

UNC Modification	At what stage is this document in the process?
<h1 data-bbox="134 322 655 414">UNC 0846:</h1> <h2 data-bbox="134 450 1091 658">Use of Entry Capacity Holdings at Easington at the Rough Storage ASEP in Winter 2023/2024</h2>	<div data-bbox="1209 309 1469 629"> <div data-bbox="1209 309 1469 383">01 Modification</div> <div data-bbox="1209 394 1469 468">02 Workgroup Report</div> <div data-bbox="1209 479 1469 553">03 Draft Modification Report</div> <div data-bbox="1209 564 1469 638">04 Final Modification Report</div> </div>
<p data-bbox="129 712 507 745">Purpose of Modification:</p> <p data-bbox="129 768 1445 958">This modification proposal will ensure entry capacity holdings at the Easington ASEP can be utilised at the Rough Storage ASEP during Winter 2023/24 in the same way as they were during Winter 2022/23. An enhancement has been proposed to permit any User which secures Rough Storage Capacity is able to redesignate Easington Entry Capacity to the Rough ASEP.</p>	
<p data-bbox="129 1008 308 1041">Next Steps:</p> <p data-bbox="113 1064 963 1097">The Proposer recommends that this Modification should be:</p> <ul data-bbox="129 1115 1112 1205" style="list-style-type: none"> • considered a material change and not subject to Self-Governance • assessed by a Workgroup <p data-bbox="129 1223 1445 1294">This Modification will be presented by the Proposer to the Panel on 18 May 2023. The Panel will consider the Proposer’s recommendation and determine the appropriate route.</p>	
<p data-bbox="129 1471 399 1505">Impacted Parties:</p> <p data-bbox="129 1525 871 1559">High: Centrica Storage Limited and Rough Shippers</p> <p data-bbox="129 1579 820 1612">Low: National Gas Transmission, other Shippers</p>	
<p data-bbox="129 1711 483 1744">Impacted Codes: None.</p>	

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Suggested Modification timetable:	
Date Modification Raised	04 May 2023
Presentation to Panel	18 May 2023
First Work Group Meeting	01 June 2023
Workgroup Report to be presented to Panel	20 July 2023
Draft Modification Report issued for consultation	21 July 2023
Consultation Close-out for representations	03 August 2023
Final Modification Report available for Panel	04 August 2023
Modification Panel decision consideration	17 August 2023
Modification sent to Ofgem	17 August 2023

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1 Summary

What

As a result of the removal of the Rough sub-terminal from the Easington ASEP and the establishment of a new Rough Storage ASEP in August 2022 Centrica Storage Limited (CSL) lost the ability to use NTS Entry Capacity which it holds at Easington ASEP, and which was primarily purchased to support withdrawals of gas from Rough, for that purpose. Modification Proposal UNC817, which was implemented on an urgent basis to facilitate the resumption of storage activities at Rough in response to the crisis in the gas market precipitated by the invasion of Ukraine, has now expired. Consequently, a new solution is required to avoid a repeat of the same problem. Moreover, other Users who hold capacity at Easington ASEP acquired before August 2022 also lost the right to use that capacity in support of withdrawals from Rough should the opportunity present itself.

Why

If the proposed modification is not made, CSL would lose its ability to use its long-term capacity holding at the Easington ASEP for the primary purpose for which it was purchased, namely to support its operations at Rough, with no realistic prospects of using that capacity for any other purpose. As a result, CSL would have to incur the additional cost of purchasing new capacity at Rough on a short-term basis, to support any withdrawal of gas from the facility in the coming Winter. The extension of the capacity redesignation mechanism, until the end of Winter 2023/24, will avoid these inefficiencies and give CSL greater confidence that it can utilise the full available capacity of the Rough storage facility without being saddled with unnecessary additional costs, enabling it to exploit the full potential of Rough over the coming Winter to support GB supply security.

Although the Rough facility benefits from an exemption from negotiated third party access rights until June 2024, Ofgem has made it clear that it expects CSL to make any unused capacity in the facility available to third parties¹. The inability of Users to utilise capacity that they have acquired at the Easington ASEP prior to August 2022, in the same way as CSL, would be an unwelcome and unnecessary impediment to such usage, and any solution implemented for the benefit of CSL, should also be capable of applying to other Users that held capacity at such time.

With no end in sight for the hostilities in Ukraine, sanctions against the Russian gas are likely to remain in place, leaving the European and hence the UK gas market vulnerable to external shocks. Accordingly, in the interests of UK gas consumers, every effort should be made to remove maximise security of supply, including by rectifying the appropriation of User's rights to NTS Entry Capacity at the locations for which it was originally acquired.

It should be noted that the disaggregation of the Easington ASEP was not caused by any change in operational requirements; it was a pragmatic response to the resumption of storage operations at Rough, in order to facilitate compliance with new capacity charging principles introduced under the EU Tariff Code². This modification

¹ Ofgem - [Decision on Centrica Storage Limited's application for an exemption to nTPA for Rough gas storage facility](#) 3 August 2022.

² Commission Regulation (EU) No 984/2013 of 14 October 2013 establishing a Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems and supplementing Regulation (EC) No 715/2009 of the European Parliament and of the Council.

addresses one of the shortcomings in that solution, as it applies to capacity booked before the disaggregation of Easington ASEP, pending decisions on the long-term future of the Rough facility.

Since the implementation of UNC 817 as a temporary solution for Winter 2022/23, CSL has been engaging with National Gas Transmission (NGT) to put in place a more enduring solution. The most appropriate long-term solution, in the Proposer's view, would be for the Easington baseline capacity specified in NGT's licence to be allocated between the Easington and Rough ASEPs, in line with the precedent set on the disaggregation of the Bacton ASEP in order to comply with new EU rules on capacity allocation. Unfortunately, there is insufficient time to complete the consultation process necessary to amend NGT's licence along these lines before the coming Winter. Moreover, continued uncertainty as to the future of the Rough facility would compound the difficulties in deciding how much of the existing baseline capacity at the Easington ASEP to allocate to the Rough ASEP.

How

In respect of the period from 1st October 2023 to 31st March 2024, any User will be able to nominate on a monthly basis, amounts of NTS Entry Capacity which that User holds at the Easington ASEP and which it had acquired prior to 4th August 2022 (the Easington Disaggregation Date) for use at the Rough Storage ASEP in the following month. As no such Capacity was sold (for this period) by NGT between the Tariff Regulation Effective Date (6 April 2017) and the Easington Disaggregation Date, to avoid unnecessary complications, the Code should only be modified so as to provide the redesignation facility to Capacity that was acquired prior to the Tariff Regulation Effective Date.

The effect of this adjustment will be that CSL and potentially other Users will be able to utilise NTS Entry Capacity they hold at the Easington ASEP in respect of Winter 2023/24 to support withdrawals of gas from the Rough Storage ASEP (being in CSL's case the purpose for which it was primarily acquired) instead of being forced to incur further costs in order to acquire new NTS Entry Capacity and being exposed to the risk of reliance on short-term capacity release by NGT which may not be forthcoming. The adjustment of a User's Available System Capacity at the Easington and Rough ASEPs shall have no impact on the amount of the User's Capacity Charges in respect of the redesignated capacity.

This interim solution relies on existing system functionality, utilised in connection with the redesignation of Easington ASEP NTS Entry Capacity to Rough pursuant to Modification Proposal UNC817 in Winter 2022/23, though the invitation to nominate Capacity for redesignation would be extended to all Users that hold NTS Entry Capacity at the Easington ASEP for Winter 2023/24 which was acquired before the Tariff Regulation Effective Date.

For the avoidance of doubt, it is not proposed that any surrender, transfer or new auction of capacity will take place, just the reclassification of Capacity held at the Easington ASEP. The Modification will have no impact on the level of Capacity available to other shippers at the Easington ASEP. This proposal provides an interim pragmatic solution to apply for the period from 1st October 2023 until 31st March 2024 only, designed to minimise the system changes required for implementation, given that there is no commitment at present for continued use of Rough as a storage facility after that date.

2 Governance

Justification for Authority Direction

The Modification is recommended to be sent to the Authority for direction as it will have a material impact on security of supply and competition in the gas shipping sector. Implementation of this modification will permit CSL to access Entry Capacity at the Rough Storage NTS Entry Point which had been previously acquired at the Easington ASEP for the purpose of underpinning Rough Storage withdrawals. This will strengthen GB security of supply and contribute to a more efficient system, by providing CSL with sufficient assurance that it will be able to withdraw gas from Rough when required, providing it with the commercial justification required to embark upon an injection programme over the Summer. Were this modification not implemented, it would result in inefficiency and additional unnecessary costs being incurred by CSL, or other Users, in the event that CSL decides not to use the full capacity in the Rough facility and decides to offer storage rights to third parties.

Requested Next Steps

This Modification Proposal should:

- be considered a material change and not subject to Self-Governance;
- be assessed by a Workgroup over a period of no more than 1 month.

3 Why Change?

In July 2022, in light of the continuing gas disruption to the gas market associated with the conflict in Ukraine, CSL obtained a gas storage licence for the Rough facility enabling it to resume gas storage activities at the facility. In August 2022 the Authority granted CSL an exemption from negotiated third party access obligations for the period up until 30 June 2024, and it is CSL's intention to allocate capacity in the Rough storage facility during that time for the benefit of British Gas Trading Limited (BGTL). CSL is currently considering the business case for continuing gas storage at Rough after that point, though it will not be in a position to make a decision until later this year/next year (dependent in part on whether the third-party exemption is extended). The proposed Modification provides a pragmatic solution to problems arising out of the disaggregation of the Easington ASEP and provides time for an appropriate long-term solution to be put in place.

In order to comply with the charging reforms that had been introduced with respect to gas storage with the implementation of Modification Proposal UNC 0678A in October 2020, NGT disaggregated the Rough sub-terminal, or Storage Connection Point, from the Easington Aggregate System Entry Point (ASEP) on the re-establishment of Rough as a licensed gas storage facility and established the Rough sub-terminal as a separate new Rough ASEP. However, the Rough ASEP has not been allocated any baseline capacity.

As a result, CSL lost the right to use capacity it held at the Easington ASEP to support withdrawals from Rough, nor did it have any certainty that it would be able to acquire new capacity at the Rough ASEP for such purposes. Modification Proposal UNC817 was implemented on an urgent basis as a temporary solution to the problem for Winter 2022/23, by allowing CSL, the only shipper that holds storage capacity at Rough, to redesignate an amount of the Entry Capacity held by CSL at the Easington ASEP as Entry Capacity in respect of the Rough ASEP on a monthly basis over the Winter of 2022/23 (the redesignation mechanism). This interim solution was put in place for the period to the end of March this year and has now expired. CSL committed to exploring alternative more enduring solutions in the event that Rough continued to be used for gas storage in Winter 2023/4.

The hostilities in Ukraine and the potential for instability in the gas market are showing no sign of abatement. CSL intends to operate Rough as a gas storage facility over Winter 2023/24, subject to CSL being able to find a way of acquiring capacity at Rough that gives CSL the level of operational certainty required for storage withdrawals. Although solutions have been identified which theoretically might offer an alternative to a reinstatement of the redesignation mechanism, albeit with CSL (or other shippers wishing to use the Rough storage facility) having to incur the direct or indirect expense of acquiring additional capacity at the Rough ASEP, none of them have proved practicable in the short term.

NGT is obliged to make the following amounts of firm NTS Entry Capacity available at an ASEP:

- "Obligated Entry Capacity", that is the baseline NTS Entry Capacity for the ASEP which National Gas Transmission is required to make available to Users pursuant to its licence.
- "Incremental NTS Entry Capacity", that is the amount of Firm NTS Entry Capacity (if any) in excess of the Unsold NTS Entry Capacity reserved as Quarterly NTS under a PARCA pursuant to TPD section B 1.14;
- "Discretionary NTS Entry Capacity", over and above the levels of Obligated Entry Capacity and Incremental NTS Entry Capacity for the ASEP.

Obligated Entry Capacity may be acquired by a User on a forward basis through an annual capacity auction held in February each year, either on a quarterly basis Quarterly NTS Entry Capacity or, for individual months, as Monthly NTS Entry Capacity. Even if there was any Obligated Entry Capacity at Rough, the earliest it would be available as Monthly NTS Entry Capacity is April 2025. It would not be available as Quarterly NTS Entry Capacity until the beginning of the 2025/26.

Obligated Entry Capacity could in theory be acquired by Users at Rough on a monthly basis through the Rolling Monthly NTS Entry Capacity auction. However, they would need to surrender surplus capacity they hold at Easington, stipulating a rolling monthly surrender price equivalent to the price at which they expect to acquire the capacity if it is made available for use at the Rough ASEP, which will be no less than the Reserve Price less the storage discount (assuming that NGT determines that the inter-AEP exchange rate for Easington and Rough ASEPs is 1:1). However, this capacity will only be available for sale at the Rough ASEP to the extent that it is not acquired by other Users in the Rolling Monthly NTS Entry Capacity auction for Easington. Even where the capacity is not sold at Easington, a User seeking to acquire the capacity at the Rough ASEP would be competing with shippers seeking to acquire the capacity at other ASEPs through the transfer process. The Weekly, Day Ahead and Within Day Entry Capacity auctions all relate to Unsold NTS Entry Capacity (of which there will be none given that there is no Obligated Entry Capacity at Rough), plus such capacity as NGT decides to make available at its sole discretion. So even if it was reasonable to expect CSL (or any other interested User) to pay a second time for capacity it intends to use at Rough, there is no guarantee that capacity will be available on this basis.

Incremental NTS Entry Capacity would only be available at Rough if reserved, pursuant to a PARCA subject to the provisions of NGT's Entry Capacity Release Methodology Statement. Were NGT to determine that no net present value test is required, the minimum amount of time for which capacity may be reserved under a PARCA is 16 Quarters within an 8-year period, where substitution the User commitment is for 4 quarters, with each quarter being in 4 different years (within an 8-year period). In both scenarios the duration of the commitments far exceed any User's current requirements for Entry Capacity at the Rough ASEP, given that the future operation of Rough as a gas storage facility is yet to be decided.

CSL has explored the possibilities of substituting Entry Capacity at Easington ASEP to the Rough ASEP, however, as the deadline for acquiring Monthly and Quarterly Capacity in advance of Winter 2023/24 has already

passed, capacity substitution would not solve the problem. Moreover, NGT's Entry Capacity Substitution Methodology Statement provides that, before Capacity can be substituted, the demand for Incremental Obligated Entry Capacity must satisfy the tests for release of Incremental Obligated Entry Capacity set out in its Entry Capacity Release Methodology Statement. In other words, substitution can only occur where CSL has entered into a PARCA (which is not a viable proposition for the reasons stated above) or where there is demand for Entry Capacity at Rough in a Quarterly NTS Entry Capacity (of which there have been none, on account of the absence of baseline capacity for Rough).

The release of Discretionary NTS Entry Capacity is a matter entirely within NGT's discretion, and so CSL and other Users cannot rely upon acquiring Entry Capacity at Rough over the coming Winter. Even if they were able to acquire capacity on this basis the cost would be additional to the charges CSL is already paying for capacity acquired to support withdrawals from Rough, but now stranded at the Easington ASEP. In the event that CSL decided not to use all the available storage capacity in the Rough facility itself, the uncertainty and additional charges faced by other potential users with NTS Entry Capacity at Easington would act as a barrier to Centrica's competitors availing themselves of the spare storage capacity.

A further option considered by CSL was for the baseline NTS Entry Capacity for the Easington ASEP to be allocated between the Easington and Rough ASEP's, in the same way as the Special Conditions of NGT's gas Transporters Licence were amended so as to split the baseline capacity for the Bacton ASEP between the new Bacton UK Continental Shelf (UKCS) and Bacton Interconnector Pipeline (IP) ASEPs in order to implement the provisions of another European Union Network Code, in that case the Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems (CAM)³. As part of that process, Modification Proposal 0501V was implemented, giving Users the right to participate in a "Bacton Capacity Initial Reallocation Invitation Process" enabling them to choose whether their existing Registered NTS Entry Capacity at Bacton should be allocated to the Bacton UKCS or Bacton IP ASEPs, a change which was regarded by the Authority as contributing towards the achievement of relevant objective (a) (the efficient and economic operation of the pipe-line system)⁴.

Although this is the optimal solution with precedent and the Authority's blessing in its favour, the practicalities of the process militate against it. Licence modification is a time-consuming resource intensive process that is unlikely to be completed in time for Winter 2023/24. Moreover, uncertainty regarding the long-term future of Rough will pose difficulties in determining how much of the baseline to transfer from Easington, with a prospect of the ASEP disaggregation process being reversed, if and when CSL determines that there is no longer a business case for continuation of gas storage operations at Rough beyond 2024.

Panel Members noted that the monthly redesignation process under Modification Proposal UNC817 gave CSL more flexibility as regards use of Easington ASEP capacity than that afforded to capacity holders at Bacton. However, there is a crucial difference. In this case, the redesignation of capacity in favour of the new ASEP will have no impact on the charges faced by the User. There is therefore no need to make a one-off choice as to where the capacity should be used. A User will not be able to reduce its liability for capacity charges on any capacity that it holds at the Easington ASEP which is surplus to its requirements by allocating it to Rough and claiming the storage discount, since the only Capacity that is capable of being redesignated to Rough is Capacity which was acquired before the Tariff Regulation Effective Date and which is ineligible for the storage discount.

³ Commission Regulation (EU) No 984/2013 of 14 October 2013 establishing a Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems and supplementing Regulation (EC) No 715/2009 of the European Parliament and of the Council.

⁴ Ofgem [UNC817: Treatment of Existing Capacity Holding at Easington on creation of the new Rough Storage ASEP - Decision](#) 27 September 2022

As indicated above, there is no instance of any User having acquired Capacity from NGT at the Easington ASEP for Winter 2023/24 after the Tariff Regulation Effective Date but before the Easington Disaggregation Date. Consequently a User would only be able to benefit from the storage discount for Capacity at the Rough ASEP if NGT exercised its discretion to make new Capacity available and the User acquired some of that new Capacity.

Transitional change

At this time there is no certainty that Rough storage will remain in operation post Winter 2023/24. As such, the UNC changes proposed will only be effective until 31st March 2024. Thus, the ability for CSL to nominate the rededication of NTS Entry Capacity in the following month will expire at the end of February 2024.

Once the long-term future of the Rough facility is settled, a more permanent solution can be developed, by means of a change to NGT's Gas Transporter's licence, either through the permanent establishment of baseline NTS Entry Capacity or via a PARCA led substitution or a Licence driven reallocation of Easington ASEP capacity.

4 Code Specific Matters

Reference Documents

UNC TPD Sections B and Y. UNC Transition Document

Knowledge/Skills

NTS Entry Capacity.

5 Solution

In respect of the period from 1 October 2023 until 31st March 2024 a User will be able to nominate an amount of its Existing Available Holding at the Easington ASEP for use at the Rough Storage ASEP. Nominations in respect of any month must be given to NGT no later than the time established as the "rolling monthly surrender date" for the relevant month pursuant to TPD B2.3.5. The amount of nominated in respect of any Day within that following month (the "Redesignated Capacity") may not exceed the User's Fully Adjusted Available NTS Entry Capacity at the Easington ASEP for that Day. A User's nomination of an amount of Redesignated Capacity for a Day shall have the effect of:

- (a) decreasing each of the Fully Adjusted Available NTS Entry Capacity, Existing Registered Holding and Existing Available Holding of the User at the Easington ASEP in respect of that Day by the nominated amount; and
- (b) increasing each of the Fully Adjusted Available NTS Entry Capacity, Existing Registered Holding and Existing Available Holding of the User at the Rough Storage ASEP in respect of that Day by the nominated amount:

Consequently, the User will be able to nominate and flow withdrawals of gas from Rough on a Day up to the level of the Redesignated Capacity for that Day (subject to any aforementioned adjustments) without incurring

Overrun Charges with the User's entitlement to deliver gas at the Easington ASEP free of overrun charges being reduced by an equal amount.

NTS Entry Capacity Charges shall apply on the basis that the User's Redesignated Capacity for a Day was, at the Tariff Regulation Effective Date, the User's Registered NTS Entry Capacity at the Rough ASEP for that Day., As Specific Point Discounts in respect of Storage Site Points do not apply to Existing Registered Capacity there will be no change to the charges faced by Users who use the mechanism to redesignate capacity. Neither will the redesignated capacity satisfy the CNCCD Eligibility Criteria, so it will not be eligible for the CNCC Discount for short-haul deliveries. Consequently redesignation will not have any impact on the rates of Entry Transmission Services Revenue Recovery and NTS Entry Transmission Services Rebate Charges payable by Users generally.

6 Impacts & Other Considerations

Does this Modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

No

Consumer Impacts

The modification will be positive for all consumers. Respecting CSL's entitlement under its Existing Capacity Holding will enhance security of supply and reduce the cost of withdrawing gas from the Rough storage facility and improve the business case for injection. If this modification was not implemented, when making decisions as to how much gas to inject into Rough CSL would be faced with uncertainty as to whether NTS Entry Capacity would be available to support withdrawals as and when required, even though capacity has been previously acquired for that purpose on a long-term basis at the Easington ASEP, potentially leading to under-utilisation of available storage capacity. To the extent that additional short-term capacity was acquired to support withdrawals it would add to the overall cost of balancing the network and maintaining security of supply, adding to the upwards pressure on gas prices. Any possible distortion of competition that might work against consumers' interests has been eliminated by extending the capacity redesignation facility to all Users that hold capacity at the Easington ASEP in Winter 2023/24 that was acquired before 4 August 2022 when the two ASEPS were disaggregated, removing additional costs that may otherwise be imposed on other Users who wish to take up any storage capacity that is not utilised by CSL.

What is the current consumer experience and what would the new consumer experience be?

The optimisation of gas storage capacity at Rough will be important for the maintenance of security of supply and the stabilisation of gas prices in the coming Winter. The use of existing pricing arrangements for capacity originally purchased to support withdrawals from Rough will ensure that the storage capacity at Rough is fully utilised and avoid the imposition of additional costs as a result of the technical complications arising out of the redesignation of Rough as a Storage Facility for the purposes of the UNC. This will benefit all customers.

Impact of the change on Consumer Benefit Areas:	
Area	Identified impact
<p>Improved safety and reliability</p> <p>Lowering NTS Entry Capacity costs will enhance security of supply by permitting withdrawals from storage at lower costs than would otherwise be the case, and by improving the business case for injecting gas into Rough in advance of the coming Winter.</p>	Positive
<p>Lower bills than would otherwise be the case</p> <p>Where Rough withdrawals set the marginal cost of supply, this will reduce the wholesale price of gas, which in turn should feed through to lowering customer bills. If Rough is not the marginal supplier of gas, its contribution to the supply stack will dilute the potential from relying on alternative high priced marginal supplies. Again, this will feed through to the wholesale price of gas.</p>	Positive
<p>Reduced environmental damage</p>	None
<p>Improved quality of service</p>	None
<p>Benefits for society as a whole</p> <p>Enhancements to security of supply and dampening of the cost of gas will provide benefits to all sectors of the economy.</p>	Positive

Cross-Code Impacts

None

EU Code Impacts

None. Existing capacity bookings are retained for use, for the purposes, and at the physical System Entry Points, for which they were acquired prior to the introduction of the EU Tariff Code. Hence there is no impact on the levels of transmission tariffs resulting from contracts or capacity bookings concluded before 6 April 2017. Charges for Capacity acquired after that date are also unaffected.

Central Systems Impacts

Implementation of Modification is not anticipated to have a material impact on the central systems. The same processes as were used to implement UNC817 can be redeployed, so that CSL and, if required, other Users holding capacity acquired before the Tariff Regulation Effective Date can redesignate it for use at the new Rough ASEP.. These involve managing Users' monthly redesignation nominations and making the consequent adjustments to the values of the User's Available System Capacity, Fully Adjusted Available NTS Entry Capacity, Existing Registered Holding and Existing Available Holding at the Easington and Rough Storage ASEPs.

7 Relevant Objectives

Impact of the Modification on the Transporters' Relevant Objectives:

Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	Positive
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None
c) Efficient discharge of the licensee's obligations.	Positive
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Positive
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code.	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

The proposed Modification applies the same solution as was adopted for Winter 2022/23 under Modification UNC817 to Winter 2023/24, up until the end of March 2024, although the redesignation mechanism will now be available not just to CSL but to any Users with Available System Capacity at Easington which they acquired prior to the Tariff Regulation Effective Date . At the Panel meeting of 8 September 2022, a majority of the Panel recommended UNC817 for approval on the grounds that it would better facilitate the relevant objectives. In deciding to approve the implementation of UNC817 the Authority concluded that in its view the Modification had a neutral impact on the relevant objectives, in other words that it has no negative impact upon them. The Authority also concluded that in approving UNC817 on balance the implementation of that Modification was consistent with its statutory duties to protect the interests of existing and future consumers in relation to gas conveyed through pipes.

It is acknowledged that the Authority's approval of UNC817⁵ took into account its temporary nature and that the Authority made it clear that its approval should not be construed as an indication of how we might decide on

⁵ <https://www.ofgem.gov.uk/publications/unc817-treatment-existing-capacity-holding-easington-creation-new-rough-storage-asep-decision>

future arrangements if Rough continued to operate beyond Winter 2022/23. However, in the absence of a solution involving the allocation of baseline capacity for Easington ASEP between Easington and Rough, the case for implementation of his Modification remains unchanged. However, the Authority is invited to reconsider its determination, as regards the impact of the present Modification Proposal on the relevant objectives now that more time is available for consideration of the issues and the alternatives have been more fully explored, and the mechanism opened up to other Users in the event that they wish to take up any unutilised gas storage capacity in the Rough facility.

a) Efficient and economic operation of the pipe-line system.

The Rough ASEP was established to comply with the UNC restrictions requiring the separation of Storage System Points from other System Points. Allowing CSL to utilise Existing Entry Capacity it had acquired at Easington for the purpose of underpinning withdrawals from Rough will ensure storage injections are at a lower cost than otherwise would be the case. Extending those rights to other Users in the event that they acquire capacity in Rough may also reduce the cost to those Users of accessing that capacity. Reductions in the withdrawal costs of CSL and/or other Users, will facilitate the optimisation of Rough storage operations thereby facilitating physical security on more economic terms while reducing the overall cost of balancing the system.

c) Efficient discharge of the licensee's obligations.

The proposal is a pragmatic interim solution to what is likely to be a short-term limited problem, which avoids the need to undergo a resource intensive process of licence change. The restitution of rights to use capacity at the locations for which it was originally bought and the avoidance of a requirement on Users to buy new capacity for a subset of those physical locations, in a way that avoids non-compliance with the EU legislation that gave rise to the appropriation of those rights when storage operations were resumed at Rough, inherently improves the efficiency of NGT's discharge of its obligations as a gas transporter. It is hard to see how the imposition of an obligation to book and pay for capacity at the same physical location a second time in order to support gas storage operations could be regarded as efficient in practice.

d) Securing of effective competition:

(i) between relevant shippers;

Without this modification, CSL would be denied access to entry capacity it had acquired for the purpose of underpinning withdrawals from Rough. Not only would CSL be exposed to higher costs, as a result of having to acquire additional entry capacity, this expropriation of rights also undermines the entry capacity regime and discriminates against any Users which have acquired entry capacity at the Easington ASEP prior to its disaggregation. Reducing the use that can be made of capacity after its acquisition discriminates against Users that have acquired such capacity, and that discrimination inevitably as an adverse impact on competition between those shippers who are affected and those which are not. Moreover, the extension of the UNC817 solution to all Users which held Capacity at Rough as at the Tariff Regulation Effective Date, avoids any suggestion of preferential treatment in favour of CSL. If CSL does not utilise the full storage capacity at Rough, other Users holding capacity at the Easington ASEP as at that date would be able to utilise that capacity in the same way as CSL. In the event that a User does not have surplus Entry Capacity at the Easington ASEP, it would still be able to bid on a short-term basis for Entry Capacity in the Rolling Monthly NTS Entry Capacity auctions. A full resolution of the uncertainty associated with the discretion retained by NGT as to the release of capacity on that basis, would require the establishment of baseline capacity for Rough ASEP which would give rise to further problems discussed above,

In its decision on UNC817 the Authority noted that the flexibility available to CSL under UNC817 is greater than what was envisaged under the Bacton split arrangements (UNC501V). That is true, but as the Authority

acknowledges, prior to the creation of a new ASEP specifically for Rough capacity bought by CSL at Easington could be used by CSL for deliveries for the UK Continental Shelf or from Rough storage, as it saw fit. The net effect of the proposed redesignation mechanism and the disaggregation of the Easington ASEP is that CSL as well as other Users have significantly less flexibility over how they use capacity held at the Easington ASEP, then when that capacity was originally acquired. The sole reason for NGT's disaggregation of the Easington ASEP was to ensure that new capacity could be booked with appropriate discounts and exemptions applied, and this Modification Proposal does not undermine that principle; it simply allows Users to use capacity that they have already booked (although subject to greater restrictions), at the agreed price, without the benefit of those exemptions and benefits. The net effect is a reduction, not an increase, in the economic value of that capacity. In this case, in contrast to the situation at Bacton, the redesignation of capacity in favour of the new ASEP will have no impact on the charges faced by the User. There is, therefore, no need to make a one-off choice as to where the capacity should be used. A User will not be able to reduce its liability for capacity charges on any capacity that it holds at the Easington ASEP which is surplus to its requirements by allocating it to Rough ASP and claiming the storage discount. To benefit from the storage discount, a User would have to acquire new capacity made available at the Rough ASEP, if and when, NGT exercises its discretion to make such capacity available.

As Ofgem noted in its decision on UNC817, the cost of new capacity bookings will not be increased due to "capacity displacement" – a reduction in new capacity bookings due to greater utilisation of existing bookings - because in this instance there will be no resultant revenue shortfall. The Rough ASEP still falls within NGT's Zero Licence Baseline Entry Capacity Table.⁶ Consequently, as noted in the Ofgem UNC 817 Decision "any entry capacity that NGT did release at Rough would be non-obligated entry and revenue from its sale would not contribute towards NGT's recovered revenue. Instead, it would be redistributed to Users through the 'capacity neutrality' mechanism⁷." Such a redistribution would have the distortionary effect of an economic transfer from the Rough Users to other shippers, adding salt to the wound of the expropriation of capacity rights in relation to Rough that resulted from the disaggregation of the Easington ASEP.

For information, there is no change to the NTS Charging Methodology. The Modification is required to ensure that the NTS Charging methodology applies as intended notwithstanding the establishment of a Rough Storage ASEP. On this basis, the Relevant Charging Methodology Objectives have not been assessed.

8 Implementation

CSL will need Entry Capacity to support withdrawals from Rough Storage from 1 October 2023. Consequently, the Modification will need to be implemented no later than 1 September 2023 so that CSL may nominate the amount of capacity it is redesignating to the Rough ASEP in October by the relevant rolling monthly surrender date. It is anticipated that any Users that were interested in taking up unutilised capacity in Rough would be looking at doing so within similar timescales.

⁶ See <https://www.nationalgas.com/document/140401/download>

⁷ See <https://www.gasgovernance.co.uk/sites/default/files/ggf/2021-12/Determination%20of%20Target%20Revenues%20and%20Recovery%20v0.2.pdf>

9 Legal Text

Text Commentary

The legal text will consist of revisions of paragraph 30 of the Transition Document Part IIC - Transitional Rules so as to apply in respect of Winter 2023/24 and so as to extend CSL's rights to redesignate NTS Entry Capacity to the Rough ASEP to any User that acquired such Capacity at the Easington ASEP prior to the Tariff Regulation Effective Date.

10 Recommendations

The Panel is asked to:

- Agree that Authority Direction should apply; and
- Refer this Modification to a Workgroup for and expedited assessment.