

Eleanor Warburton
Director, Energy Systems Management and Security
Ofgem
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14 June 2024

Dear Eleanor,

Annual report on independent operation of Rough storage facility

Please find attached the annual report against the requirement in the Gas Act 1986 relating to the independent operation of Rough gas storage facility. This report, which covers the period from Rough reopening in September 2022 to the end of December 2023, will be published on the CES+ website.

Yours sincerely,



Martin Scargill
Managing Director
Centrica Energy Storage +

ANNUAL REPORT ON THE INDEPENDENT OPERATION OF ROUGH GAS STORAGE FACILITY

Background

Centrica Energy Storage Limited (“**CES+**”) operates the Rough gas storage facility in the Southern North Sea and the Easington onshore gas processing terminal in East Yorkshire. CES+ is 100% owned by Centrica plc. After a period of non-operation as a storage facility from 2017, Rough was reopened in September 2022.

The operation of gas storage is subject to a number of legal requirements from the 1986 Gas Act (“**Gas Act**”), and retained EU legislation including the third Gas Directive 2009/73. In particular, the Gas Act was modified to reflect these requirements (sections 8R and 8S) and includes the relevant clauses on independent operations and, where applicable and subject to all relevant exemptions, the obligation to provide third party access to gas storage facilities.

This legislation means that certain aspects of gas storage are overseen by Ofgem who monitor the activities involved with storage system operators in Great Britain.

Ofgem issued guidance on the regulatory regime for gas storage facilities in Great Britain during December 2011. Revised guidance was later published by Ofgem on 24 September 2015. The 2015 guidance therefore sets out Ofgem’s current views on certain issues relating to third party access, provides guidance on the requirements of unbundling and the management of commercially sensitive information, and summarises Ofgem’s powers to monitor and enforce compliance.

As part of the discussions to reopen Rough in storage mode in 2022, to enable the storage facility to be economically viable against the backdrop of uncertain market conditions, Centrica requested an exemption from the normal requirement to provide third party access. This was granted by Ofgem in its decision of 3 August 2022.¹ Following a further application by Centrica associated with the expansion of capacity, the exemption was modified, and the period was extended to 1 April 2030.² This exemption means that parts of the 2015 guidance are currently not relevant to operation of the Rough facility.

However, the clauses in the Gas Act in Section 8R(6) and 8R(7) which require CES+ to establish and then monitor compliance with an Independence Programme are still relevant. This requires CES+ to ensure that senior officers, other officers, managers and employees do not cause CES+ to:

- 1) discriminate against persons who are not affiliates of CES+; or
- 2) breach any of the restrictions on information disclosure or use.

This annual report is being issued in compliance with Section 8R(7).

¹ [Decision on exemption to Acquisition of rights to use the Rough gas storage facility \(ofgem.gov.uk\)](#)

² [Decision to modify exemption held by CSL for Rough storage facility \(ofgem.gov.uk\)](#)

Approach to compiling the independence report

CES+ appointed an independent third party specialist, Henderson Loggie LLP (“HL”), to assess practices at CES+ during the period to 31 December 2023 (“**reporting period**”) and evaluate these against the requirements of the Gas Act.

This report has also allowed CES+ to finalise its internal documentation regarding independent operations where HL have made a number of detailed proposals for both improving implementation and clarifying elements of the Independence Programme. As a result of this exercise a revised and updated Independence Programme has been put in place and issued to CES+ and other relevant Centrica employees as recommended by HL.

This review also documented the monitoring and testing necessary to ensure systems, procedures and controls are dealing effectively with the obligations on CES+ under Regulations 8R and 11C of the Gas Act. HL’s report also referenced work performed by Centrica’s Internal Audit function as part of its review and testing. This included reviewing the work undertaken, the results and conclusions reached, and any remedial action planned or taken.

HL communicated directly with CES+ board members, senior management and relevant compliance and regulation teams to discuss risks and controls particularly in the areas of staff training, physical separation and access, IT systems access, data confidentiality and appropriate managerial and operational separation.

The approach focused on areas of independent operation, provisions in place to prevent discrimination against non-affiliates and provisions in place to prevent improper disclosure or use of information. HL’s overall conclusions were as follows.

CES+ has developed an appropriate Independence Programme for compliance with the relevant Regulations. However, as noted in the Appendix to this report, some aspects of the Independence Programme are not yet operating in practice, and an assurance framework is needed to monitor compliance with the controls and measures set out in the Independence Programme. A process also needs to be put in place...to prepare the annual compliance report for publishing and providing a copy to Ofgem.

Independence of storage facilities (Regulation 8R)

CES+ is a legally separate subsidiary, 100% owned by Centrica plc. CES+ is licensed to operate Rough as a storage facility and also to continue to produce indigenous gas on behalf of its subsidiary, Centrica Offshore UK Limited, when nominated.

CES+ is in no way involved in the supply or sale of gas or in the production of gas for any other purpose. The exemption from the nTPA arrangements is in place and at present the Rough facility is only used by the Centrica group, albeit there is an ability for third parties to make enquires about use of any available surplus storage capacity.

CES+ has a separate board which is responsible for CES+ activities including high level operational performance, financial performance, risk management and compliance with regulatory and other legislation. The Board of CES+ consists of Martin Scargill (Managing

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Director of CES+), Trine Thompsen (Finance Director of CES+) and Raj Roy (Centrica Group General Counsel and Company Secretary).

All CES+ board members hold directorships in other Centrica group entities however one director, pursuant to Centrica's approach to governance and oversight, is also a director of a group entity involved in the procurement, supply and sale of gas to residential and commercial customers. In these circumstances, the provisions of Section 8R(4)(b) apply whereby CES+ must maintain procedures to ensure that Rough storage facility is operated independently of that interest in the affiliate. In particular, this requires a transparent decision-making process from the CES+ board and the exercise of specific professional judgement in the performance of directors' duties in terms of consistency with the requirements of the Gas Act. In this context HL have proposed that a formal Terms of Reference document for the CES+ Board is established.

In the period to December 2023 the CES+ board met twice annually, and detailed minutes are maintained to document key decisions made to demonstrate that strong, effective governance is in operation and that the independence requirements are being met. In addition to the board meetings, certain CES+ directors are present at regular group wide meetings on financial performance, risk and controls. Whilst these meetings include representatives from various group divisions, including Centrica Energy, the information discussed is not of a commercially sensitive nature within the context of Regulations 8R and 11C. HL have recommended that a specific risk register for CES+ board is established, and this has been implemented via the existing CES+ risk management process.

A group wide Delegation of Authority is in place setting out limits which apply to operating spend on the facility. The managing director of CES+ has an authority limit to allow the storage asset to be operated and managed independently, however major capital investment decisions are ultimately taken at group level as there is a need for the wider group to prioritise and approve major capital projects.

CES+ has an intra-group arms length storage services contract in place with Centrica Energy ("CE"), another Centrica Group entity which is Centrica's energy trading business. This governs the injection, storage and withdrawal of gas at Rough by CE. The contract covers, amongst other things, pricing and how third-party access works for CE capacity that is unused. The contract also includes detailed confidentiality provisions applying to both parties.

During the reporting year and since the reopening of the facility, CE has used the available storage capacity in full. This is also the expected outcome for 2024-25. In the event that capacity can be released to other parties, CES+'s website page allows for third parties to enquire about available storage. These enquires will be used to communicate to market participants if and when any capacity becomes available. The decision to release storage capacity to third parties will be made by the managing director of CES+ based on CE's view of its intended use of the capacity and any other relevant information.

There is clear managerial and operational separation of the Operations team of CES+ from CE. CES+ provides all technical, performance and availability data about the asset to Centrica Energy, who make operational decisions, and then provide nominations to the operations control room in line with the storage services contract.

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CES+ also receives shared services support from the wider Centrica group in areas such as finance, procurement, HR, legal and other corporate affairs. There is no formal agreement such as a managed services contract in place, however, there is a documented pricing strategy for cross-entity charges based on metrics such as EBITDA and headcount.

Provisions in place to prevent discrimination against non-affiliates (Regulation 8R)

Centrica Group has a wider Code of Conduct (“**Our Code**”) which all CES+ employees, and employees of affiliated Centrica entities must adhere. This document underlines that for certain businesses within Centrica, commercially sensitive information and customer data is to be maintained separately from the rest of Centrica Group. Subsequent to this, the Independence Programme document sets out prohibitions on disclosure of commercially sensitive information between CES+ and the rest of the Centrica Group, and on non-CES+ employees within the Centrica Group soliciting or making use of commercially sensitive information relating to CES+ storage activities.

Even though CES+ does not in the ordinary course of business, deal with third parties, this framework ensures that non-affiliates are not discriminated against in any way. The Our Code document also sets out the seriousness with which any breaches of the Code would be treated. Additional requirements on CES+ employees and other individuals are set out in the Independence Programme document.

Adherence to Centrica policies is key to CES+ meeting its obligations under the relevant regulations and training is provided to colleagues at the induction stage and through annual refresher training. An additional eLearning training programme “Introduction to CES+ REMIT and Unbundling Obligations” has been developed to ensure that regular and timely training is undertaken on CES+ business separation. This also deals with how commercially sensitive information should be handled.

Awareness of, and compliance with, Our Code is formally confirmed with the senior management team on a quarterly basis and with all other employees annually through signing formal declarations. As part of their work, HL recommended a number of improvements to the implementation of training programme, which will be implemented in the next reporting period. This included keeping of records in this area and the content of training programmes.

Prevention of improper disclosure or use of information (Regulations 8R & 11C)

CES+, and Centrica more widely, adhere to a documented policy for handling inside information to comply with the obligations under REMIT, the legal and regulatory framework for preventing wholesale energy market abuse. A further REMIT Assessment Procedure is in place setting out how relevant information on gas storage outages is assessed under REMIT and to ensure that it is always published using REMIT bulletins on the official REMIT channel.

This ensures that all market participants have access to price sensitive information at the same time and that non-affiliates are not discriminated against. REMIT for gas storage is dealt with by the Operations Team in the control room at Easington to ensure that the commercial team does not have access to confidential information that is not available to other market participants. HL recommended that a Designated Persons list should be maintained setting

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out the individuals in the wider Centrica Group to whom information could be disclosed by CES+ employees.

Physical access to the operational site at Easington is strictly controlled. The site security protocols in place ensure that access to the site is restricted to those who have a genuine and necessary requirement to do so. CES+ employees who are not based at the operational site work from office premises in Hessle, or from home under a flexible/hybrid working policy. Whilst it is possible for employees from other areas of Centrica to work from the Hessle office, CES+ employees operate out of a designated, access-controlled area which are not available for desk booking by non-CES+ employees.

CES+ key IT systems and confidential information sits within the Centrica group's robust IT security and control environment. Access to CES+ systems and commercially sensitive information is governed through access permissions via the "Workday" HR system. There is a process for line managers to request access to programmes and databases on employee and contractor roles and this is subject to a formal review and sign off process. Movers and leavers are also managed through Workday based on action instigated by line managers. There are HR and IT controls and checks in place to ensure that access rights remain appropriate and that all starters, leavers and movers have been properly dealt with via Workday.

HL recommended that consideration should be given to developing a periodic assurance review programme to ensure that access to CES+ areas is restricted to those who require it. This will be considered for the next reporting year.

Conflicts of interest

HL's report identified a number of potential conflicts of interests that required careful management relating to management structures, central support services and staff transfers of concern (being those instances where individuals transfer from CES+ to other business areas).

However, they confirmed that their interviews with directors and senior management have not identified any actual instances of conflict of interest however some areas such as the staff transfer process and designated persons could be enhanced and that documentation could be improved to evidence the assessment undertaken by the business. This is an area that Centrica will follow up in the next reporting year.

Summary

This report sets out CES+ compliance with the requirements of the Gas Act in Sections 8R and 11C relating to its independence and the disclosure of confidential information. This first year of operation has been, to some degree, transitional as new structures are still in the process of being developed and very little information relating to third parties has come into consideration as, to date, as all capacity has been used by Centrica Energy. We are satisfied that the appropriate safeguards commensurate to the activities and risks of CES+ are in place to ensure that the core objectives of the Gas Act as regards the operation of a storage facility are attained. However, we also recognise that this process has allowed Centrica to both evaluate performance and to update elements of its Independence Programme in the longer term. We will seek to make improvements going forward particularly in terms of an ongoing assurance framework to monitor compliance.

**Centrica Energy Storage +
June 2024**