



**Final Option Selection Report**

**Uncertainty Mechanism Submission**

**St Fergus Gas Terminal**

**Appendix C – Charging Statement**

**January 2023**

**nationalgrid**

## What is the Driver for the Charging Statement

1. The purpose of this Charging Statement is to provide a detailed statement setting out the steps taken by NGG to ensure a fair outcome for current and future consumers in terms of the impact of the proposed investment on charges.
2. At this stage, no modifications to the UNC charging provisions have been put forward and progressed by NGG but we believe we have fully met the requirements and have set out the process that will be followed post the Ofgem Final Option Selection Report to develop, and if appropriate, progress a modification to allow implementation of the preferred mechanism for recovery of the costs. This statement will lay out the next steps in the process.
3. In the Final Determination, Ofgem agreed on the need for NGG to develop options for emissions compliance at St Fergus. A baseline allowance (c. £20m) for the option selection process was proposed and these costs are currently being fed into the allowed revenue. As these values are included in the Transmission Operator (TO) Allowed Revenues, these costs are socialised across all users through Transmission Services Entry and Exit charges.
4. Ofgem also stated in the determination that they were considering the issue of who should pay for compressor capital costs at St Fergus, given that the assets provide compression to NTS appropriate pressures for the NSMP terminal only.
5. There has been constructive engagement between Ofgem and NGG around the issue of who pays for compressor capital works at St Fergus, this resulted in an expectation from Ofgem for NGG to take “reasonable steps within its powers to ensure that an appropriate solution representing a fair balance between consumers and terminal users is in place before an application under the St Fergus reopener mechanism is submitted to Ofgem.”
6. As part of the process, Ofgem expected NGG to consider a range of solutions, including putting forward and progressing a modification to the UNC charging provisions if it were considered appropriate.
7. Following the Final Determination, NGG released a consultation building upon the extensive feedback we had from our stakeholders during the RIIO-2 discussions. The Autumn 2021 consultation can be viewed on the [National Grid Gas website](#) by following this link and expanding the “Previous Engagement” header. This kicked off a wider piece of work to establish both the most appropriate level of future entry capability at the St Fergus gas terminal and the most appropriate charging regime.
8. The feedback from this consultation was fed into a series of discussions held at the monthly NTS Charging Methodology Forums (NTSCMF). We focused on five key topics which arose in the feedback to the consultation, giving opportunities for further discussion on potential charging arrangements. Those five topics were as follows:
  - Scope of Charges
  - Allowances
  - Cost Recovery
  - Under/Over Recovery Process
  - Timescales
9. During this process, discussions were explorative rather than definitive. This was primarily due to the lack of certainty, at that early stage of the process, around the final preferred option, and the lack of clarity on the expected costs and the spending profile. Without knowing the details of the expected solution and the potential cost implications, Users have had difficulty in expressing firm opinions.
10. Users recognise that this is a unique set of circumstances, which warrant further discussion, but were also concerned about setting precedents for the targeting of charges which could potentially read across to future changes, such as the charging of Hydrogen, blending and de-blending.

11. [A reference pack](#) providing all the background information used in these discussions can be found via the website of the [Joint Office of Gas Transporters](#). Minutes of the meetings held between March and August 2022 are also available via the [NTSCMF pages](#) on the Joint Office website.
12. In parallel with these discussions, further talks have been held with Ofgem regarding the Uncertainty Mechanism (UM) process. As a result of both the industry engagement and the Ofgem discussions we have revised the expectations around the timescales for any potential UNC Modification.
13. As part of the process Ofgem expected NGG to consider putting forward and progressing a modification to the UNC charging provisions once a range of solutions had been considered. However, rather than including a UNC proposal alongside this Final Option Selection Report (FOSR), we feel it would be prudent to delay.
14. Users have suggested that while avoiding unnecessary socialisation of costs is preferable, they would like a more solid basis on which to judge any proposal, this would include the need for thorough analysis and a greater level of certainty on the potential costs than the wide range of potential impacts shared in the initial St Fergus Charging consultation linked above.
15. We believe that developing a modification too early in the process would only hamper discussion and impede future development of a workable solution. We will instead, commit to reassessing the need, scope, and timing of any potential modification at regular intervals as we advance through the reopener process.
16. As more certainty comes to National Grid's preferred option through this submission, we will have a much better idea of the costs involved. Publication of a decision from Ofgem following the Final Option Selection Report will give us a firmer basis on which to begin the analysis required to develop a fully formed UNC Modification.
17. We expect that our submission will be followed by a formal Ofgem Consultation process giving Users further opportunity to input into the decision process.
18. Once that decision has been published and confirmation around the preferred option, including the costs and spending profile are known, NGG have the option to begin the siteworks ahead of the final submission process in Jun-2025.
19. To fund these works, under the UM proposals in RII0-2, an annual forecast of spend will be incorporated into the Price Control Financial Model (PCFM) prior to the Final UM Proposal decision. These annual forecasts will feed into the Allowed Revenues to be accounted for in the Price Setting Process each May, and flow into the Transmission Services Reserve Prices for each Gas Year.
20. Any under or overspend in relation to these forecasts, incurred prior to the Final UM decision, will be trued up in the years following publication. Again, this will be done through the PCFM process which sets the Allowed Revenues for the subsequent Gas Years.
21. Any spend prior to implementation of a methodology designed to target these costs would, by default, be socialised across all users.
22. We explored the potential impacts of socialisation vs. targeting in the [September 2022 Consultation](#), including providing some early, indicative, rate calculations.
23. Following the second stage of consultation, Users have expressed a desire to resolve the discussion on Socialisation vs. Targeting at the earliest opportunity to minimise the amount of revenue which is socialised by this default method by either introducing a targeted charging mechanism or by giving their effective approval of the socialisation aspect.

24. A range of approximate timescales detailing the process of agreeing a UNC Modification to implement any proposed changes were included in the NTSCMF material.
25. It is possible, based on the known, fixed points in the charge calculation process and factoring in average process times, that some costs could be socialised as early in the process as Gas Year 2024/25, with the potential for targeted charges to be included from Gas Year 2025/26 or 2026/27 dependant on decision timescales.
26. We feel it would be appropriate to allow Users the opportunity to respond to the Ofgem consultation first before we push forward with our proposed next steps and so the expectation is that we will return to NTSCMF under a Review Group structure in early/mid 2023. This would follow a timeline which would, should it be the agreed way forward, allow for implementation of a targeted charging modification in time for Oct-25 to minimise socialisation.