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**8 September 2021**

**Citizens Advice's response to National Grid: St Fergus Terminal: Consultation on the range of future charging and commercial solutions that should be considered ahead of any proposed investment options**

Dear Tony and Team,

Thank you for taking the time to engage with Citizens Advice as the statutory advocate for energy in Great Britain. We welcome the opportunity to respond to this consultation. This response is not confidential and can be shared or published.

**Planning and feasibility**

We welcome the engagement, consultation and decision timeline outlined on page 2 of the consultation. We think it provides a strong case to meet the RIIO-2 Final Determination requirement through the two planned consultation phases.

It is our view that it is critical that National Grid review the wider market impact to provide a holistic view of the efficient overall impact of the proposals for St Fergus Terminal. Without this, consumers are likely to end up paying more overall for the interventions required at St Fergus. We want to be able to understand the least-worst-regrets options on overall consumer costs with sensitivity analysis around the major uncertainties that will impact future exposure to costs.

**Charge allocation**

Our view is that currently the St Fergus terminal does not provide an efficient signal to the location of compressing gas for gas shippers in the area around St Fergus. Currently, users only pay a charge for the fuel costs of the terminal compressors owned by National Grid Gas Transmission. Users do not pay charges that represent the actual running costs that include maintenance and funding necessary investment. Although we recognise this is a legacy

arrangement, it means that St Fergus compressor users are currently benefiting from an artificial discount at the expense of energy consumers.

This means that currently the demand for use of the compressors at St Fergus is likely to be above the level that might not occur if users were properly exposed to the compressor costs of providing their services. We think this consultation is an opportunity to set out how to address this issue. Given the need to tackle net zero through zero carbon generation we believe Ofgem should be looking to critically assess what is effectively a subsidy to fossil fuel services.

If it is the case that the current price signal (fuel costs only) is incentivising use of St Fergus compressors above what represents overall value to energy consumers then a degree of correction via reduced usage of St Fergus can likely be assumed and should be factored into planning assumptions.

However, we accept energy consumers are likely to have to fund some of the investment and maintenance costs at St Fergus. It would be highly problematic to bill St Fergus Terminal users with a charge that makes the terminal unviable.

As a result, energy consumers will be exposed to a significant degree of risk as to the likelihood of asset stranding at St Fergus due to uncertainty on load requirements and user demand. Given this situation, we would expect National Grid Transmission to model a charge for compressor usage that maintains an anticipated level of terminal usage taking into account comparable costs for compression in place at St Fergus and in nearby locations.

We think this means that National Grid Transmission should work with Ofgem to use real or modelled data on the cost of compressor services at locations relative to St Fergus and model the future demand for compressor services in the area. The charge that is added to users of St Fergus Terminal compressor services that supports a level of demand on which the business case at St Fergus is based should be exposed to costs comparable to the use of alternative compressors. The accuracy of this approach is key to the interests of energy consumers to support efficient asset utilisation and reduce asset stranding risk.

A charge as close as possible to a cost-reflective charge for users should be applied. However, to be comparable to market rates it is likely to be significantly lower than actual cost reflectivity. It could be argued that it should cover each funding category that clearly reflects the value of service that users receive from St Fergus. But, ultimately, the allocation is less important as, if charges are set to maintain a level of demand rather than fully cost-reflectivity, consumers will make up the rest of the funding.

**Patron HRH The Princess Royal      Chief Executive Dame Clare Moriarty**

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We do not think it can be argued that consumer dependence on the operation of St Fergus Terminal vs other terminals justifies the current financing of the terminal skewed towards consumers or a similarly skewed charge to consumers to fund additional investment. Also, any efficiency benefits to National Grid Transmission of maintaining capacity at St Fergus should encourage shipper behaviour through other locational charges a user considers when looking to transport gas elsewhere on the transmission network and should not finance savings for gas shippers.

Please do get in contact if you have any queries or further questions relating to this response.

Kind regards

Ed Rees

Senior Policy Researcher

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