to change the charging methodology such that NSMP is offered the option of funding this work through user commitment, similar to incremental entry capacity, with an up-front commitment of at least 50%, and targeted charges for the remainder of the investment.

NGG Response:

Largely, those that felt that there weren't any other changes to the UNC that would protect GB consumers were supportive of targeted charging.

In terms of relaxing gas quality specification to help safeguard supply we feel this is a more general point that could apply to all terminals.

The comment with regard to the onus being on Ofgem to determine what changes should be made is also a general point and is of course determined by the proposals presented to them.

For the example provided on the impact of socialising the cost across all consumer bills, this will be taken forward to the discussions in NTSCMF for industry validation and opinion.

The point from the respondent on user commitment will be explored further as a potential commercial option underpinning any investment.

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

Respondents views:

There were 8 responses to this question, of these 3 respondents felt there weren't any further commercial remedies available.

One respondent felt that capacity buybacks would not provide a feasible solution as producers will not wish to shut in production and compensation could be costly to justify the action, also under a turndown agreement the operator also runs the risk of not starting as planned and shutdowns and startups tend to increase emissions offshore.

One respondent felt that in order to effect a balance between NSMP and associated parties and National Grid, a regulated entity bound by the NEA, there should be a full commercial agreement between the parties and if this had been in place at the outset then it would have been much easier to find a solution and this should be borne in mind for any future NEAs.

Two respondents felt that there were other potential commercial options available including sharing of compression across two or more sub-terminals at St Fergus.

One respondent felt that NSMP constructing compression would not be viable as it would not make sense to build brand new compression compared to the upgrade proposed by National Grid. They do not believe that NSMP taking over the terminal site would work as the site provides services to all three sub-terminals and there are likely to be issues around competition and conflict of interest. They do feel there is a possibility of developing a lower cost solution and this is being worked through, but feel it would not make sense for NSMP to invest in the project due to the likely higher cost of capital when compared to National Grid.

NGG Response:

We welcome the comments from the three respondents that we have considered all commercial remedies and the respondent that supports our initial view that capacity buybacks or turndown arrangements would not provide an effective solution.

In terms of other solutions NGG also welcomes the views that asset-sharing options should be explored or a new commercial arrangement could be a solution. We will be looking more closely at these options.

In terms of the comments regarding the unviability of NSMP constructing compression, taking over the terminal site or providing a lower cost solution we will be taking these discussions forward with the respondent.

6. Conclusions

In terms of our approach we welcome the broad level of support, even those that are not in support of targeted charging either recognised the need for consultation on the issues at St Fergus or provided helpful suggestions on the best way forward. Suggestions included addressing the sensitivity of the Future Energy Scenarios data, looking more closely at the option of running the compressors at reduced hours, market-driven solutions and exploring further options for asset-sharing or replumbing to potentially reduce the need for investment.

We recognise that there was almost universal support for inclusion of the wider market impacts in our analysis. Consideration will be given on how to include a verifiable analysis in our assessment of options which may form an addendum to the cost benefit analysis of the options to be included in the Final Options Selection Report.

In terms of targeted charging it is noteworthy that whilst there was a majority of respondents were in favour of targeted charging this was by no means unanimous. Of those that expressed a view opposing cost targeting they were by and large upstream parties. Those that were in favour of targeted charging represented a range of stakeholders (upstream, shippers and representatives). We do however feel the level of support merits further discussion in the UNC forums and it is proposed to raise topics in the NTS Charging Methodology Forum (NTSCMF) in 2022 including discussions on potential timing of any potential UNC change proposal. This will help inform the commercial arrangements underpinning the proposed preferred option to be submitted to Ofgem later in the year.

There were a diverse range of views on whether targeted charging would change shipper behaviour ranging from a “definite yes” to “it should not even be a consideration”, although there was a majority that felt that would be at least some change in shipper behaviour. We will take this forward as part of the wider markets impacts analysis.

We draw some comfort from the responses that we have covered most of the potential options for UNC changes or other commercial remedies although more than one user did suggest some market-driven solutions to provide a signal for investment. One of these was the principle of user commitment and we will explore this further as part of proposed topics to be discussed at NTSCMF. Our initial view of these topics is:

- When should any charges start?
- What are the potential routes for recovery of costs where charges may not cover them
- Scope of targeting
- Can user commitment principals be adopted and what does this entail?
- Compliance with relevant legislation (including the EU Tariff Code retained in UK law)
- Method of targeting and interactions with the prevailing charging methodology

These discussions will complement the further work to gain the best available information to support our Final Options Selection Report (FOSR) and will focus on further developing:

- Sensitivity to Future Energy Scenarios
- Potential market-driven solutions
- Options for running the compressors at reduced hours
- Feasibility of asset-sharing or replumbing to potentially reduce the need for investment
- Wider market impact analysis including potential changes to shipper behaviour

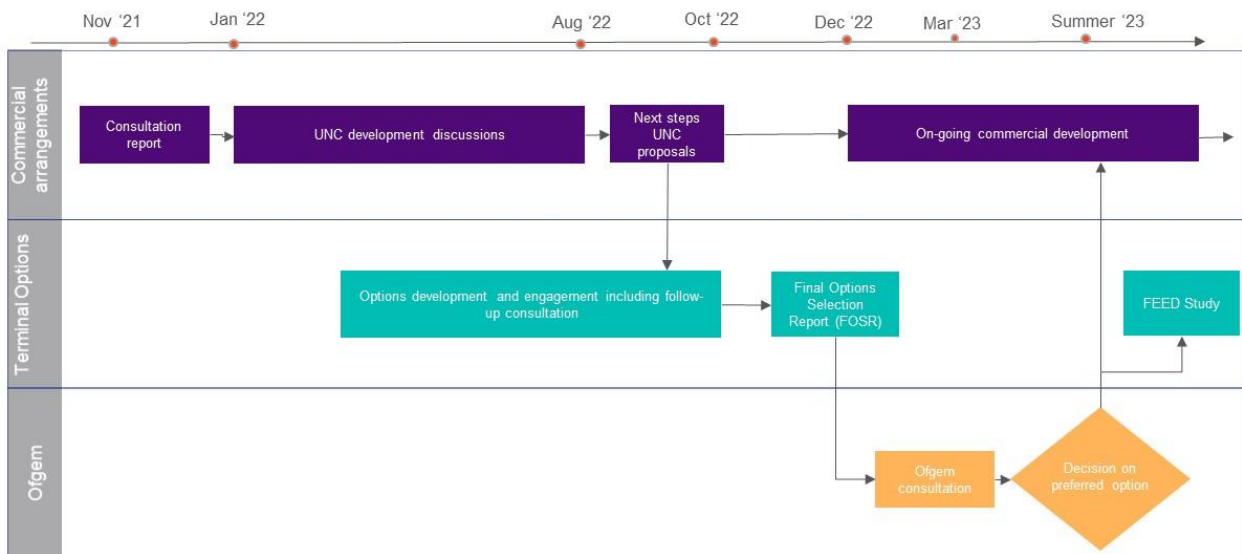
7. Next Steps

We would like to thank those parties who took the time to respond to our consultation. The information we have received, both in bilateral meetings as well as in written responses, has allowed us to consider and explore the topics from the consultation in more detail. We are encouraged by the positive tone of the responses and the new ideas we have heard has helped our thinking about how to design the requirements at St Fergus in the most appropriate way.

As this consultation report demonstrates, there are a number of issues to work through which are often inter-dependent. However, we appreciate that some parties want us to arrive at the most appropriate solution as soon as possible and we are therefore committed to working through these issues at pace in conjunction with our customers and stakeholders next year.

We will playback the findings from this consultation at an industry webinar and during 2022 we will be engaging with the industry either on a one to one basis or through industry forums ahead of a follow-up consultation in Summer 2022 when we will have a better idea of our proposed future option.

Here is the estimated timeline for next steps out to the FEED study in 2023:



Whilst this formal period of consultation has now closed, we are keen to hear industry views on our proposed next steps and as we move forward with the potential changes that we have identified. If you would like to discuss this project further please contact mark.freeman1@nationalgrid.com. We welcome your engagement at any time.