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Email: energy.securityofsupply@ofgem.gov.uk

Date: 27 June 2023

Dear Colleague,

Ofgem decision to amend Centrica Storage Limited's exemption to the Acquisition of rights to use storage facilities (section 19B of the Gas Act 1986) for the Rough storage facility.

This letter sets out Ofgem's decision to amend Centrica Storage Limited's ("CSL") exemption to negotiated third party access ("nTPA") granted on 03 August 2022.¹ We have decided, with the consent of the facility owner, to extend the exemption until 01 April 2030.

Background

On 03 August 2022, Ofgem published its decision on CSL's application for an exemption from nTPA for new natural gas storage capacity of up to 59 billion cubic feet ("bcf") until 30 June 2024. The application, submitted on 27 June 2022 and revised on 27 July 2022, was made consistent with section 19A(6) of the Gas Act 1986 (as amended) ("the Gas Act").

Condition D9 of the Exemption Order² states that the Authority may, with the consent of the facility owner, amend the exemption as is consistent with section 19AA(5) of the Gas Act.

¹ <https://www.ofgem.gov.uk/publications/decision-centrica-storage-limiteds-application-exemption-ntpa-rough-gas-storage-facility>

² Ibid.

Reasons for modification of terms

The existing exemption was granted to CSL until 30 June 2024 to allow operations at Rough storage facility to recommence³ to provide a significant increase in gas storage capacity for Great Britain ("GB") for winters 2022/2023 and 2023/2024 and, consequently, promote security of supply. We considered whether it was appropriate to grant an exemption to nTPA for Rough storage facility during that decision process and set out our reasons in the decision document.⁴ We consider that the basis for making that decision has not changed and, therefore, this decision relates only to the appropriateness of modifying the existing exemption.

Since the exemption was granted, CSL has determined a preferred pathway for operations at the Rough storage facility from June 2024 onwards including expansion from current operational capacities to 50 bcf for winter 2023/2024, early development of potential hydrogen storage, and expansion to 120 bcf of (hydrogen-ready) natural gas storage capacity from 2027/2028 onwards. We consider the continued operation of the Rough storage facility beyond June 2024 at operational capacities above 50 bcf up to at least winter 2028/2029, plans to expand capacity to 120 bcf from 2027/2028 and plans to develop the facility to be hydrogen-ready to be beneficial to GB security of supply and net zero. We note that the extension to the current exemption is necessary to allow investment decisions to be made by CSL and to maintain the operational capacities of the storage, and we may reconsider the basis for the exemption and its end date if decisions are not taken to proceed with proposed developments.

CSL states that the level of risk attached to the ongoing investment and operating costs of Rough storage facility are such that if an exemption from nTPA is not available, CSL would not maintain the necessary investment now to continue to operate and repurpose Rough storage facility beyond June 2024, which may also result in minimal gas in storage at the facility during winter 2023/2024. CSL states that current market conditions for the provision of storage services via nTPA would not allow recovery of the operating costs and remuneration of investment, whereas an extended exemption would provide CSL with continued recovery of capital and ongoing operating costs. CSL submitted additional information on the requirement for its exemption to continue until 01 April 2030. They stated that, should they decide not to expand Rough but to close, this period of exemption is needed for them to take operational decisions in order to continue operation of the facility at the higher capacity of up to 54 bcf to winter 2028/2029 and then optimise the withdrawal of remaining gas before potential closure in 2030.

³ Operations at Rough had ceased in 2017.

⁴ <https://www.ofgem.gov.uk/publications/decision-centrica-storage-limiteds-application-exemption-ntpa-rough-gas-storage-facility>

CSL has stated that it will continue to operate the capacity allocation mechanism previously approved by Ofgem, which allows for any unused capacity in the exempt infrastructure to be made available to other users or potential users and subsequent trading of rights to use the exempt infrastructure. 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.

Since the exemption was granted on 03 August 2022, we have not identified any negative impact on the GB gas market. We consider that GB storage is just one element of a diverse gas supply mix to GB, which also includes domestic production, LNG imports and pipelines to Norway and continental Europe.

We have also completed standard analysis used by Ofgem when considering the impact a storage facility may have on the market.⁵ The analysis centres on the deliverability (withdrawal) rate of a facility, as this indicates the power that a market player has to influence the market and, therefore, the gas price on a given day. Analysis completed indicates that Rough storage facility is neither economically nor technically necessary for an efficient gas market, based on the capacity, deliverability and injection rates expected over the period of the modified exemption.

Consequently, we do not consider that the modification to extend the timeframe of the existing exemption will be detrimental to competition, the operation of an economically efficient gas market or the efficient functioning of the pipeline system connected to the facility.

Ofgem considers that the other requirements for an exemption to nTPA granted under 19A of the Gas Act continue to be met. The facility is owned by CSL, which is not a gas transporter who operates or will operate the pipeline system connected to the facility. CSL has confirmed that charges will continue to be levied on users of the facility.

⁵ <https://www.ofgem.gov.uk/publications/guidance-regulatory-regime-gas-storage-facilities-great-britain-version-2>

Final decision

The Authority considers that a modification to the existing Exemption Order should be made to extend the exemption until 01 April 2030, for the reasons set out above. The modified exemption order granted by the Authority can be found at Appendix 1 below.

This document constitutes notice of the Authority's reasons for the decision pursuant to section 38A of the Gas Act.

If you have any questions or comments on the content of this letter, please contact the Energy Security of Supply team at energy.securityofsupply@ofgem.gov.uk.

Yours faithfully,

Dr Adrian Richardson
Head of Energy Security of Supply, ESMS

Appendix 1 – Exemption Order

GAS ACT 1986 SECTION 19A EXEMPTION

Pursuant to section 19A(2) of the Gas Act 1986 ("the Act"), the Gas and Electricity Markets Authority hereby gives to Centrica Storage Limited,⁶ as a person who is an owner of a storage facility, an exemption from the application of section 19B of the Act in respect to the gas storage facility known as Rough located in the United Kingdom Continental Shelf, subject to the attached Schedule.

Dr Adrian Richardson
Head of Energy Security of Supply, ESMS
Authorised in that behalf by the
Gas and Electricity Markets Authority

Dated 03 August 2022
Modified 27 June 2023

Date of change	Change description
27 June 2023	Section C. Period: 30 June 2024 replaced with 01 April 2030

⁶ A company registered in England and Wales with the registration number 03294124.

SCHEDULE
PERIOD, CONDITIONS, AND REVOCATION OF EXEMPTION

A. Interpretation and Definitions

In this exemption:

"the Authority"	means the Gas and Electricity Markets Authority established by section 1(1) of the Utilities Act 2000, as amended from time to time
"the Act"	means the Gas Act 1986 as amended from time to time
"the facility"	the gas storage facility known as Rough located in the United Kingdom Continental Shelf
"facility owner"	means Centrica Storage Limited in its capacity as owner of the facility
"facility operator"	means Centrica Storage Limited in its capacity as operator of the facility
"throughputter"	means any user of the facility

B. Full description of the storage facility to which this exemption relates

The exemption relates to the Rough gas storage facility in the UK Continental Shelf comprising up to 59 billion cubic feet capacity for the duration of the exemption.

C. Period

Subject to Section E below, and pursuant to section 19A(3)(a) of the Act, this exemption shall come into effect on the date that it is issued and will cease to have effect on 01 April 2030 or until it is revoked in accordance with section E.

D. Conditions

Pursuant to section 19A(3) of the Act, this exemption is made subject to the following conditions:

1. That the material provided by the facility owner to the Authority in respect of the exemption is and remains accurate in all material respects.
2. The facility owner notifies the Authority within ten days of the commencement of the commercial operations in respect of the facility.
3. That the facility operator obtains all licences and regulatory approvals that it requires to operate as a storage facility and maintains those licences and approvals throughout the period of this exemption.
4. The facility owner must comply with the capacity allocation mechanism approved by Ofgem in accordance with Section 19DB of the Act. Such measures may be subject to periodic review and approval by the Authority.

5. The facility owner furnishes the Authority in such manner and at such times as the Authority may reasonably require, with such information as the Authority may reasonably require, or may be necessary, for the purpose of:
 - a. performing the function assigned to it by or under the Act, the Utilities Act 2000, or the Energy Act 2004; or
 - b. monitoring the operation of the exemption.
6. The facility owner complies with any direction given by the Authority (after the Authority has consulted the relevant gas transporter and, where relevant, the Health and Safety Executive) to supply to the relevant gas transporter such information as may be specified or described in the direction –
 - a. at such times, in such form and such manner; and
 - b. in respect of such periods, as may be so specified or described.
7. Where the facility owner is prevented from complying with such a direction by a matter beyond its control, it shall not be treated as having contravened the condition specified in this paragraph.

In this condition:

"information"	means information relating to the operation of the pipeline system which is operated by a relevant gas transporter
"relevant gas transporter"	means any holder of a gas transporter licence under section 7 of the Act owning a transportation system within Great Britain to which the facility is connected or with whom the facility operator interfaces with as a system operator

8. Should any of the grounds for revocation arise under section E of this exemption, the Authority may, with the consent of the facility owner, amend this exemption rather than revoke the exemption.
9. The Authority may, with the consent of the facility owner, amend this exemption.
10. This exemption is transferable to another facility owner where the Authority has given its written consent to such a transfer. For the avoidance of doubt, all of the conditions contained in this exemption order continue unaffected in respect of any facility owner to whom this exemption order may be transferred (and as if the transferee was substituted in the definition of "facility owner").

E. Revocation

Pursuant to section 19AA(3) and (5) of the Act, this exemption may be revoked in the following circumstances:

1. The Authority must revoke this exemption if the construction of the facility, or (as the case may be) the making of the modification to which the exemption relates, has not been started within 2 years from the date of this exemption or if the facility, or (as the case may be) the modification to which the exemption relates, is not operational within 5 years from the date of this exemption.
2. This exemption may be revoked by the Authority by giving a notice of revocation to the facility owner not less than four months before the coming into force of the revocation in any of the following circumstances:
 - a. where:
 - i. in the Authority's reasonable opinion there is a material change in the degree to which the requirements of section 19A(8)(a), (c), (d) or (e) of the Act are met with respect to the facility as the result of any action or omission of the facility owner, facility operator or throughputter;
 - ii. in the Authority's reasonable opinion there is a material change in the degree to which the requirements of section 19DB(5), (6) or (7) of the Act are met with respect to the facility as the result of any action or omission of the facility owner, facility operator or throughputter;
 - iii. any of the conditions in paragraphs D1, D2, D3 and D4 above is not (or does not continue to be) fulfilled, and remains outstanding beyond the period specified in the notice;
 - iv. the facility owner has a receiver (which expression shall include an administrative receiver within the meaning of section 251 of the Insolvency Act 1986, as amended from time to time) of the whole or any material part of its assets or undertaking appointed;
 - v. the facility owner has entered administration under section 8 of and Schedule B1 to the Insolvency Act 1986;
 - vi. the facility owner is found to be in breach of any national or European competition laws, such breach relating to the facility;
 - vii. there is merger or acquisition activity in relation to, or by the facility owner, that is detrimental to competition; or
 - b. the facility owner has failed to comply with a request for information issued by the Authority under paragraph D5 above and the Authority has written to

the facility owner stating that the request has not been complied with and giving the facility owner notice that if the request for information remains outstanding past the period specified in the notice, the exemption may be revoked; or

- c. the facility owner has failed to comply with a direction issued by the Authority under paragraph D6 above and the Authority has written to the facility owner stating that the direction has not been complied with and giving the facility owner notice that if the direction remains outstanding past the period specified in the notice, the exemption may be revoked.

- 3. This exemption may be revoked by the Authority with the consent of the facility owner.