



Making a positive difference  
for energy consumers

Greg McKenna  
Centrica Storage Limited  
1st Floor, 20 Kingston Road  
Staines-upon-Thames  
Middlesex  
TW18 4LG

Direct Dial: 0207 901 7331  
Email: Frances.Warburton@ofgem.gov.uk

Date: 15 December 2016

Dear Greg

**Direction pursuant to Annex 11 of the Rough Undertakings in relation to Centrica Storage Limited's proposed market consultation process for its application to reduce Minimum Rough Capacity and Additional Space for the 2017/18 Storage Year**

On 12 December 2016, pursuant to paragraph 2.11 of the Rough Undertakings (the Undertakings), Centrica Storage Limited (CSL) submitted an application to reduce Minimum Rough Capacity (MRC) and Additional Space (AS) for the 2017/18 Storage Year. This included a proposal for a market consultation process on CSL's application.

In this letter, we<sup>1</sup> direct CSL's consultation on their application to reduce MRC and AS to be carried out as outlined in the proposal submitted on 12 December 2016. To give market participants sufficient time to review CSL's application, we recommend the consultation period be extended to six weeks. By directing the consultation process Ofgem is not approving nor giving any indication as to whether we will approve the contents of CSL's application.

**The Adjustment Mechanism for Minimum Rough Capacity and Additional Space**

The Rough Undertakings place an obligation on CSL, the operator of Rough, to offer for sale a minimum amount of capacity (Obligated Capacity) before the start of each storage year. This Obligated Capacity is made up of MRC and AS. The Undertakings also restrict the amount of this capacity that can be sold to Centrica.

In May 2016, following a review<sup>2</sup>, the Competition and Markets Authority (CMA) varied the Undertakings to introduce an Adjustment Mechanism for the Obligated Capacity. The Adjustment Mechanism allows Ofgem to increase or decrease either MRC or AS or both on the basis that there has been, or may be expected to be, a substantial change in Rough Capacity which may be expected to affect the next, or subsequent, Storage Years. The Undertakings also require that:

- the sum of the varied MRC and AS must be at least the Maximum Technical Storage Capacity of space which can be calculated in advance of the Storage Year; and
- the allocation between MRC and AS must be an appropriate offer for CSL's customers.

---

<sup>1</sup> References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document to refer 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.

<sup>2</sup> <https://www.gov.uk/cma-cases/rough-gas-storage-undertakings-review>

To apply for a variation to the Obligated Capacity, CSL must submit an application with sufficient evidence to allow for consideration of its request. The application must also include a proposal for a market consultation process whereby market participants can provide their views on the application and express whether Ofgem should approve the application.

### **CSL's application and proposed market consultation**

On 12 December 2016, CSL submitted an application to reduce the Obligated Capacity for the 2017/18 Storage Year only on the basis that there has been, or may be expected to be, a substantial change in Rough Capacity.

This application included a proposal for a market consultation in line with the requirements of Annex 11 of the Undertakings. Key elements of the proposal include:

- five week consultation period
- publication on CSL's website/STORIT system
- option for responses to be submitted to CSL or directly to Ofgem.

### **Our decision**

We direct CSL's consultation on their application to reduce MRC and AS to be carried out as outlined in the proposal submitted on 12 December 2016. To give market participants sufficient time to review CSL's application, we recommend the consultation period be extended to six weeks. By directing the consultation process Ofgem is not approving nor giving any indication as to whether we will approve the contents of CSL's application.

### **Next steps**

The consultation will be published on CSL's website<sup>3</sup>. Responses can be sent to [CSL.Consultations@centrica-sl.co.uk](mailto:CSL.Consultations@centrica-sl.co.uk) or directly to [Rough@ofgem.gov.uk](mailto:Rough@ofgem.gov.uk).

Respondents to the consultation are invited to provide their views on CSL's proposed approach to consulting on scenarios in addition to the identification of a substantial change in Rough capacity and the proposed levels of MRC, AS and Specified Capacity<sup>4</sup>.

CSL will provide all responses to us and we will review all consultation responses before making a final decision on the level of MRC or AS.

If you have any questions please contact my colleague Edward Freeman ([Edward.Freeman@ofgem.gov.uk](mailto:Edward.Freeman@ofgem.gov.uk)/0207 901 3121).

Yours sincerely,

**Frances Warburton**

**Partner, Energy Systems Integration**

---

<sup>3</sup> <http://www.centrica-sl.co.uk/regulation/consultations>

<sup>4</sup> The restriction on the amount of capacity that can be sold to Centrica.