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for energy consumers

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Dear Greg

### **Decision to approve Centrica Storage Limited's application to reduce Minimum Rough Capacity and Additional Space to zero for the 2017/18 Storage Year**

The Rough Undertakings (the Undertakings) place an obligation on Centrica Storage Limited (CSL), the operator of the Rough gas storage facility, to offer for sale a minimum amount of capacity (Obligated Capacity) before the start of each storage year. The Obligated Capacity is made up of Minimum Rough Capacity (MRC)<sup>1</sup> and Additional Space (AS)<sup>2</sup>. The Undertakings also restrict the amount of this capacity that can be sold to Centrica.

On 28 February 2017, pursuant to paragraph 2.11 of the Undertakings, CSL submitted an application to reduce MRC and AS to zero for the 2017/18 storage year on the basis that there has been a substantial change in Rough Capacity.

In this letter, we<sup>3</sup> approve CSL's application.

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

In May 2016, following a review<sup>4</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. 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.

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.

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

There have been a number of operational issues at Rough over the past year. Injection into the facility has been suspended since a technical issue was identified in June 2016. Withdrawal has been partially available this winter for gas put in store prior to June 2016.

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<sup>1</sup> 455 million SBUs. SBUs are the standard bundled units of gas storage at Rough, comprising a fixed ratio of injection, space and withdrawal. CSL can apply to Ofgem to sell a proportion of MRC as non-SBU products.

<sup>2</sup> 1.534 TWh of space over and above MRC. The sum of MRC and AS must not exceed 31.834 TWh.

<sup>3</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>4</sup> <https://www.gov.uk/cma-cases/rough-gas-storage-undertakings-review>

CSL are in the process of testing all wells to assess whether they can safely return to injection operations<sup>5</sup>.

On 12 December 2016, CSL submitted an application<sup>6</sup> to vary the Obligated Capacity on the basis that there had been a substantial change in Rough capacity. Due to the ongoing well testing programme at Rough, there was uncertainty about Rough's maximum technical capacity for the 2017/2018 storage year. To manage this uncertainty, CSL's application set out a range of capacity scenarios based on different numbers of wells being available for operation. The application included a scenario in which no wells would be available for operation. In this scenario, CSL proposed that the Obligated Capacity should be zero.

CSL planned to update their application with a specific MRC and AS on or before 28 February 2017. This date was selected to enable the Obligated Capacity to be set based on the maximum amount of well test results, whilst allowing sufficient time for the sales process to be conducted in advance of the storage year.

CSL launched a consultation on its application on 16 December 2016. The consultation closed on 27 January 2017.

### **Consultation responses**

Six market participants responded to CSL's consultation. Respondents generally agreed with CSL's proposed approach to setting the Obligated Capacity based on Rough's expected physical capabilities. Issues discussed included providing the market with certainty regarding Rough's expected capacity for the upcoming and future storage years, the level of risk faced by CSL and customer compensation. No respondents commented directly on or objected to the scenario in which Obligated Capacity is reduced to zero.

### **CSL's updated application**

On 28 February 2017, CSL submitted an updated application in accordance with Annex 1, paragraph 2 of the Undertakings. The updated application proposed that MRC and AS should be set to zero for the 2017/2018 storage year. This was a scenario in the original application and consultation. We therefore considered it to be a non-material change to CSL's original proposal which did not require a new consultation.

The updated application explained CSL's decision that it cannot safely commence injection operations at the start of the 2017/18 storage year. The basis for this decision included the results of the ongoing well testing programmes, and a review with its independent technical advisers<sup>7</sup>. CSL expects to complete the testing programmes and determine whether further works are necessary in order to commence safe injection operations by 30 June 2017<sup>8</sup>. A further update to the market will be provided at this time.

The updated application therefore proposed that the Maximum Technical Storage Capacity of space in Rough that can be calculated in advance of the storage year is zero. As such, CSL requested that MRC and AS are both set to zero. CSL also noted that they had commenced negotiations for the mutual release of rights and obligations associated with existing 2017/18 SBU bookings.

The updated application did not propose to adjust the restrictions on Centrica's access to Rough capacity ahead of the storage year. As no capacity was proposed to be made available ahead of the storage year, no change was deemed necessary. Centrica has

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<sup>5</sup> The six wells on the 47/8A installation have been permanently withdrawn from operation.

<sup>6</sup> [https://www.ofgem.gov.uk/system/files/docs/2016/12/covering\\_letter\\_for\\_centrica\\_storage\\_limiteds\\_application\\_to\\_reduce\\_minimum\\_rough\\_capacity\\_and\\_additional\\_space.pdf](https://www.ofgem.gov.uk/system/files/docs/2016/12/covering_letter_for_centrica_storage_limiteds_application_to_reduce_minimum_rough_capacity_and_additional_space.pdf)

<sup>7</sup> For more information, see CSL's REMIT notification 2017-23A: <http://www.centrica-sl.co.uk/regulation/remit/2017-23a>

<sup>8</sup> In the original application, CSL identified 15 May 2017 as the last date on which CSL could return to injection operations and still offer capacity in SBUs.

unlimited access to Rough capacity sold during the storage year. CSL proposed to provide additional ex post reports detailing any capacity purchases by Centrica for the 2017/18 storage year.

The updated application also set out CSL's analysis of compliance with other requirements in the Undertakings.

### **Independent Advisers**

Annex 11 of the Undertakings requires CSL to appoint one or more independent advisers to advise Ofgem on the merit and accuracy of CSL's application. CSL appointed Axis Wells Technology (Axis) and Genesis Oil and Gas Consultants Ltd (Genesis). Axis and Genesis have provided independent review of CSL's application with a focus on asset integrity and capacity modelling, respectively.

### **Ofgem decision**

Having reviewed CSL's updated application, and taking into consideration the consultation responses and input from the independent advisers, we approve CSL's application to reduce MRC and AS to zero for the 2017/2018 storage year. We make this decision on the basis that CSL has provided sufficient evidence, which has been verified by the independent advisers, that the Maximum Technical Storage Capacity of space in Rough that can be calculated in advance of the storage year is zero.

We note that any Rough capacity that becomes available during the 2017/2018 storage year will be sold as Incremental Capacity<sup>9</sup> or Further Additional Space<sup>10</sup>. We expect this capacity to be offered to the market as it becomes available in a non-discriminatory and transparent manner, in accordance with the Undertakings and other relevant legislation. We will monitor the sale of capacity within the storage year including CSL's proposed ex post reports on Capacity purchased by Centrica.

We also note consultation respondents' concerns regarding certainty for the market about Rough's capacity going forward. This reduction to Obligated Capacity only applies to the 2017/18 storage year. In the absence of another application, the Obligated Capacity will return to the default level in the Undertakings for the 2018/19 storage year<sup>11</sup>. We expect any future application to vary the Obligated Capacity to address these concerns raised by market participants.

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

Yours sincerely,

Emma Kelso  
**Partner, Wholesale Markets**

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<sup>9</sup> Capacity which is incremental to MRC, AS and Further Additional Space.

<sup>10</sup> The first 0.59 TWh of space sold during the storage year.

<sup>11</sup> 455 million SBUs of MRC and 1.534 TWh of space.