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UNC modification proposal UNC0906: 'Cancellation of the March 2025 QSEC Auction at the Milford Haven ASEP' – decision on urgency

On 24 January 2025, Shell Energy Europe Ltd. ("**SEEL**", the 'Proposer') raised Uniform Network Code ("**UNC**") modification proposal UNC0906: '**Cancellation of the March 2025 QSEC Auction at the Milford Haven ASEP**' (hereafter "**UNC0906**")¹ to be treated as an urgent modification proposal. We² received a request from the Joint Office to consider urgency for UNC0906 on 24 January 2025.

This letter sets out our decision that UNC0906 should not be progressed on an urgent basis.

Background

Dragon LNG and South Hook LNG are both LNG terminals connected to the National Transmission System ("**NTS**") at Milford Haven in Pembrokeshire, South Wales. The Milford Haven Aggregated System Entry Point ("**ASEP**") supports flows into the NTS from the Dragon LNG and South Hook LNG terminals. The current Licence Baseline Entry Capacity

¹ <https://www.gasgovernance.co.uk/0906>

² 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.

registered at the ASEP is 950 GWh/d³, which is equivalent to the current aggregate base capacity at the two terminals, namely c.650 GWh/d at South Hook LNG and c.300 GWh/d at Dragon LNG.

On 9 October 2018, South Hook LNG submitted an application to Ofgem for an exemption from regulated third party access ("**rTPA**") for planned incremental capacity at this terminal, which would increase the capability of the terminal by c.163 GWh/d.⁴ This incremental capacity was granted an exemption from rTPA in May 2020⁵ (amended in December 2020⁶). This incremental capacity is expected to become operational before the end of 2025.⁷ This means the aggregate capability to deliver gas into the NTS by the two terminals will be c.1,113 GWh/d and the Licence Baseline Entry Capacity will remain at 950 GWh/d.

On 6 August 2024 National Gas ("**NG**") formally informed Ofgem that NG had ceased developing the Western Gas Network Project. This means that the Licence Baseline Entry Capacity at the Milford Haven ASEP is currently set to remain at 950 GWh/d.⁸

The Quarterly System Entry Capacity ("**QSEC**") auction is a long-term auction held by NG annually, where bidders can bid for Entry Capacity during a 10-day period.⁹ The 2025 QSEC auction is scheduled to take place on 3 March 2025 and firm Entry Capacity will be sold in quarterly blocks for the period from October 2026 to September 2041.¹⁰ The rules governing the QSEC auction are set out in the Transportation Principal Document, Section B, Paragraph 2.2.¹¹

Dragon LNG has indicated that it intends to hold a capacity auction during 2025 for terminal capacity available from 2029 to align with the expiry of contracts for its existing capacity in 2029.¹² The Proposer has stated that they believe if the QSEC auction is not cancelled there is a risk of potential constraints at the Milford Haven ASEP, and that this could undermine prospective Dragon customers' assessment of the value of capacity in the Dragon LNG Facility, potentially jeopardising customers' participation in its auction of terminal capacity. They argue that if Dragon LNG doesn't secure terminal capacity

³ Appendix 1 of Special Condition 9.13 of NG's National Transmission System Gas Transporter Licence <https://www.ofgem.gov.uk/sites/default/files/2023-04/National%20Gas%20Transmission%20Plc%20-%20NTS%20-%20Consolidated%20Special%20Conditions%20-%20Current%20Version.pdf>

⁴ https://www.ofgem.gov.uk/sites/default/files/docs/2020/02/shts_rtpa_exemption_application.pdf

⁵ https://www.ofgem.gov.uk/sites/default/files/docs/2020/05/sht_rtpa_exemption_decision_letter.pdf

⁶ Amended Decision: South Hook LNG Terminal Company Ltd's application for exemption from regulated third party access for additional capacity | Ofgem

⁷ Incremental Capacity Project <https://www.southhooklng.com/about/incremental-capacity-project/>

⁸ <https://www.ofgem.gov.uk/consultation/western-gas-network-funded-incremental-obligated-capacity-reopener-fioc-project-direction>

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

¹⁰ https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fwww.nationalgas.com%2Fsites%2Fdefault%2Ffiles%2Fdocuments%2FQSEC%2520Presentation%25202025_0.pptx&wdOrigin=BROWSELINK

¹¹ [Transportation Principal Document \(Consolidated, printable version\) 16 December 2024.pdf](https://www.ofgem.gov.uk/consultation/western-gas-network-funded-incremental-obligated-capacity-reopener-fioc-project-direction)

¹² <https://www.dragonlng.co.uk/2029capacity>

commitments from prospective Users, its owners may be “forced to the conclusion that it is no longer commercially viable to maintain its operation”.

UNC0906 proposes to cancel the March 2025 QSEC auction at the Milford Haven ASEP and to cancel NG’s ability to enter into long term capacity sales at Milford Haven until after the 2026 QSEC auction. The Proposer expects that, by this time, a solution will have been found that overcomes the potential capacity constraint at Milford Haven ASEP. The Proposer hopes that the outcome of NG’s proposed West Import Resilience Project will result in the delivery of additional entry capacity.¹³

The Proposer considers that this proposal satisfies criteria (i) and (ii) of the urgency criteria.¹⁴ The Proposer states that a failure to cancel the 2025 QSEC auction risks significantly adverse commercial impacts on Dragon LNG and its shareholders, thus meeting criterion (i). The Proposer also states that the potential loss of 300GWh/d of LNG deliverability capability, if Dragon LNG were to decide to close the terminal, could result in a significant impact on the safety and security of both GB’s gas and electricity system, thus meeting criterion (ii).

Our decision

In reaching our decision on urgency for UNC0906 we have considered the evidence presented in the proposal and assessed the request against the urgency criteria set out in our published guidance.¹⁵

Our guidance sets out that an urgent modification should be linked to an imminent issue or a current issue that if not urgently addressed, may cause:

- a significant commercial impact on parties, consumers or other stakeholder(s); or
- a significant impact on the safety and security of the electricity and/or gas systems; or
- a party to be in breach of any relevant legal requirements.

Significant commercial impact

We disagree with the Proposer that the Proposal relates to an imminent or current issue that, if not urgently addressed, may cause a significant commercial impact. The Proposer’s arguments are largely predicated on statements that are not supported by adequate evidence. In its request for urgency, the Proposer states that failing to cancel the QSEC

¹³ https://www.nationalgas.com/sites/default/files/documents/NGT_EJP05_Network_Capability-West_Import_Resilience_Project_RIIO-GT3_EXT.pdf

¹⁴ <https://www.ofgem.gov.uk/publications-and-updates/ofgem-guidance-code-modification-urgency-criteria-0>

¹⁵ <https://www.ofgem.gov.uk/publications-and-updates/ofgem-guidance-code-modification-urgency-criteria-0>

auction could have a significantly adverse impact on Dragon LNG and its shareholders and could risk the potential closure of Dragon LNG's facility. However, the Proposer has not provided adequate commercial or any quantitative evidence or analysis to show how the current situation could lead to the asserted significant commercial impact of commercial non-viability of the Dragon LNG terminal. Furthermore, the Proposer has not described any possible commercial remedies that could have been pursued in the past or could still be implemented in the future or why, in their opinion, these have not been pursued or why it is not now possible for any commercial actions to mitigate the risks alleged to apply to Dragon LNG. For urgency to be justified, the request should provide evidence to demonstrate how an impact may be 'significant', and it is not sufficient for a Proposer to simply state an alleged risk of commercial impact. The commercial impact urgency criterion has therefore not been met, as the potential significant commercial impact has not been evidenced.

Significant impact on the safety and security of the electricity/gas systems

The Proposer states that the potential loss of 300GWh/d of LNG deliverability into the NTS as a result of the potential closure of the Dragon LNG Terminal could have a significant adverse impact on the safety and security on the country's gas system and electricity system. We do not believe the Proposer has provided a sufficiently compelling case, supported by sufficient evidence, for the Proposal to proceed on the basis of urgency. Firstly, the Proposer did not present any analysis to support this statement or outcome, and secondly, the Proposer did not provide evidence that this outcome (should it be realised) would impose a significant risk to the safety and security of the GB electricity and/or gas systems. Therefore, whilst we recognise the importance of LNG to the GB gas system, and that the proportion of LNG to GB's supply mix may increase in the future, we consider that sufficient evidence has not been provided to support that this modification is urgently required to mitigate system safety or security.

Timing

We note that the timetable to be followed by any UNC modification proposal (whether granted urgency or not) needs to ensure, as far as possible, that there is sufficient opportunity for robust analysis to be undertaken and alternative options to be considered. Importantly, this analysis needs to assess whether the proposal facilitates the relevant code objectives better than the status quo, in order that the Panel can make a robust recommendation to us.

An important step in the process is to allow sufficient opportunity for stakeholders to consider and submit views in respect of the modification proposal. We do not believe that expediting the modification process by granting urgency for this proposal would allow

sufficient opportunity for robust analysis to be undertaken nor for other stakeholders to consider and submit their views in respect of the proposal.

We also recognise that there may be other regulatory steps that would be necessary to implement this proposed change, namely implementing a modification of the Entry Capacity Release Methodology Statement. Although certain flexibility may be allowed under NG's National Transmission System Gas Transporter Licence¹⁶, the timescales required by this urgency modification proposal may not allow for a reasonable and transparent process to be followed.

Given that the timetable to be followed by the Proposal does not sufficiently provide for the above steps to be taken, we therefore do not consider it appropriate that this modification proposal should be treated as urgent.

For the avoidance of doubt, in making our decision on whether to grant the modification proposal urgent status, we have made no assessment of the merits of the proposal and nothing in this letter in any way fetters our discretion in respect of the proposal.

Yours sincerely,

Dr Adrian Richardson

Deputy Director of Energy Markets & Security

Duly authorised on behalf of the Authority

¹⁶ Special Condition 9.18.16 of NG's National Transmission System Gas Transporter Licence grants Ofgem a broad derogation through which the licensee can be relieved of "any of its obligations under this condition". This could include the requirement to consult on amendments for at least 28 days, or the inclusion of an Independent Examiner report.