

Modification proposal:	Uniform Network Code (UNC) 878: Use of Entry Capacity Holdings at Easington at the Rough Storage ASEP in Winter 2024/2025 (UNC 878)
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:	2 September 2024
Implementation date: To be confirmed by the code administrator	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.

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.

On 23 August 2022, CSL (“the Proposer”) raised modification UNC817 which allowed for CSL to redesignate Existing Registered Holdings and Existing Available Holdings at Easington ASEP for use at Rough Storage ASEP. We approved UNC817 on 27 September 2022.⁴ This modification was temporary and ended on 31 March 2023. Therefore, on 4 May 2023, the Proposer raised modification UNC846. While UNC817 applied solely to CSL, UNC846 allowed for all Users to redesignate existing capacity holdings held at Easington ASEP to Rough Storage ASEP. It was proposed the 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.

We approved UNC846 on 15 September 2023.⁵ This modification was also temporary and ended on 31 March 2024. 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 2024/25. We note the representations of CSL made to us across 2024, that the Rough storage facility will operate through Winter 2024/25 however, we also note there remains no certainty about long-term operations of that facility beyond that time.

The modification proposal

On 20 May 2024, the Proposer raised modification UNC878.⁶ As with UNC846, Proposal UNC878 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 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. Given the continued lack of certainty in relation to the long-term operations of the Rough storage facility, it is proposed that this should remain a transitional arrangement and will end on 31 March 2025.

⁴ UNC817: Treatment of Existing Capacity Holding at Easington on creation of the new Rough Storage ASEP – Decision: [Decision on UNC817](#)

⁵ UNC846: Treatment of Existing Capacity Holding at Easington on creation of the new Rough Storage ASEP – Decision: [Decision on UNC846 | Ofgem](#)

⁶ UNC878 - Use of Entry Capacity Holdings at Easington at the Rough Storage ASEP in Winter 2024/2025 <https://www.gasgovernance.co.uk/0878>

UNC Panel⁷ recommendation

At the UNC Panel meeting on 15 August 2024, the UNC Panel voted unanimously to recommend implementation of UNC878. We note the FMR states UNC878 will have a positive impact on the Transporters' Relevant Objectives for (a), the efficient and economic operation of the pipe-line system and (d), securing of effective competition: (i) between relevant shippers.

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 16 August 2024. We have considered and taken into account the responses to the industry consultation(s) on the modification proposal which are attached to the FMR⁸. We have concluded that:

- implementation of the modification proposal will have a neutral impact on the achievement of the relevant objectives of the UNC;⁹ and
- directing that the modification be made is consistent with our principal objective and statutory duties.¹⁰

Reasons for our decision

We consider this modification proposal will have a neutral impact on UNC Relevant Code Objective (RO) (a) and (d).

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

⁷ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

⁸ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at <https://www.gasgovernance.co.uk/>

⁹ 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>

¹⁰ 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 UNC878 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 UNC878 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. We also note that the FMR states 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 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". However, we are of the view that it is not possible to fully 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, UNC878 applies the same solution for Winter 2024/25 as was adopted under UNC846 for Winter 2023/24, up until the end of March 2025.

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 2024/25; and UNC878 is a time-limited arrangement that will come to an end in March 2025. Overall, we consider that this modification has a neutral impact on RO (a). However, as highlighted in our UNC846 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 2024/25.

(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 has 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 CSL.”

The Proposer has been granted an exemption from negotiated Third Party Access (“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.¹¹ Additionally, in our 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”.¹²

As mentioned in the UNC817 decision, we remain unconvinced that without the modification the entry arrangements would be damaging to competition but consider that our previous approval of UNC846 and approval of UNC878 removes 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 (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 UNC878.

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’ (ie long-term entry capacity contracts booked before April 2017 which were grandfathered¹³ under Article 35 TAR NC and are subject to a fixed price). Existing contracts are on average significantly cheaper compared to ‘new capacity’ (ie 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

¹¹ Uniform Network Code – Transportation Principal Document Section B5 ‘Capacity Transfer’.

¹² <https://www.ofgem.gov.uk/publications/modification-centrica-storage-limiteds-exemption-ntpa-rough-gas-storage-facility>

¹³ 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.

methodology where NTS users face significantly different costs for capacity depending on their access to existing contracts.

In 2021, we rejected modification proposal UNC739¹⁴ which would have allowed some users to use Existing Contracts flexibly across both Bacton UKCS¹⁵ and Bacton IP¹⁶ 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 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, UNC846 and other Ofgem decisions, still represent our policy views. As mentioned in UNC817 and UNC846 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. ¹⁷Therefore, 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.¹⁸

UNC878 may 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 UNC878 will have no impact on NGT's revenue recovery or the reserve prices paid by other

¹⁴ 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>

¹⁵ United Kingdom Continental Shelf

¹⁶ Interconnection Point

NTS users, meaning that the modification will not lead to cross-subsidisation between NTS users.

The Proposer claims that approval of UNC878 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 UNC878 could encourage injections and withdrawals of gas into and from Rough gas storage. Going into Winter 2024/25, we consider that encouraging increased injections of gas into Rough gas storage may benefit security of supply in the short term and is therefore in keeping with the interests of consumers. We recognise, though, that some uncertainty remains as to whether the effect of UNC878 alone is material enough to influence operational and commercial decisions at Rough.

On balance, we consider that approving UNC878 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 UNC878: '*Use of Entry Capacity Holdings at Easington at the Rough Storage ASEP in Winter 2024/2025*' be made.

William Duff

Head of Gas Systems & Operations

Signed on behalf of the Authority and authorised for that purpose