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Sent by email to: [RIIO-2@ofgem.gov.uk](mailto:RIIO-2@ofgem.gov.uk)

Dear Kiran,

## **St Fergus and Hatton Needs Case Consultation**

Thank you for the opportunity to respond to the above consultation. This is a non-confidential response on behalf of the Centrica Group.

The Needs Cases for investment at St. Fergus and Hatton should not be assessed independently of the investment plans to be proposed by National Grid Gas Transmission (NGGT) for the RIIO-T2 price control. To mitigate the risk of sub-optimal investment from the consumer perspective at these sites, we recommend:

### **The St. Fergus and Hatton Needs Cases should be assessed as a part of the RIIO-T2 price control review.**

At this stage, we do not believe sufficient information is available to assess whether the investment proposed in the Needs Cases represents long-term value for consumers. To support its RIIO-T2 Business Plan to be submitted in December 2019, National Grid Gas Transmission (NGGT) is required to develop a long-term strategy to ensure its compressor fleet is compliant with relevant emissions legislation<sup>1</sup> and to review network capability<sup>2</sup>. The long-term compliance strategy and the findings of the network capability review should inform and underpin NGGT's investment proposals for the next price control<sup>3,4</sup>.

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<sup>1</sup> "RIIO-2 Sector Specific Methodology Decision - Gas Transmission", paragraph 3.52:  
[https://www.ofgem.gov.uk/system/files/docs/2019/05/riio-2\\_sector\\_specific\\_methodology\\_decision\\_-\\_gt.pdf](https://www.ofgem.gov.uk/system/files/docs/2019/05/riio-2_sector_specific_methodology_decision_-_gt.pdf).

<sup>2</sup> "RIIO-2 Sector Specific Methodology Decision - Gas Transmission", paragraph 4.22.

<sup>3</sup> "RIIO-2 Sector Specific Methodology Decision - Gas Transmission", paragraph 3.59.

<sup>4</sup> "RIIO-2 Sector Specific Methodology Decision - Gas Transmission", paragraph 4.35.

We expect there should be significant interaction between the investment proposed in the Needs Cases and the long-term compliance strategy and the findings of the network capability review, both of which are yet to be submitted and published. Indeed, NGGT states it plan for compressor work in RIIO-T2 is underpinned by its work on network capability<sup>5</sup>. We would expect investment proposals at St. Fergus and Hatton to be similarly underpinned by NGGT's longer-term forecast of the levels of physical capability the transmission network must provide to efficiently service user needs.

There are interrelationships between the investments at sites across the transmission network, because of its interconnectedness. For example, NGGT discusses the 'cluster' analysis it undertook for the identification of the preferred solution at Hatton<sup>6</sup> Also, NGGT explains "*Kirriemuir compressor provides entry capacity at St Fergus*" and a derogation should be sought for non-complaint units at Kirriemuir (instead of decommissioning them) because NGGT believes "*there is a short-term need for the three noncompliant units until flows at St Fergus reduce post 2040*"<sup>7</sup>. We believe this demonstrates it is not ideal for investment at St. Fergus and Hatton to be considered in isolation of proposed investment at other sites, which have not yet been finalised at this stage. Instead, investment across the network should be considered holistically.

I hope you find these comments helpful. Answers to the consultation questions are attached. Please contact me if you would like to discuss any aspect of our response.

Yours sincerely,

Andy Manning  
Head of Network Regulation, Industry Transformation, Investigations & Governance  
**Centrica Regulatory Affairs, UK & Ireland**

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<sup>5</sup> "National Grid Gas Transmission's draft business plan 2021-26", page 100:  
<https://www.nationalgridgas.com/document/127856/download>.

<sup>6</sup> "Hatton IED Needs Case", section 8:  
[https://www.ofgem.gov.uk/system/files/docs/2019/08/hatton\\_needs\\_case\\_submission.pdf](https://www.ofgem.gov.uk/system/files/docs/2019/08/hatton_needs_case_submission.pdf).

<sup>7</sup> "National Grid Gas Transmission's draft business plan 2021-26", page 103.

## Answers to the consultation questions:

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**Q1: In your view has NGGT clearly set out the need for the proposed investment to comply with emissions legislation, including the impact on network capability and resilience at St Fergus and Hatton?**

At this stage, we do not think NGGT's proposals for investment at St. Fergus and Hatton can be considered to be fully justified. NGGT is required to develop a long-term strategy to ensure its compressor fleet is compliant with relevant emissions legislation and to review network capability, to support its RIIO-T2 Business Plan to be submitted in December 2019. Given the long-term nature of the proposed investment at these sites, we would expect investment proposals at St. Fergus and Hatton to be similarly informed and underpinned by NGGT's review of network capability and its strategy to ensure its compressor fleet is compliant with emissions legislation. However, these are still being progressed.

**Q2: Do you agree with our initial view that new investment at St Fergus is not required at this time as there is sufficient capability from existing compressors at the site?**

At this stage, it is unclear whether there is sufficient capability from the existing compressors at the site to efficiently service user needs over the RIIO-T2 price control and beyond. To support its RIIO-T2 Business Plan to be submitted in December 2019, NGGT is required to forecast of the levels of physical capability the transmission network must provide to efficiently service user needs over the RIIO-T2 price control. NGGT is also required to develop a long-term strategy to ensure its compressor fleet is compliant with relevant emissions legislation. However, these are still being progressed.

We recommend the Needs Case for St. Fergus should be assessed as a part of the RIIO-T2 price control review, when NGGT is expected to have completed its review of network capability, has finalised its long-term strategy for ensuring its compressor fleet is compliant with emissions legislation and has submitted its investment proposals for other sites across the transmission network. Investment across the network should be considered holistically, to mitigate the risk of sub-optimal investment from the consumer perspective.

**Q3: Do you agree with our initial view that new investment at Hatton is needed at this time to maintain the existing capability and resilience at the site?**

**Q4: Do you agree with our initial view that NGGT has not sufficiently demonstrated that the current proposed solution at Hatton is the most economic option?**

The need for investment at Hatton should be underpinned by the findings of the network capability review. Until that review has been concluded, it is unclear whether maintaining the existing capability and resilience at the site is efficient. The efficiency of the proposed solution at Hatton can be robustly assessed once the efficient levels of capability and resilience have been

estimated. Further, the efficiency of the proposed solution at Hatton should be assessed in the context of investment at other sites to be proposed by NGGT in its RIIO-T2 Business Plan.

We recommend the Needs Case for Hatton should be assessed as a part of the RIIO-T2 price control review, when NGGT is expected to have completed its review of network capability, has finalised its long-term strategy for ensuring its compressor fleet is compliant with emissions legislation and has submitted its investment proposals for other sites across the transmission network. Investment across the network should be considered holistically, to mitigate the risk of sub-optimal investment from the consumer perspective.