

Gas  
Transmission

# St Fergus Webinar

Consultation on the future  
charging and commercial  
solutions

**nationalgrid**



Slido.com  
**#StFergus**

**We will start at 09.02**



# Logistics



Should last approximately **60 mins**

Questions via slido.com **#StFergus** or can be accessed using the QR code

Please **mute** microphones and turn off video

Webinar will **recorded** and material will be published at St Fergus Consultation | National Grid Gas

# Who you'll be hearing from today in Gas Transmission



**Tony Nixon**  
Regulation Director



**Mark Freeman**  
Commercial  
Development Manager



**Colin Williams**  
Charging & Revenue  
Manager



**Jenny Pemberton**  
Stakeholder Manager

# Agenda



- 1** Welcome and introduction
- 2** RIIO-2 arrangements – what has happened so far
- 3** Funding & commercial options
- 4** Potential impact on charges
- 5** Stakeholder process and next steps
- 6** Summary
- 7** Q&A

# Quick poll



## Have you read the consultation document?

- Yes, all of it
- Yes, the executive summary
- Yes, some of it
- No



## Welcome and introduction



# Welcome and introduction



Stakeholders have told us:

- St Fergus is a **critical site** of fundamental importance to the UK and its economy
  - One of **highest utilised sites** in UK
  - **Security of supply** for gas consumers
  - **Access** to oil production

Builds on **RIIO-2 engagement**

Focusing on **principles of targeted charging**

We want to get the **balance right** between users of the terminal and consumers



We want to put **stakeholders** at the forefront of any issues that affect the potential future utilisation of St Fergus terminal

# Gas Transmission

## RIIO-2 Arrangements – what has happened so far

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# St Fergus Terminal



- Commissioned in 1978
- Handles between 25 – 50% UK gas supply
- Significant role to play in transition to net zero
- Challenges
  - Needs investment to re-life some assets
  - Environmental legislation



The consultation is part of the **RIIO-2 price control** and the need for a re-opener in June 2025 to agree funding for the **capability** that is needed for customers and consumers

# Timeline



2018/19	2019/20	2020/21	2021/22	2022/23
<p><b>Pre- Business Plan engagement</b></p> <ul style="list-style-type: none"> <li>• RIIO-2 Stakeholder Engagement events</li> <li>• Future needs of the network – St Fergus - Jul 2018</li> <li>• Edinburgh environmental workshop – Dec 18</li> <li>• SEPA – Dec 18 / Jan 19</li> <li>• EA – Jan 19</li> </ul>	<p><b>Business Plan consultation process</b></p> <ul style="list-style-type: none"> <li>• July Draft Business Plan</li> <li>• October Draft Business Plan</li> <li>• December Business Plan submission to Ofgem</li> </ul>	<p><b>Draft / Final Determinations</b></p> <ul style="list-style-type: none"> <li>• Draft Determinations – July 20</li> <li>• Final Determinations – December 20</li> </ul>	<p><b>St Fergus Consultations</b></p> <div style="border: 2px dashed black; padding: 5px;"> <ul style="list-style-type: none"> <li>• <b>Initial Consultation – Aug 21</b></li> <li>• <b>Publish consultation outcomes – Nov 21</b></li> </ul> </div>	<p><b>St Fergus Option Selection</b></p> <ul style="list-style-type: none"> <li>• NGG consultation on Options – Summer 22</li> <li>• Submission to Ofgem – Dec 22 (published online)</li> <li>• Ofgem decision on Final Option Selection including commercials and charging</li> </ul>

Continued engagement with stakeholders through BAU



## RIIO-2 arrangements – requirements for final option selection

- Agreed **2 stage regulatory process** for funding decisions within the RIIO-2 period
- Funding in place for baseline Asset Health works
- **Final Option Selection Report (FOSR)** – Stage 1 of process
  - Investment proposals to provide the capability required by customers and consumers
  - Supporting commercial arrangements, e.g. UNC modifications, limiting liabilities, etc.
- Stage 2 will be the cost submission post a procurement tender process
- Detailed timeline set out in consultation
- Continued engagement for stakeholder input



- Following on from the RIIO-2 process do you agree with our approach to address the requirements of Final Determinations?
- Is there anything else we should consider?

# Funding & Commercial Options







# Who should pay for investment?



## Challenges

- Targeted charging not the current contractual arrangements
  - liabilities if we do not invest – constraint costs are socialised
  - potential stranding risk if we do invest
  - Change in entry capability at St Fergus results in need to make or accelerate consequential investments

# Funding and Commercial Options



UNC modification required?

Investment Options	How facilitated	Challenge	Cost treatment	UNC modification required?
<b>NGG Invest</b> to make compressors compliant	Through RIIO process	How to include wider market impacts	Socialised Targeted	✗ ✓
<b>NSMP invest</b> to provide compression	Change NEA Asset Transfer or NSMP fund investment	Requires agreement from NSMP or NSMP shippers Requires agreement with NSMP	Not included in transportation charges	✗
<b>Third party</b> provides compression	Sell/transfer compression "service"	Unlikely anyone interested with current liabilities	Not included in transportation charges	✗
<b>No investment</b> i.e. derogate compressors to manage run-time hours to less than 500 hours	Buyback capacity or turndown arrangements Do nothing i.e. incur constraint costs	Complex, expensive and/or requires agreement Impact on constraint management processes	Socialised Socialised - Limiting liabilities	✗ ✓



- Should we include the wider market impact in our assessment and, if so, what robust method could we utilise?
- 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?
- Are there any other commercial options i.e. other than capacity buybacks and turndown arrangements that could be used as a solution?

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# Potential impact on charges

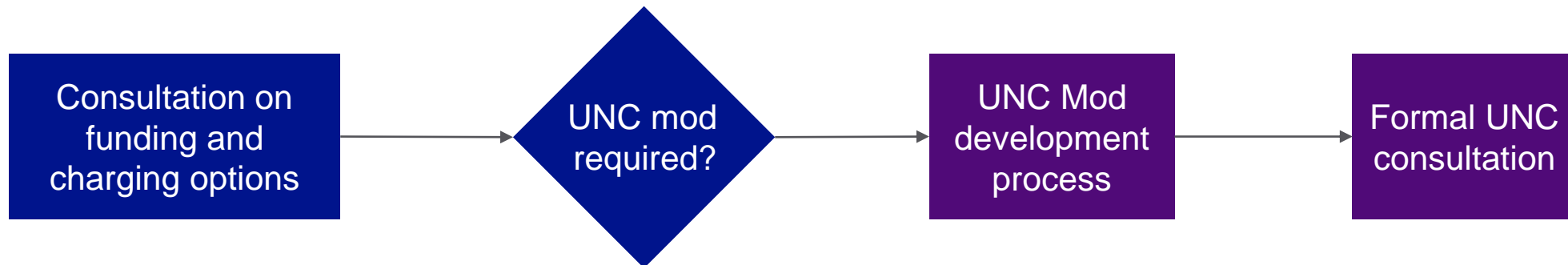
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## Potential impact on charges

- Currently any costs feeding into National Grid's allowed revenues would be socialised across GB gas consumers through Transportation Charges (Entry and Exit)
- Targeted charging of any costs would require a UNC modification



- Any modification would be shared and developed with industry via UNC change process via the NTS Charging Methodology Forum (NTSCMF): <https://www.gasgovernance.co.uk/ntscmf>





Do you support targeted charging where there is demonstrable localised benefits that should be borne by a targeted group of parties / customers?

- If you believe the charge should be targeted, to what degree should this targeting take place?
- In terms of the costs that should be reflected in the charge, should it include all or some of the investment?
- What impact will a targeted charge have on shipper behaviours?

**Stakeholder process  
and next steps**



# Stakeholder Engagement Process



## Engagement Phase 1 Sept 21

### Key areas of engagement

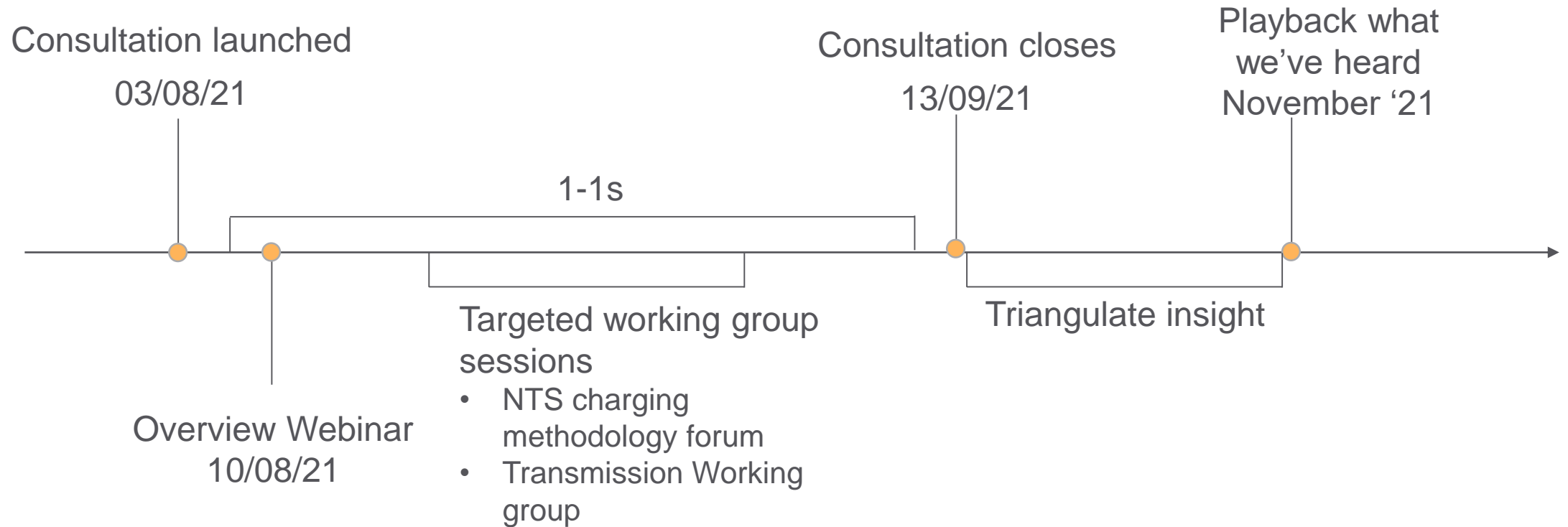
- Future level of entry capacity required
- Most appropriate charging regime

## Engagement Phase 2 Summer '22

### Key areas of engagement

- Options to deliver the level of entry capacity including outcomes of commercial solutions

# How to have your voice heard



The consultation is open until 13<sup>th</sup> September, responses to: [box.operationalliaison@nationalgrid.com](mailto:box.operationalliaison@nationalgrid.com)

# Quick poll



**Does this process allow you to have your voice heard?**

Yes

Somewhat

No

Please explain

**If you would like a 1-1, please leave your contact details.**



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# Summary

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## We want to hear from you

We want to get the **right balance** between users of the terminal and consumers

Stakeholders are fundamental in developing the **right approach**

Specifically seeking views on:

- **Has anything changed** since our business plan that might impact this project
- Whether we should include the **wider market impact** in our assessment of options
- **How to recover** assumed funded works via charges

# Q & A – SLIDO #StFergus

Alternatively slido can be accessed via a smart phone or tablet scanning the QR Code below



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Contact

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# Contact

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Consultation Responses  
[box.operationalliaison@nationalgrid.com](mailto:box.operationalliaison@nationalgrid.com)

Consultation document location  
[St Fergus Consultation | National Grid Gas](#)



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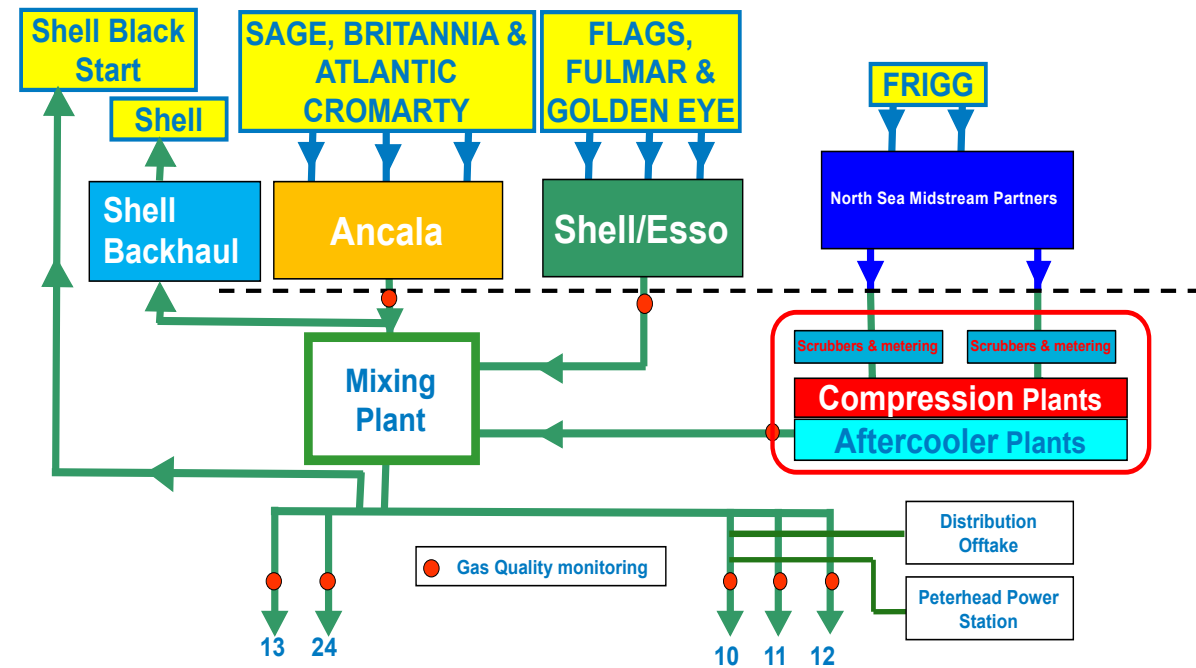
# Cost recovery – example charging scenarios (for Appendix)

Table 1: Costs recovered 2024-2050 (p/kwh)

Scenario	Entry Rate	Exit Rate	Charging Base	Entry	Exit
A	0.0016		Costs split across all Entry Points	Socialised Costs	N/A
B	0.0621		Costs split across all Entry Points	Targeted to NSMP	N/A
C		0.0016	Costs split across all Exit Points	N/A	Socialised Costs
D	0.0008	0.0008	Costs split across Entry & Exit 50:50	Socialised Costs	Socialised Costs
E	0.0306	0.0008	Costs split across Entry & Exit 50:50	Targeted to NSMP	Socialised Costs

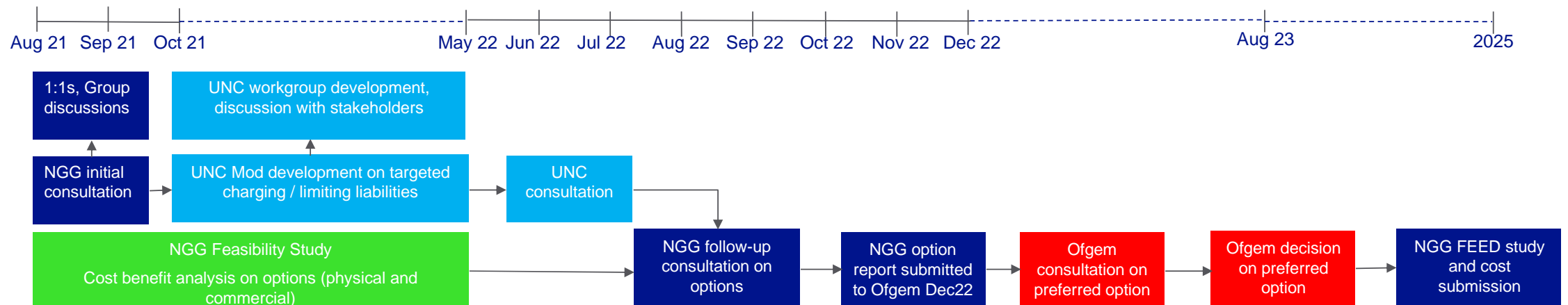
Table 2: Costs recovered 2024-2040 (p/kwh)

Scenario	Entry Rate	Exit Rate	Charging Base	Entry	Exit
A	0.0021		Costs split across all Entry Points	Socialised Costs	N/A
B	0.0822		Costs split across all Entry Points	Targeted to NSMP	N/A
C		0.0021	Costs split across all Exit Points	N/A	Socialised Costs
D	0.0010	0.0011	Costs split across Entry & Exit 50:50	Socialised Costs	Socialised Costs
E	0.0406	0.0011	Costs split across Entry & Exit 50:50	Targeted to NSMP	Socialised Costs

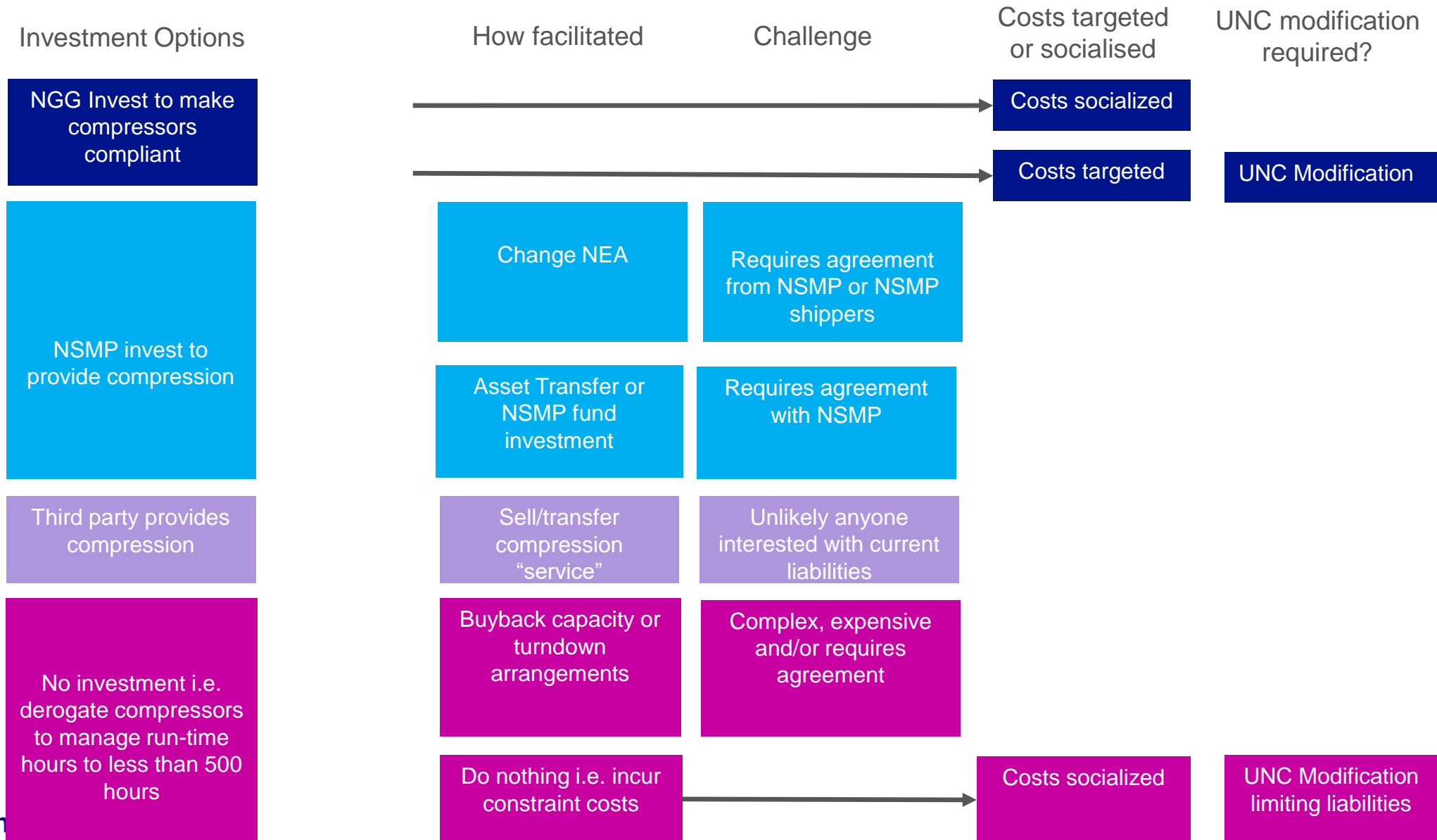


# RIIO-2 arrangements – requirements for final option selection

- Agreed 2 stage regulatory process for funding decisions within the RIIO-2 period
- Funding in place for baseline Asset Health works
- Final Option Selection Report (FOSR) – Stage 1 of process
  - Investment proposals to provide the capability required by customers and consumers
  - Supporting commercial arrangements, e.g. UNC modifications, limiting liabilities, etc.
- Detailed timeline set out in consultation **as shown below**
- Continue engagement for stakeholder input through either formal consultation or through 1:1 or group discussion



# Funding and Commercial Options





## RIO-2 arrangements – what has happened to date

- During the RIO-2 process a number of stakeholder events were held at St Fergus so that we could get feedback on our Business Plans
- As part of the RIO-2 price control a number of investments have been funded and three specific uncertainty mechanisms to obtain additional funding have been put in place for St Fergus
- The attached table shows the funding for asset health and cyberworks
- For the emissions reopener a baseline allowance of £19.98m has been provided to develop options for emissions compliance

	Baseline (ex-ante)	Uncertainty Mechanism <sup>1</sup>	Sum Theme Spend
Plant & Equipment	-	18.67	18.67
Cyber <sup>2</sup>	14.71	12.28	26.99
Valves	2.07	0.57	2.64
Redundant Assets	4.55	-	4.55
Cab Infrastructre	-	1.50	1.50
Civils	0.86	-	0.86
Electrical	0.43	-	0.43
Actuators <sup>3</sup>	-	15.47	15.47
ISS	2.15	-	2.15
<b>Total<sup>4</sup></b>	<b>24.77</b>	<b>48.49</b>	<b>73.26</b>

<sup>1</sup> Estimated value at time of submission subject to increase or decrease

<sup>2</sup> Cyber use it or lose it ("UIOLI") funding mechanism

<sup>3</sup> Actuator investment value based on estimated value at time of Final Determination

<sup>4</sup> All values are post efficiency

# Potential impact on charges

- An important aspect to consider is whether introducing a charge will change shipper behaviours such that flows could be redirected to avoid paying the additional charge. This could potentially result in underutilisation of the site capability and therefore charges for the capability being funded from all users.
- Any degree of targeting carries risks around recovery.
  - For example, it may be that the charge is targeted at an ever-decreasing user population at the sub-terminal and is why the time period the cost should be recovered over needs to be agreed.
  - In such a scenario it would be necessary to consider how remaining costs are recovered also ensuring that the methodology drives the balance between users and GB consumers.
  - Any such recovery would need to be considered in any enduring solution and to what degree this is covered in the UNC or other contractual routes.
- In terms of the costs to be targeted the indicative figure is provided from our 2019 Business Plan for the estimated costs covering emissions work (£180m) and associated asset health costs (£64m) out to 2031 and asset health costs from 2032-2050 (£127.3m). These costs have been used in in the following examples, with costs recovered over two timeframes 2024-2050, and 2024-2040.