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Graham Craig
Senior Manager
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By email to Graham.Craig@Ofgem.gov.uk

9 January 2023

Dear Graham,

Wormington Compressor Emissions – Final Preferred Option

SGN welcomes the opportunity to respond to your above consultation¹.

We do not consider that we are in a position to evaluate National Grid Gas's technical investment options in relation to the Wormington Compressors. For example, we do not have visibility of the detailed cost benefits analysis (CBA) which underpin their recommendations, nor how this takes into account the relative net present value (NPV) attributed to pertinent factors such as network resilience. As such, we have opted not to respond to the detailed consultation questions and rather we would like to provide the following observations on the overall assessment framework, noting that similar investment assessments may be required on our own networks under the future GD3 price control period.

We note that the Future Energy Scenarios (FES) appear to form the basis of both National Grid Gas's and Ofgem's assessment of the investment options. From the Options Cost Data (table 2) in the consultation document, Option 7² has a lower indicative cost in relation to all areas with the exception of Constraint Management Opex, versus Option 10³. Against other matrices, such as the environmental assessment, we note that Option 10 is preferable to Option 7 and in fact all counter options, and we would welcome views from the relevant stakeholders.

While National Grid Gas have made a working assumption in their recommendations of System Transformation being the lead FES, we note that Ofgem appear to have dismissed this scenario, despite it being confirmed as the accepted base scenario in the recent electricity distribution (ED2) final determination. We would welcome clarity on this apparent discrepancy between the electricity and gas approaches.

Moving forwards, we would also welcome guidance on how FES should be taken into account in future investment assessments. For example, assumptions can be made on the relative probability of each

¹ [Consultation - Wormington Compressor Emissions Final Preferred Option | Ofgem](#)

² Ofgem's preference: new GT +500

³ National Grid Gas's preference: 2x new GT

scenario which will drive a weighted NPV for investment options, however there is at present little discussion on where the relative probability levels would be set. It is commonly perceived that the two central scenario ('consumer transformation' and 'system transformation') have a greater probability of arising than the two outliers ('leading the way' and 'steady progression') as such their probability of each should be weighted accordingly. Furthermore, as above, it is important that once agreed the probabilities of each scenario and any agreed base scenario are consistently applied.

As a broad methodology, we would suggest that investment assessments are based on a calculated NPV which takes into account:

- The agreed relative probability of each FES
- The NPV (or NPC) of a counterfactual 'do nothing' approach – this should include the additional maintenance costs, delayed investment cost, the cost of increased risk of asset failure or penalty, and pertinent non-financial factors such as network resilience and other incurred costs.
- The NPV of the proposed investment - determined as the probability-weighted NPV of each investment option according to the probability weighting applied to each FES scenario.
- The NPV of the proposed investment being undertaken at a later date - which can be assessed as the combination of the NPV of the duration of the deferral, plus the associated increased costs and risks, measured against the NPV of having completed that work in the first instance.

By applying a methodology such as the above, selection of a clear preferred investment option becomes more transparent and straightforward, which is extremely important when deciding how much investment risk consumers should be expected to fund. The assessment itself mitigates the impacts of potential significant swings in costs created by fluctuating factors and by including a probability factor the risks associated with subsequently moving from one option to another are also reduced. Rather, the methodology proposed above would factor in the risk associated with work not undertaken.

As a next step, we would recommend the formation of a working group as soon as possible to engage and work with Ofgem and other stakeholders on the most appropriate investment assessment approach going forwards.

Should you require any further information with regards to our response then please do not hesitate to contact me at David.Handley@SGN.co.uk

Yours sincerely,

David Handley
Director of Strategy and Regulation
SGN