

28 July 2023

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Dear Graham

**ST FERGUS COMPRESSOR EMISSIONS – FINAL PREFERRED OPTION, SAGE NORTH SEA LIMITED
("SNSL") RESPONSE**

Thank you for the opportunity to respond to this Ofgem consultation, "St Fergus Compressor Emissions – Final Preferred Option".

SNSL responded to the National Grid Gas ("NGG") consultation, "St Fergus NSMP Sub-Terminal: Consultation On The Preferred Investment Option To Meet The Future Needs Of The Site" via letter of 7 October 2022, a copy of which is enclosed.

In replying to this Ofgem consultation we would like to reiterate the comments made in our response to the NGG consultation. SNSL's views continue to be those expressed in the letter of 7 October 2022.

This response does not need to be kept confidential.

Yours sincerely,

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Nick Ridley
Commercial and Investment Appraisal Manager

Enc. 1 – SNSL's Response to NGG Consultation dated 7 October 2022

cc Angela Fletcher



7th October 2022

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Jennifer Pemberton and Mark Freeman
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Dear Jennifer and Mark

ST FERGUS NSMP SUB-TERMINAL: CONSULTATION ON THE PREFERRED INVESTMENT OPTION TO MEET THE FUTURE NEEDS OF THE SITE, SAGE NORTH SEA LIMITED (SNSL) RESPONSE

Thank you for the opportunity to respond to this National Grid Gas (NGG) Consultation on compression at the NG St Fergus Terminal . Our responses to the specific questions posed can be read below however the following more general comments summarise our overall position.

Section 4 of the Consultation Document refers to the Cost Benefit Analysis and Business case for investment. While we have responded to the specific questions posed, from a principle perspective we feel that the benefit of the compression service is being seen exclusively by the NSMP terminal. Other system users could potentially be asked to participate (if costs socialised) in an investment for which they have limited if any direct benefit which seems fundamentally unfair. In doing this the users of one St Fergus sub-terminal would effectively be receiving a subsidy relative to the users of the other sub -terminals which is fundamentally anti-competitive.

Similarly, the wider business case appears to be based on maintaining security of supply which is currently an important issue for all system users, but we ask why should the responsibility of the NSMP sub-terminal users to assure this be effectively passed to all other users when other terminals and sub terminals are addressing this themselves.

There is already a precedent for targeting charges to the NSMP sub-terminal for this service with the existing St Fergus Compression charge which covers some of the running costs of providing this service. We do not see why the cost of upgrading/replacing units to continue this very specific service whilst meeting relevant regulatory requirements should be treated any differently.



We do not believe that the burden of compliance with environmental legislation with regard to compression of gas from one St Fergus sub-terminal should fall on all system users and particularly those using the other St Fergus sub terminals where that responsibility falls on the relevant operators and owners. This is not aligned with the general principle that the polluter pays.

The proposed upgrade to the compressors at the National Grid St Fergus terminal to allow this service to be continued is different from most upgrades/modifications to parts of the NTS and connected systems in that the latter are truly for the benefit of all or most system owners.

As is demonstrated in the Quote from A16.16 St Fergus Investment Program Engineering Justification Paper December 2019 *“Uniquely on the NTS, National Grid provides 4/7/365 compression services for gas received from the NSMP terminal under the terms of the Network Entry Agreement (NEA)”*, this upgrade relates to a unique bilateral service between the relevant parties.

In this respect the compression service replaces or avoids the needs for the upstream users, operator or owner of the NSMP sub- terminal to ensure that gas leaves that sub-terminal at the correct pressure. This requirement is directly fulfilled by the users, owners, operator of the other St Fergus sub -terminals.

ANSWERS TO QUESTIONS POSED IN CONSULTATION

1. Have we used the correct independent assumptions for supply/demand for the investment needs case?

It is difficult for SNSL to comment on the validity of the assumptions used for supply/demand for the investment needs case. Of the Scenarios modelled in the 2021 FES we agree that the SP and CT cases are the most relevant in defining the range of outcomes. However, when it comes to the two NSMP terminal profiles used in this business case the underlying data and assumptions used in creating these (although subject to possible adjustment) will be known mainly to NSMP only as the detail of future forecasts is confidential and sensitive from a commercial and competition perspective. This is correct given the specific nature of the service provision in this case i.e., National Grid Gas to NSMP but it is consequently difficult for operators, owners, and users of other sub-terminals to comment on the accuracy of such forecasts.

2. For the purposes of making long term investment decisions on critical national infrastructure do you believe there should be a weighting of FES demand scenarios, if so what do you believe is best?

There appears to be limited difference between the FES scenarios in the short to medium term so weighting may not result in a material difference from an NPV perspective. The webinar material suggests that this is the case.

3. **Have we used the appropriate assumptions for calculation of constraint costs?**

SNSL understands and has no issue with the methodology for calculating Relative Constraint Costs in terms of unavailable capacity without the full range of compression and the potential compensation for this. However as stated above, without a detailed understanding of what makes up the forward profiles and the upstream risks or constraints that could impact these, it is difficult for consultees who are terminal operators, owners, or users of other sub-terminals to comment further. As stated in the consultation document the calculation of compensation is based on Section 1 of the Unified Network Code (UNC) as it impacts a specific sub terminal rather than a whole ASEP. Once again, this point illustrates the bi-lateral nature of this service relationship and consequent/though understandable lack of transparency re the underlying detail due to associated commercial /competition considerations with forecast data.

4. **Having focused on gas consumer value in our analysis do you think our omission of wider market factors is appropriate?**

In principle the focus on gas consumer value is correct. We presume that the main benefit in the calculation of NPV is the avoidance of constraint costs from the relevant investment. Wider market factors form valuable additional information but attempts to perform detailed calculation of the monetary benefits will introduce unnecessary complication for limited additional insight. Both gas consumer value and wider market factors are positively impacted by facilitation of maximum available gas from all the St Fergus sub -terminals. So, the benefit from investment to avoid constraints appears clear but the key question is consistency in who pays for facilitating gas entering the NTS at the St Fergus entry point. Users of both the SNSL and Shell terminals have pre-invested to ensure that no further compression is required to enter the NTS and will make any additional modifications to assure this. By implication neither the upstream users of the NSMP terminal nor NSMP itself (with cost recovery from shippers) have made the comparative investment as this service is provided by National Grid. This introduces an imbalance between the costs of using each sub-terminal which could be regarded as discriminatory and anti-competitive.

5. **Do you agree with our proposal for a preferred investment option?**

Based on the information presented and particularly the Cost Benefit Assessment Table in Section 5, the preferred option appears to deliver the best balance between investment cost, NPV and emissions.

6. **Should any costs incurred following the decision on the Final Option Selection Report (due mid-2023) but prior to Ofgem's final investment decision, (late-2025), be socialised?**

We do not believe that any costs that are incurred in respect of the proposed compression option should be socialised post the decision on the Final Option Selection Report (due mid 2023).



Whilst it can be argued that the costs of assessing the requirement for the compression modifications and the associated consultation is an activity involving all system users, once an investment concept is chosen any other costs ahead of a Final Investment Decision should be for the party potentially benefiting from the proposed investment. This is in line with the current targeting of running costs for the existing compressors via the St Fergus Compression Charge and with the normal process under which pre-FID costs such as FEED are covered by the party(ies) ultimately paying for the investment.

7. At what stage in the submission process should we further explore targeting of these charges to ensure a balance between informed debate and expedience?

Consistent with our comments above and our response in Question 7 we believe that targeting is the correct approach to cost recovery in respect of this investment. Consequently, the question of targeting should be explored point forward and certainly post Feb-2023: Based on the details in NGGTs January 2023 UM FOSR submission.

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

No, our response does not need to be kept confidential.

Yours sincerely

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Angela Fletcher
Chief Commercial Officer

cc Tim McNiff