

# Gas Transmission

**St Fergus:**

**Future Charging discussion  
ahead of investment options**

**1<sup>st</sup> February 2022**

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# Background

## RIIO T2 – Reopener

- Encouraged by Ofgem to explore options and gather feedback on how costs could/should be recovered

## Initial Consultation and report

- <https://www.nationalgrid.com/uk/gas-transmission/st-fergus-consultation>

## Approach following consultation

- To focus on five areas to give opportunities on potential charging arrangements. The next slide gives a simplified overview of the proposed approach to help the discussions on each area related to charging.

## Final Option Selection Report

- Due to report to Ofgem Q4 2022

# Draft Discussion Matrix

St Fergus Discussion Matrix			
	Full Socialisation None	Degrees of Targeting To be discussed	Targeting NSMP Entry
Scope of Charges	Which works are included in the charges and scope of Targeting		
Allowances	Identifying allowances associated with the works		
Cost Recovery	Options for how charges could be recovered, and which users will be responsible		
Under/Over Recovery Process	Reconciliation of recovered charges against costs		
Timescales	Timing of charging/recovery		

# Next Steps

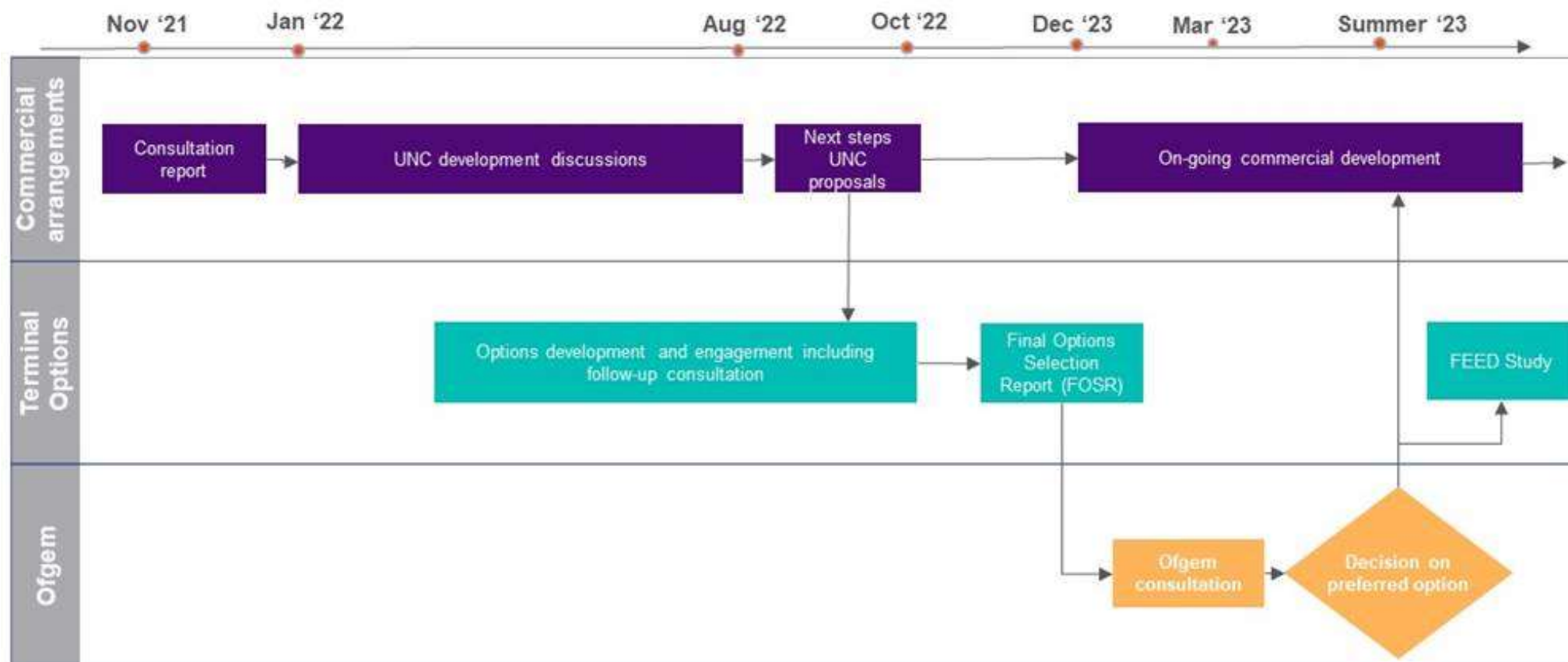
## NTSCMF Discussions

- Proposed to continue for the next five months
- Playback of discussions to workgroup in August

## Commentary fed in to Final Option Selection Report

- At this stage there is no preferred option
- All opinions will be considered
- NG may express a preference in the FOSR but this should not be considered to be a final position in terms of any potential future modifications

# Timeline



UNC proposal(s) may or may not be required dependant on the results of these discussions.

# Gas Transmission

## St Fergus: Scope of Charging

1<sup>st</sup> March 2022

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# Background

## Current St Fergus Compression Charge

- Levied initially at NSMP sub-terminal
- Imbalance recovered via socialised charge
- Covers costs related to running of Compressors
  - i) Energy Costs
    - energy requirement is satisfied through wholesale gas purchases at the UK NBP and electricity purchases under an electricity retail contract.
  - ii) Carbon Costs
    - associated with emissions from the gas and electric compressors are regulated through the EU Emissions Trading Scheme (EU ETS) and Carbon Reduction Commitment Energy Efficiency Scheme (CRCEES) respectively.
  - iii) TNUOS Costs
    - electric compressor is subject to TNUOS charges based on consumption levels over TRIAD periods.
  - iv) Other Electricity Costs
    - Under the electricity retail contract the supplier will invoice for the St Fergus electric compressor separately. This invoice will include non energy charges in addition to the energy and TNUOS charges

# Background

## RIIO T2 Re-opener:

- Reopener decision due in 2025
- Expectation that options for cost recovery fully explored prior to decision
  - A proposed solution, which may or may not require a UNC Modification, could be required to inform the reopener decision, and so we need to begin discussions early rather than delaying.
- Allowance for Final Option Selection Report (FOSR) costs included in allowances for 2021/22 - \*Special Condition 3.11 Compressor emissions Re-opener and Price Control Deliverable (CEP<sub>t</sub> and CEPRE<sub>t</sub>)

Site	Output	Delivery date	Re-opener application window	Total allowance (all years) (£m)
Hatton	Emissions compliant compressor procured for 41MW mechanical output power	03/2025	N/A	65.40
Wormington	Final Option Selection Report	05/2022	11/2024	14.38
King's Lynn	Final Option Selection Report	10/2022	04/2025	14.38
St Fergus	Final Option Selection Report	12/2022	06/2025	20.08
Peterborough & Huntingdon	Final Option Selection Report	12/2022	06/2025	9.65



## Starter for 20.08m (£):

- Final Option Selection Report (FOSR) Costs
  - These are currently being socialised

Should we reconcile and target at a later date or are Users comfortable with these costs remaining socialised?

# Consultation - We asked:

## Cost targeting

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

Please give your reasoning for your answer, including which categories

## Consultation - You told us (summary):

- 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.

# Consultation - You told us



## Consultation - We said:

- 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.

# Targeting principles

Does targeting still have a place in the Charging Regime?

Are there any wider impacts on Transportation Charges to consider?

Does the significance of St. Fergus continue to warrant targeting of charges?

## Emissions Costs

Currently targeted via St. Fergus Compression Charge.

Comments both for and against this in the consultation response.

To what extent should these elements be socialised or targeted?

## Physical Security

Relates solely to site.

However, damage to site could impact flow of gas to network, is some element of socialisation required?

Would other St Fergus Terminals pick up the slack?

## Asset Health

Relates primarily to site.

However, any downtime caused by maintenance at site could impact flow of gas to network.

Is some element of socialisation required?

## Cyber Security

St. Fergus would be connected to GNCC which controls the entire network.

Would socialised costs be appropriate given that all points are interconnected and the safety of one helps ensure the safety of all?

## Decommissioning of Redundant Assets

Only relevant to NSMP, no impacts on any other areas of the network.

Should this be targeted?

# Gas Transmission

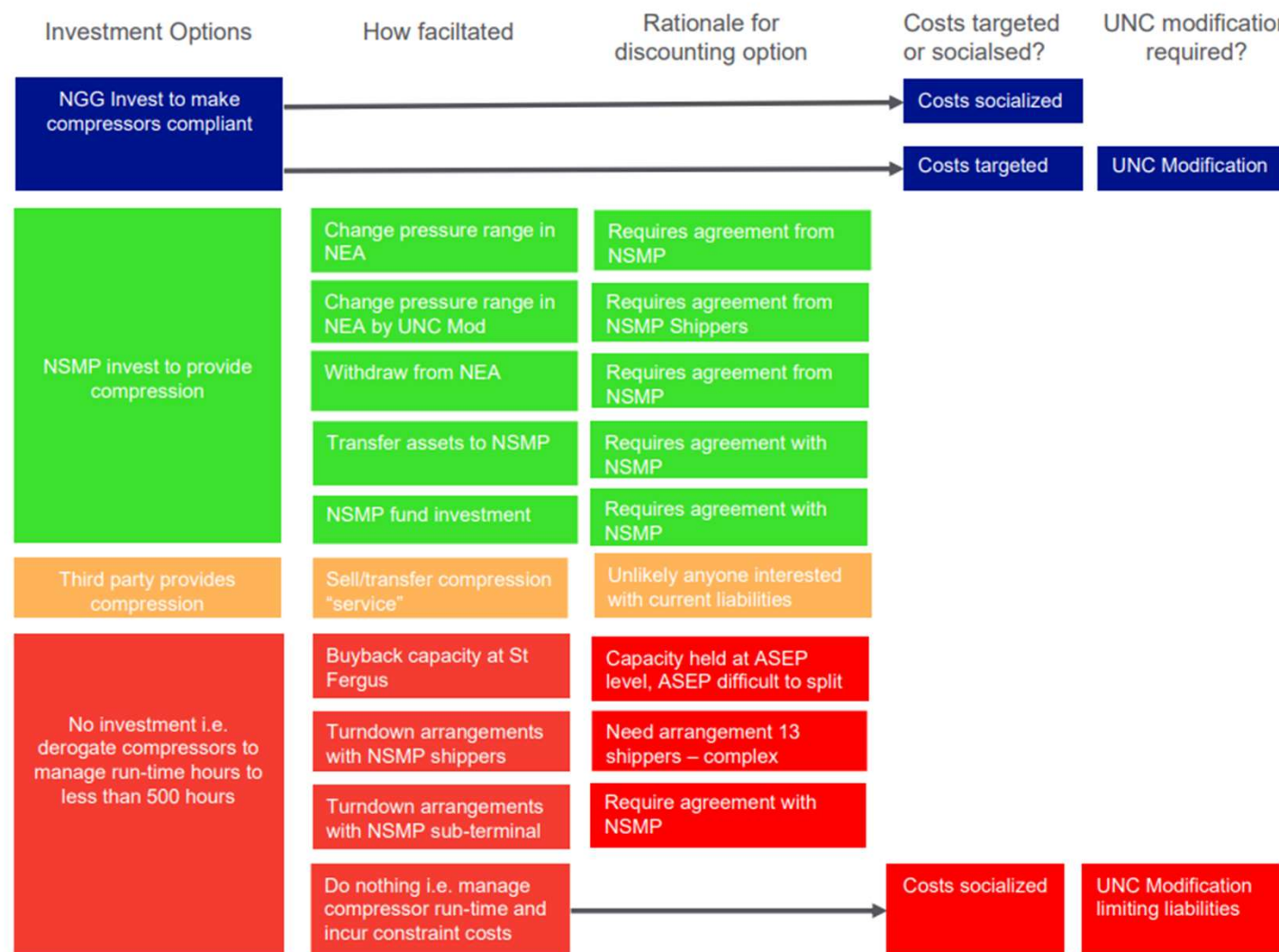
## St Fergus: Appendix

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# Consultation Appendices:

## Appendix 1 – Schematic showing Funding Options





# Consultation Appendices:

## Appendix 2 - Example Charging Scenarios

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

# Interaction with Relevant Objectives:

## Impact of the Modification on the Transporters' Relevant Objectives:

### Relevant Objective

- a) Efficient and economic operation of the pipe-line system.
- b) Coordinated, efficient and economic operation of
  - (i) the combined pipe-line system, and/ or
  - (ii) the pipe-line system of one or more other relevant gas transporters.
- c) Efficient discharge of the licensee's obligations.
- d) Securing of effective competition:
  - (i) between relevant shippers;
  - (ii) between relevant suppliers; and/or
  - (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.
- e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.
- f) Promotion of efficiency in the implementation and administration of the Code.
- g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.

# Interaction with Relevant Objectives:

## Impact of the Modification on the Transporters' Relevant Charging Methodology Objectives:

### Relevant Objective

- a) Save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business;
- aa) That, in so far as prices in respect of transportation arrangements are established by auction, either:
  - (i) no reserve price is applied, or
  - (ii) that reserve price is set at a level
    - (I) best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and
    - (II) best calculated to promote competition between gas suppliers and between gas shippers;
- b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business;
- c) That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers; and
- d) That the charging methodology reflects any alternative arrangements put in place in accordance with a determination made by the Secretary of State under paragraph 2A(a) of Standard Special Condition A27 (Disposal of Assets).
- e) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.