

UNC Modification	At what stage is this document in the process?
<h1 data-bbox="134 322 691 414">UNC 0XXX:</h1> <h2 data-bbox="134 450 1134 656">Use of Existing Capacity Holding 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"><b>Purpose of Modification:</b></p> <p data-bbox="129 768 1442 880">This modification proposal will ensure existing 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.</p>	
<p data-bbox="129 927 308 960"><b>Next Steps:</b></p> <p data-bbox="113 983 963 1016">The Proposer recommends that this Modification should be:</p> <ul data-bbox="129 1037 1112 1122" style="list-style-type: none"> <li>• considered a material change and not subject to Self-Governance</li> <li>• assessed by a Workgroup</li> </ul> <p data-bbox="129 1142 1461 1211">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 1283 397 1317"><b>Impacted Parties:</b></p> <p data-bbox="129 1337 568 1370">High: Centrica Storage Limited</p> <p data-bbox="129 1391 738 1424">Low: National Gas Transmission, Shippers</p> <p data-bbox="129 1444 217 1478">None:</p>	
<p data-bbox="129 1523 483 1556"><b>Impacted Codes:</b> None.</p>	

Contents	
<b>1 Summary</b>	<b>3</b>
<b>2 Governance</b>	<b>4</b>
<b>3 Why Change?</b>	<b>4</b>
<b>4 Code Specific Matters</b>	<b>7</b>
<b>5 Solution</b>	<b>7</b>
<b>6 Impacts &amp; Other Considerations</b>	<b>Error! Bookmark not defined.</b>
<b>7 Relevant Objectives</b>	<b>9</b>
<b>8 Implementation</b>	<b>11</b>
<b>9 Legal Text</b>	<b>12</b>
<b>10 Recommendations</b>	<b>12</b>
Timetable	
<b>Suggested Modification timetable:</b>	
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	
Draft Modification Report issued for consultation	
Consultation Close-out for representations	
Final Modification Report available for Panel	
Modification Panel decision consideration	
Modification sent to Ofgem	

 Any questions?

Contact:  
**Joint Office of Gas Transporters**

 [enquiries@gasgovernance.co.uk](mailto:enquiries@gasgovernance.co.uk)

 0121 288 2107

Proposer:  
**Ricky Hill  
Centrica Storage Limited**

 [Ricky.Hill@centrica.com](mailto:Ricky.Hill@centrica.com)

 07789 579169

Transporter:  
**National Gas Transmission**

 email address

 telephone

Systems Provider:  
**Xoserve**

 [UKLink@xoserve.com](mailto:UKLink@xoserve.com)

Other:  
**Nick Wye,  
Waters Wye Associates**

 [nick@waterswye.co.uk](mailto:nick@waterswye.co.uk)

 07900 055144

# 1 Summary

## What

This proposal seeks to extend to Winter 2023/24, the capacity redesignation mechanism introduced by Modification Proposal UNC817 in response to the disaggregation of the Rough facility from the Easington ASEP in August 2022, as a consequence of the resumption of gas storage activities at Rough. The mechanism will enable Centrica Storage Limited (CSL) to redesignate capacity which it holds at the Easington ASEP for use at the Rough storage NTS Entry Point so that it has assurance that it will have sufficient capacity to support withdrawal of stored gas as and when required over the Winter of 2023/24.

## Why

Since the implementation of UNC 817 as a temporary solution to CSL's loss of its ability to use NTS Entry Capacity it holds at the Easington ASEP to support withdrawals from Rough, 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. 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.

If the change 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, it 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.

The proposed solution applies only to Existing Entry Capacity held by CSL at the Easington ASEP, as Rough storage facility benefits from an exemption from negotiated third party access rights and CSL is the only shipper that has any need of capacity at the Rough ASEP.

## How

In respect of the period from 1<sup>st</sup> October 2023 to 31<sup>st</sup> March 2024, CSL will be able to nominate on a monthly basis amounts of its Existing Capacity Holding at the Easington ASEP for use at the Rough Storage ASEP in the following month. The amount so nominated for a Day will:

- (a) be deducted from each of CSL's Fully Adjusted Firm Available NTS Entry Capacity, Existing Registered Holding and Existing Available Holding at Easington ASEP in respect of that Day; and
- (b) constitute its Fully Adjusted Firm Available NTS Entry Capacity at Rough Storage ASEP in respect of that Day (or shall be added to any Fully Adjusted Firm Available NTS Entry Capacity already held by CSL for that ASEP and Day) and be classified as CSL's Existing Registered Holding and Existing Available Holding at Rough Storage ASEP in respect of that that Day.

The effect of this adjustment will be that CSL is able to utilise NTS Entry Capacity it holds at Easington ASEP in respect of Winter 2023/24 to support withdrawals of gas from the Rough Storage ASEP (being the purpose for

which it was originally 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. As the amount nominated for such purposes will be reclassified as Existing Registered Holding and Existing Available Holding for the Rough Storage ASEP instead of the Easington ASEP, there will be no impact on CSL's overall Entry Transmission Services Revenue Recovery Charges and NTS Entry Transmission Services Rebate Charges.

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.

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 CSL's existing Capacity 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 until 31<sup>st</sup> 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 an individual User which would be discriminatory and detrimental to competition.

### Requested Next Steps

This Modification Proposal should:

- be considered a material change and not subject to Self-Governance;
- be assessed by a Workgroup (to include an assessment of possible alternatives) over a period of no more than 3 months.

## 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 is minded to continue operating 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 having to incur the 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 Gas Year. It would not be available as Quarterly NTS Entry Capacity until the beginning of the 2025/26 Gas Year.

Obligated Entry Capacity could in theory be acquired by CSL at Rough on a monthly basis through the Rolling Monthly NTS Entry Capacity auction. However, that CSL would need to surrender surplus capacity it holds at Easington, stipulating a rolling monthly surrender price equivalent to the price at which it expects 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 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, CSL would be competing for the 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 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. Even where NGT 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 – far in excess of CSL's current requirements for capacity at Rough, particularly as 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 a matter entirely within NGT's discretion, and so CSL cannot rely upon acquiring Entry Capacity at Rough over the coming Winter. Even if it was able to acquire capacity on this basis the cost would be additional to the charges it is already paying for capacity acquired to support withdrawals from Rough, but now stranded at the Easington ASEP.

A further option considered by Rough 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)<sup>1</sup>. 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. This was recognised as being the appropriate long-term solution by certain Panel members and by the Authority when considering Modification UNC817<sup>2</sup>.

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 as and when Centrica determines that there is no longer a business case for continuation of gas storage operations at Rough beyond 2024.

---

<sup>1</sup> 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.

<sup>2</sup> Ofgem [UNC817: Treatment of Existing Capacity Holding at Easington on creation of the new Rough Storage ASEP - Decision](#) 27 September 2022



## 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 31<sup>st</sup> 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 May 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 31<sup>st</sup> March 2024 CSL 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 nominated in respect of any Day (the "Redesignated Capacity" for that Day) may not exceed CSL's Fully Adjusted Available NTS Entry Capacity at the Rough ASEP for that Day. The nomination of an amount of Redesignated Capacity for a Day shall have the effect of:

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

Consequently, CSL 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 CSL'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 Redesignated Capacity for a Day was, at the Tariff Regulation Effective Date, CSL's Registered NTS Entry Capacity at the Rough ASEP for that Day. In effect the current UNC taxonomy, whereby a Storage Connection Point must be a separate ASEP, is applied as if it were in force on the Tariff Regulation Effective Date, to the extent necessary to support planned withdrawals from Rough, being the primary purpose for which that Capacity was originally acquired. Consequently, the NTS Entry Capacity Charge for NTS Entry Capacity dedicated by CSL to withdrawals from Rough Storage will be determined in the same way as if that Capacity remained part of its Existing Registered Holding at the Easington ASEP, on the basis of the clearing price or reserve price for the Auction in which that NTS Entry Capacity was

allocated. As the Reserve Price does not apply to the Rough Dedicated Capacity, CSL will not gain any additional benefit from the 80% Specific Discount on that Capacity Charge.

Similarly, the reclassification of Redesignated Capacity as Fully Adjusted Available NTS Entry Capacity and Existing Available Holding at Rough Storage ASEP instead of Easington will have no impact on CSL’s overall Entry Transmission Services Revenue Recovery and NTS Entry Transmission Services Rebate Charges.

As the Rough ASEP is a Storage Connection Point, it will not satisfy the CNCCD Eligibility Criteria and, along with such other Fully Adjusted Firm Available NTS Entry Capacity as CSL may acquire at the Rough Storage ASEP, to the extent that it is nominated as Redesignated Capacity and utilised in support of deliveries at the Rough Storage ASEP, CSL’s Existing Capacity Holding at the Easington ASEP will not be eligible for the CNCC Discount for short-haul deliveries.

**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.

**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.

<b>Impact of the change on Consumer Benefit Areas:</b>	
Area	Identified impact
<p><b>Improved safety and reliability</b></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><b>Lower bills than would otherwise be the case</b></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><b>Reduced environmental damage</b></p>	None
<p><b>Improved quality of service</b></p>	None
<p><b>Benefits for society as a whole</b></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.

### Central Systems Impacts

Implementation of Modification will have no material impact on the central systems. The same processes as were used to implement UNC817 can be redeployed. These involve managing CSL’s monthly nominations and making the consequent adjustment to the values of CSL’s Fully Adjusted Available NTS Entry Capacity, Existing Registered Holding and Existing Available Holding at the Easington and Rough Storage ASEPs.

## 6 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;	Positive

(ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	
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. 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 UNC817 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 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.

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. Reductions in withdrawal costs 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.

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 a User which is subject to a restructuring of an ASEP post acquisition of capacity. Such an outcome would be damaging to competition.

Although the Modification Proposal is specific to CSL it has no adverse impacts on competition. If the Modification Proposal is implemented CSL's current intention is to utilise the full available storage capacity at Rough. Other shippers have not shown any interest in acquiring storage capacity in Rough or transferring Existing Entry Capacity at Easington ASEP to the Rough ASEP. If, over the course of the Winter, it transpires that there is spare storage capacity which CSL is not utilising, any shipper interested in taking advantage of such capacity would be able to bid on a short-term basis for Entry Capacity in the Rolling Monthly NTS Entry Capacity auctions.

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 has significantly less flexibility over how it uses 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 CSL to use capacity that it has already booked (although in a subject to greater restrictions), at the agreed price, without the benefit of those exemptions and benefits. Taking into account this disaggregation of Rough, for reasons that do not apply to CSL's existing capacity holding, the net effect is a reduction, not an increase in the economic value of that capacity.

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 NGG's Zero Licence Baseline Entry Capacity Table.<sup>3</sup> Consequently any entry capacity that NGG did release at Rough would be non-obligated entry and revenue from its sale would not contribute towards NGG's recovered revenue. Instead, it would be redistributed to Users through the 'capacity neutrality' mechanism<sup>4</sup>. Such a redistribution would have the distortionary effect of an economic transfer from the Centrica group to other shippers, adding salt to the wound of the expropriation of CSL's existing 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.

## 7 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 2024 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.

---

<sup>3</sup> See <https://www.nationalgas.com/document/140401/download>

<sup>4</sup> See <https://www.gasgovernance.co.uk/sites/default/files/ggf/2021-12/Determination%20of%20Target%20Revenues%20and%20Recovery%20v0.2.pdf>

## 8 Legal Text

### Text Commentary

The legal text will consist of a simple revision of paragraph 30.4 of the Transition Document Part IIC - Transitional Rules, so that it reads as follows:

National Grid NTS shall:

- (a) commence requesting CSL to notify it if CSL wishes to make a Capacity Redesignation Request on the first rolling monthly surrender date to occur following the date on which the modification implementing this paragraph 30 becomes effective (unless the first rolling monthly surrender date to occur following the date on which the modification implementing the amendment to this paragraph 30 becomes effective relates to April 2024 or later in which case the transitional rule in this paragraph 30 shall lapse);
- (b) cease requesting CSL if it wishes to make a Capacity Redesignation Request after the rolling monthly surrender date which relates to March 2024.

## 9 Recommendations

The Panel is asked to:

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