

UNC Modification	At what stage is this document in the process?
<h1 data-bbox="134 322 655 414">UNC 0878:</h1> <h2 data-bbox="134 450 1091 656">Use of Entry Capacity Holdings at Easington at the Rough Storage ASEP in Winter 2024/2025</h2>	<div data-bbox="1209 309 1465 629"> <div style="border: 1px solid green; background-color: #008000; color: white; padding: 5px; margin-bottom: 5px;">01 Modification</div> <div style="border: 1px solid blue; background-color: #e6f2ff; padding: 5px; margin-bottom: 5px;">02 Workgroup Report</div> <div style="border: 1px solid purple; background-color: #f2e6ff; padding: 5px; margin-bottom: 5px;">03 Draft Modification Report</div> <div style="border: 1px solid orange; background-color: #fff9e6; padding: 5px;">04 Final Modification Report</div> </div>
<p>Purpose of Modification:</p> <p>This Modification Proposal will ensure entry capacity holdings at the Easington Aggregated System Entry Point (ASEP) can be utilised at the Rough Storage ASEP during Winter 2024/25 in the same way as they were during Winter 2022/23 and Winter 2023/24. An enhancement has been proposed to permit any User which secures Rough Storage Capacity can redesignate Easington Entry Capacity to the Rough ASEP.</p>	
<p>Next Steps:</p> <p>The Proposer recommends that this Modification should be:</p> <ul style="list-style-type: none"> • considered a material change and not subject to Self-Governance • assessed by a Workgroup <p>This Modification will be presented by the Proposer to the Panel on 20 June 2024. The Panel will consider the Proposer’s recommendation and determine the appropriate route.</p>	
<p>Impacted Parties:</p> <p>High: Centrica Storage Limited and Rough Shippers</p> <p>Low: National Gas Transmission, other Shippers</p>	
<p>Impacted Codes: None.</p>	

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Timetable		 0121 288 2107
Suggested Modification timetable:		 07789 579169
Pre-Modification Discussed	06 June 2024	Transporter: National Gas Transmission
Date Modification Raised	06 June 2024	 enquiries@gasgovernance.co.uk
Presentation to Panel	20 June 2024	 Ricky.Hill@centrica.com
First Work Group Meeting	04 July 2024	 07789 579169
Workgroup Report to be presented to Panel	18 July 2024	Proposer: Ricky Hill, Centrica Energy Storage Limited
Draft Modification Report issued for consultation	19 July 2024	 Malcolm.Montgomery@nationalgas.com
Consultation Close-out for representations	09 August 2024	 07970 114460
Final Modification Report available for Panel	10 August 2024	Systems Provider: Xoserve
Modification Panel decision consideration	15 August 2024	 UKLink@xoserve.com
Modification sent to Ofgem	15 August 2024	Other: Nick Wye, Waters Wye Associates
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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 Energy Storage Limited (CESL) lost the ability to use NTS Entry Capacity which it holds at Easington ASEP, which was primarily purchased to support withdrawals of gas from Rough, for that purpose. Urgent Modification Proposal UNC 0817¹ - *Treatment of Existing Capacity Holding at Easington on creation of the new Rough Storage ASEP*, 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. These arrangements expired on 31 March 2023. Subsequent to this Modification, Modification Proposal UNC 0846² - *Use of Entry Capacity Holdings at Easington at the Rough Storage ASEP in Winter 2023/2024*, was implemented, replicating the arrangements set out in Modification Proposal UNC 0817, albeit expanding the arrangements to all Users, for the winter period of 2023/24, expiring on 31 March 2024. Consequently, a new solution is required to avoid a repeat of the same problem for winter 2024/25.

Why

If the proposed Modification is not made, CESL will 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, CESL 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 2024/25, will avoid these inefficiencies and give CESL 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.

In line Modification Proposal UNC846, it is intended that the solution can be applied by all Users at the Easington ASEP where capacity in the Rough storage facility is acquired by any User. This is consistent with the expectation that CESL makes unused capacity within the facility available to third parties.

With no end in sight for the hostilities in Ukraine, sanctions against 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 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 Code³. This Modification 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 0817 and UNC 0846, CESL has been engaging with National Gas Transmission (NGT) and Ofgem 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

¹ <https://www.gasgovernance.co.uk/0817>

² <https://www.gasgovernance.co.uk/0846>

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.

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. At this time little progress has been made in advancing this solution meaning that the Modification Proposal is needed to ensure access to long-term capacity holdings maintained at the Easington ASEP.

How

In respect of the period from 01 October 2024 to 31 March 2025, 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 04 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 (06 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 CESL and potentially other Users will be able to utilise NTS Entry Capacity they hold at the Easington ASEP in respect of Winter 2024/25 to support withdrawals of gas from the Rough Storage ASEP (being in CESL'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, and Modification Proposal UNC846 in Winter 2023/24 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 2024/25 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 01 October 2024 until 31 March 2025 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 CESL, 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 CESL 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. If this Modification is not implemented, it will result in inefficiency and additional unnecessary costs being incurred by CESL, or other Users, in the event that CESL 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 on the basis that is an extension of arrangements implemented previously via UNC 0817 and UNC 0846.

3 Why Change?

In July 2022, in light of the continuing gas disruption to the gas market associated with the conflict in Ukraine, CESL 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 CESL an exemption from negotiated third party access obligations for the period up until 30 June 2024. Ofgem directed the exemption was to be extended until 01 April 2030 in its decision published on 27 June 2023.

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 - *Amendments to Gas Transmission Charging Regime (Postage Stamp)*, 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, CESL 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 UNC 0817 was implemented on an urgent basis as a temporary solution to the problem for Winter 2022/23, by allowing CESL, the only shipper that holds storage capacity at Rough, to redesignate an amount of the Entry Capacity held by CESL 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. Subsequent to this CESL raised Modification Proposal UNC 0846 which proposed to extend the arrangements implemented via Modification Proposal UNC 0817 for the period Winter 2023/24. The Modification Proposal was implemented on 25 September 2023.

The hostilities in Ukraine and the potential for instability in the gas market are showing no sign of abatement. CESL intends to operate Rough as a gas storage facility over Winter 2024/25, subject to CESL being able to find a way of acquiring capacity at Rough that gives CESL 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 CESL (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 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 CESL (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.

CESL 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 2024/25 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 CESL 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 CESL 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 CESL is already paying for capacity acquired to support withdrawals from Rough, but now stranded at the Easington ASEP. In the event that CESL 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 CESL 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)⁴. 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).

Although this is the optimal solution with precedent and the Authority’s blessing in its favour, initial feedback from Ofgem is that it is not inclined to support it in this circumstance. In any case, even if it were to be convinced of the validity of a baseline split 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 2024/25.

It is important to re-establish that as with the previous related Modification Proposals 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. As indicated above, there is no instance of any User having acquired Capacity from NGT at the Easington ASEP for Winter 2024/25 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 2024/25. As such, the UNC changes proposed will only be effective until 31 March 2025. Thus, the ability for CESL to nominate the rededication of NTS Entry Capacity in the following month will expire at the end of February 2025.

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 01 October 2024 until 31 March 2025 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

⁴ 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.

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 CESL’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 CESL 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 2024/25 that was acquired before 04 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 CESL.

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

Performance Assurance Considerations

There are no PAC considerations.

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 06 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 UNC 0817, and subsequently UNC 0846 can be redeployed, so that CESL 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.	None
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 Winters 2022/23 and 2023/24 under Modification UNC 0817 and Modification UNC 0846 respectively, up until the end of March 2025, noting that in accordance with Modification UNC 0846 the redesignation mechanism will be available not just to CESL 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 08 September 2022, a majority of the Panel recommended UNC 0817 for approval on the grounds that it would better facilitate the relevant objectives. This was also the case with UNC 0846 at the Panel meeting of 17 August 2023. In deciding to approve the implementation of both UNC 0817 and UNC 0846 the Authority concluded that in its view the Modifications 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 UNC 0817 and UNC 0846, on balance, the implementation of the Modifications was consistent with its statutory duties to protect the interests of existing and future consumers in relation to gas conveyed through pipes.

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 CESL 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 CESL 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.

The Authority notes in its decision on UNC 0846 that it accepts 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.”* In the interests of transparency and to reinforce the assertion that the bookings were made to support the delivery of gas out of the Rough facility, it is the case that CESL’s current entry capacity holding across Winter 24/25 is broadly equal to, or below, the maximum expected withdrawal rate

The capacity holdings are below the historical peak deliverability rate of 455 GWh/d, reflecting the fact that CESL has reduced its capacity requirements to better align with expected needs. As such, based on the evidence it is clear that the entry capacity acquired by CESL was done do for the single purpose of supporting flows from the Rough facility thereby reinforcing the claim that the Modification Proposal better facilitates the achievement of this Relevant Objective.

d) **Securing of effective competition:**

(i) **between relevant shippers;**

Without this Modification, CESL would be denied access to entry capacity it had acquired for the purpose of underpinning withdrawals from Rough. Not only would CESL 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 continuation of the UNC 0846 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 CESL. In line with the Authority decision on UNC 0846 *“the capacity allocation mechanism is in place to allow any unused capacity in the facility to be made available to other users of potential users and in doing so support competition.”* If CESL 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 CESL. 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 UNC 0846 the Authority noted that *“approving UNC 0846 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 revenue shortfall occurring due to capacity displacement.”* In our opinion, the combined effect of maintaining capacity rights for the purpose for which they were originally acquired coupled with permitting all Users access to the proposed capacity allocation mechanism supports the achievement of this objective.

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.

The Authority’s principal objective and statutory duties

In its decisions regarding UNC 0817 and UNC 0846, the Authority stated that approvals of the Modifications were consistent with their statutory duties given that they:

- Would not lead to higher reserve price for other NTS Users, given the operation of the capacity neutrality mechanism; and
- Would encourage increased injections of gas into storage (while we recognise that there is some uncertainty surrounding this point.)

On the basis that this Modification Proposal is an extension of the arrangements of these Modification Proposals we recommend that the same statements apply.

8 Implementation

CESL will need Entry Capacity to support withdrawals from Rough Storage from 01 October 2024. Consequently, the Modification will need to be implemented no later than 01 September 2024 so that CESL 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 are interested in taking up unutilised capacity in Rough would be looking at doing so within similar timescales.

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 2024/25 and so as to extend CESL'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 an expedited assessment.