

Modification proposal:	Uniform Network Code (UNC) 846: Use of Entry Capacity Holdings at Easington at the Rough Storage ASEP in Winter 2023/2024 (UNC 846)		
Decision:	The Authority ¹ directs this modification be made ²		
Target audience:	UNC Panel, Parties to the UNC and other interested parties		
Date of publication:	14 September 2023	Implementation date:	To be confirmed by the code administrator

Background

Centrica Storage Limited (“CSL”) re-opened the Rough facility located in the United Kingdom Continental Shelf for gas storage in Winter 2022 having previously ceased storage operations at the facility in 2017. Prior to closure, shippers bought National Transmission System (“NTS”) Entry Capacity at the Easington Aggregate System Entry Point (“ASEP”), which at the time could be used for entering gas into the NTS from both the Easington Beach entry point and the Rough gas storage facility. As a result of the introduction of the Tariff Network Code (“TAR NC”)³, capacity at storage NTS points is subject to different requirements from non-storage points. The result of this was that shippers were no longer able to use Entry Capacity bought at Easington prior to 2017 for the purposes of withdrawing gas from the Rough gas storage facility. On 4 August 2022, National Gas Transmission (“NGT”) created a new Rough Storage ASEP to ensure capacity can be booked with appropriate discounts and exemptions applied.⁴

¹ References to the “Authority”, “Ofgem”, “we” and “our” are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day-to-day work. This decision is made by or on behalf of GEMA.

² This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

³ Article 9(1) of Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas, now incorporated in UK law by the European Union (Withdrawal) Act 2018 and the European Union (Withdrawal Agreement) Act 2020, as amended by Schedule 5 of the Gas (Security of Supply and Network Codes) (Amendment) (EU Exit) Regulations SI 2019/531.

⁴ See <https://www.nationalgrid.com/gas-transmission/document/140401/download>

On 23 August 2022, CSL raised modification UNC817 which allowed for CSL to redesignate Existing Registered Holdings and Existing Available Holdings⁵ at Easington ASEP for use at Rough Storage ASEP. We approved UNC817 on 27 September 2022.⁶ This modification was temporary and ended on 31 March 2023.⁷ Consequently, CSL are no longer able to use NTS Entry Capacity bought at Easington ASEP for the purposes of withdrawing gas from the Rough storage facility during Winter 2023/24.

On 3 August 2022, CSL was granted an exemption from negotiated Third Party Access (“nTPA”) requirements for the Rough gas storage facility. On 27 June 2023, we decided to extend the exemption until 1 April 2030.⁸ However, we note that there is currently no certainty about long-term operations at the Rough storage facility beyond the upcoming Winter 2023/24.

The modification proposal

On 4 May 2023, Centrica Storage Limited (“the Proposer”) raised modification UNC846.⁹ While UNC817 applied solely to CSL, proposal UNC846 would allow for all Users to redesignate existing capacity holdings held at Easington ASEP to Rough Storage ASEP. This process would take place on a monthly basis. NGT would invite all Users of the NTS (“Users”) to make a Capacity Redesignation Request on the corresponding rolling monthly surrender date. Users would request to redesignate the same amount of existing NTS Entry Capacity for each day within the month to which the Capacity Redesignation Request relates. It is proposed that this would be a transitional arrangement and will end on 31 March 2024.

⁵ As defined in the UNC TPD Y A-I 2.2.2(e)-(f)

⁶ UNC817: Treatment of Existing Capacity Holding at Easington on creation of the new Rough Storage ASEP – Decision: <https://www.ofgem.gov.uk/publications/unc817-treatment-existing-capacity-holding-easington-creation-new-rough-storage-asep-decision>

⁷ The Proposer notes that at that point, and if determined to be necessary, a more comprehensive solution may be proposed.

⁸ Modification to Centrica Storage Limited's exemption to nTPA for Rough gas storage facility (27 June 2023) <https://www.ofgem.gov.uk/publications/modification-centrica-storage-limiteds-exemption-ntpa-rough-gas-storage-facility>

⁹ <https://www.gasgovernance.co.uk/0846>

UNC Panel¹⁰ recommendation

At the UNC Panel meeting on 17 August 2023, a majority of the UNC Panel (12 out of a possible 14 voting members) considered that UNC846 would better facilitate the UNC objectives and the Panel therefore recommended its approval. Of the members representing consumers, both the Consumer Voting Member and the Non-domestic Consumer Voting Member voted to recommend implementation.

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 17 August 2023. We have considered and taken into account the responses to the industry consultation(s) on the modification proposal which are attached to the FMR¹¹. We have concluded that:

- implementation of the modification proposal will have a neutral impact on the achievement of the relevant objectives of the UNC;¹² and
- directing that the modification be made is consistent with our principal objective and statutory duties.¹³

Reasons for our decision

We consider this modification proposal will have a neutral impact on UNC Relevant Code Objective (RO) (a) and (d) and no impact on RO (c).

(a) the efficient and economic operation of the pipe-line system to which this licence relates

¹⁰ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

¹¹ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.co.uk

¹² As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, available at: <https://epr.ofgem.gov.uk/Content/Documents/Standard%20Special%20Condition%20-%20PART%20A%20Consolidated%20-%20Current%20Version.pdf>

¹³ The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986 as amended.

We consider that the proposal has a neutral impact on RO (a).

The Proposer argues that the modification has a positive impact on this objective as it will allow CSL to utilise Existing Entry Capacity it acquired at Easington, which will ensure that storage injections are at a lower cost. The Proposer further states that extending these rights through UNC846 to other Users may also reduce their costs of accessing capacity. It is argued that this will have a positive impact to RO (a) as reductions in withdrawal costs for CSL and any other potential User will facilitate the optimisation of Rough storage operations, thereby facilitating physical security whilst reducing the overall cost of balancing the system.

In the UNC Panel's consideration of relevant objectives, some Panel Members agreed with the Proposer that implementation of UNC846 would have a positive impact on RO (a). This is because they considered that, "implementation of this Proposal may facilitate the optimisation of Rough storage operations thereby assisting with the economically efficient balancing of the System." However, one Panel member considered that this proposal would have a neutral impact on RO (a) "because capacity may be secured by alternative means."

We accept that some of the long-term capacity contracts held at Easington were bought for the purpose of withdrawing gas at Rough. However, we recognise that it is not possible to determine what percentage of these holdings were intended to be used at the storage facility versus the Easington Beach entry point, due to the flexibility that existed when Easington was a single entry point. This flexibility was removed via the creation of the new Rough Storage ASEP.

As stated by the Proposer, UNC846 applies the same solution for Winter 2023/24 as was adopted under UNC817 for Winter 2022/23, up until the end of March 2024. However, the redesignation mechanism under UNC846 will now be available to all Users not just to CSL. We consider that extending the proposed redesignation mechanism to all NTS users constitutes an improvement relative to UNC817 as explained below under RO (d).

This modification provides a pragmatic solution given that: there is currently no certainty about long-term operations at the Rough storage facility beyond the upcoming Winter 2023/24; and UNC846 is a time-limited arrangement that will come to an end in March 2024.

Overall, we consider that this modification has a neutral impact on RO (a). However, as highlighted in our UNC817 decision, we stress that this assessment should not be construed as an indication of how we might decide on future arrangements if Rough continued to operate beyond Winter 2023/24.

(c) so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence

We consider that the proposal has no impact on RO (c).

The Proposer states, "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." The Proposer further comments, "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."

Some Panel Members agreed with the Proposer and considered that this proposal would have a positive impact on RO (c) as it avoids the need to undertake a resource-intensive licence change to restore the baseline capacity for the Rough Entry point.

We disagree with the arguments described above. Our assessment is that this proposal has no impact on RO (c). Allowing NTS users to redesignate existing capacity held at Easington rather than purchasing new (non-obligated) capacity at the Rough ASEP has no impact on the efficient discharge of NGT's licence obligations. In the future, to identify an impact under this objective, we encourage UNC modification proposers to indicate which licence obligation(s) the proposal impacts and how it improves the efficiency of the licensee discharging this obligation.

Furthermore, we do not agree with the statement made by some Panel Members that without UNC846 a licence change would be required¹⁴ and in any case, we do not consider that avoiding the need for a licence change would have a positive impact on the efficient discharge of the licensee's obligations.

We consider that the proposal will have no impact on RO (c).

(d) so far as is consistent with sub-paragraphs (a) to (c) the 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

We consider that this proposal will have a neutral impact on RO (d).

The Proposer states that "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 [h]as an adverse impact on competition between those shippers who are affected and those who 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."

Some Panel Members viewed that the modification may be positive for RO (d) if it enables Rough to be used more and if other Users get to use it, although they recognised that this

¹⁴ Rough ASEP is part of NGT's Zero Licence Baseline Entry Capacity Table. This means that shippers can acquire non-obligated entry capacity released at Rough. UNC846 proposes a mechanism which would allow users to redesignate existing capacity holdings at Easington for use at Rough. Approval of UNC846 will not lead to obligated capacity being allocated to the Rough ASEP.

outcome is not clear at this stage. Meanwhile, other Panel Members concluded that this modification is negative for RO (d) as it appears to positively discriminate in favour of one party.

The Proposer has been granted an exemption from nTPA requirements until 1 April 2030. However, under the nTPA exemption, the facility owner must make any unused capacity in the exempt infrastructure available to other users or potential users ("capacity allocation mechanism"). In UNC817, we said that we expect CSL to minimise any barriers that may be faced by third parties wishing to use the Rough storage facility should unused capacity be available, to support an efficient and competitive GB gas market. This may include the transfer of existing system capacity.¹⁵ Additionally, in our recent decision on nTPA exemption we said that: "We consider the capacity allocation mechanism in place at Rough to be a key tool to support competition and security of supply. We expect CSL to maintain this mechanism to ensure that it remains fit for purpose, to ensure it is clearly advertised to all third party shippers and to remove any barriers of access to shippers. We will continue to engage with CSL to understand how this mechanism is working in practice and how it can be further improved where necessary".¹⁶

We disagree with the view of some Panel Members that the modification proposal discriminates in favour of one party. While we recognise that the Proposer is likely to be the main party which maintains an interest in the proposed redesignation mechanism, the capacity allocation mechanism is in place to allow any unused capacity in the facility to be made available to other users or potential users and in doing so support competition. In this context, we consider that the inclusion of all NTS Users into the proposal constitutes an improvement relative to UNC817 and can support the more efficient operation of the capacity allocation mechanism.

As mentioned in the UNC817 decision, we remain unconvinced that without the modification the entry arrangements would be damaging to competition but consider that approving UNC846 will remove uncertainty surrounding the charging arrangements at Rough. We also note that in the circumstances under consideration, there is no risk of cross-subsidisation or

¹⁵ Uniform Network Code – Transportation Principal Document Section B5 'Capacity Transfer'.

¹⁶ <https://www.ofgem.gov.uk/publications/modification-centrica-storage-limiteds-exemption-ntpa-rough-gas-storage-facility>

revenue shortfall occurring due to capacity displacement (this is explained in detail in the “Our principal objective and statutory duties” section of our decision). For this reason, we consider that there are no negative impacts on competition arising from UNC846.

Overall, we consider that the proposal has a neutral impact on competition and RO (d).

Our principal objective and statutory duties

The Authority’s principal objective is to protect the interests of existing and future consumers in relation to gas conveyed through pipes and electricity conveyed by distribution or transmission systems.

In recent years, we have assessed a number of modification proposals that would have the effect of increasing the benefits enjoyed by ‘Existing Contracts’ (i.e., long-term entry capacity contracts booked before April 2017 which were grandfathered¹⁷ under Article 35 TAR NC and are subject to a fixed price). Existing contracts are on average significantly cheaper compared to ‘new capacity’ (i.e., entry capacity not protected by Article 35 TAR NC which is subject to a floating price). Protections for existing contracts have led to a dual regime in the GB charging methodology where NTS users face significantly different costs for capacity depending on their access to existing contracts.

In 2021, we rejected modification proposal UNC739¹⁸ which would have allowed some users to use Existing Contracts flexibly across both Bacton UKCS¹⁹ and Bacton IP²⁰ for less than one tenth of the prevailing price. We found that this would have exacerbated the problems caused by existing contracts by increasing their economic value even more relative to new capacity. We also considered that UNC739 could lead to ‘capacity displacement’, namely fewer bookings of new capacity and more utilisation of existing contracts. We found that this would be detrimental for users of new capacity, as any revenue shortfall caused by capacity

¹⁷ In this context, we use grandfathered to mean that the terms of the contract are protected by legislation, and that holders of these contracts should be granted access to capacity under these terms.

¹⁸ UNC739: Aggregate overrun regime for Original Capacity held at the Bacton ASEPs (20 August 2021) <https://www.ofgem.gov.uk/publications/unc739-aggregate-overrun-regime-original-capacity-held-bacton-aseps>

¹⁹ United Kingdom Continental Shelf

²⁰ Interconnection Point

displacement would lead to an increase in the price for new capacity. We concluded that approval of UNC739 would only benefit a few parties at the expense of other NTS parties and gas consumers across GB and for this reason it would be inconsistent with our principal objective and statutory duties.

We confirm that the above-mentioned principles, which were articulated in UNC739, UN817, and other Ofgem decisions, still represent our policy views. As mentioned in UNC817, we also note that in the circumstances under consideration, there is no risk of revenue shortfall to occur due to capacity displacement. The new Rough ASEP is part of NGT's Zero Licence Baseline Entry Capacity Table.²¹ Therefore, any entry capacity released by NGT at Rough will be non-obligated entry capacity. Under the current UNC arrangements, any revenue associated with the sale of non-obligated entry capacity does not contribute towards NGT's recovered revenue but it is redistributed to shippers via the operation of the 'capacity neutrality' mechanism.²²

UNC846 will likely lead to lower sales of new entry capacity at Rough. This would indicate that there is a risk of capacity displacement. However, as noted above, the proceeds associated with the sale of new entry capacity at Rough would not be treated as collected NGT revenue but would be redistributed among shippers. This means that – all else being equal – approval of UNC846 will have no impact on NGT's revenue recovery or the reserve prices paid by other NTS users, meaning that the modification will not lead to cross-subsidisation between NTS users.²³

The Proposer claims that approval of UNC846 will facilitate a number of benefits, such as facilitating physical security on more economic terms while reducing the overall cost of balancing the system. Approval of UNC846 could encourage injections and withdrawals of gas into and from Rough gas storage. Going into Winter 2023/24, we consider that encouraging increased injections of gas into Rough gas storage is in keeping with the interests of

²¹ See <https://www.nationalgrid.com/gas-transmission/document/140401/download>

²² NGT has produced an explanation of these arrangements, which can be viewed at: <https://www.gasgovernance.co.uk/sites/default/files/ggf/2021-12/Determination%20of%20Target%20Revenues%20and%20Recovery%20v0.2.pdf>

²³ However, all else being equal, approval of UNC817 will reduce the cashflow feeding into capacity neutrality and redistributed among shippers.

consumers. We recognise, though, that some uncertainty remains as to whether the effect of UNC846 is material enough to influence operational and commercial decisions at Rough.

On balance, we consider that approving UNC846 is consistent with our statutory duties given that:

- it would not lead to higher reserve prices for other NTS users, given the operation of capacity neutrality mechanism highlighted above; and
- it could encourage increased injections of gas into storage (while we recognise that there is some uncertainty surrounding this point).

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters licence, the Authority hereby directs that modification proposal UNC846: '*Use of Entry Capacity Holdings at Easington at the Rough Storage ASEP in Winter 2023/2024*' be made.

Alsarif Satti

Acting Head of Gas Charging & Access

Signed on behalf of the Authority and authorised for that purpose