Representation - Draft Modification Report UNC 0607

Amendment to Gas Quality NTS Entry Specification at the St Fergus NSMP System Entry Point

Responses invited by: 5pm on 09 November 2017

To: enquiries@gasgovernance.co.uk

Representative:	Phil Hobbins
Organisation:	National Grid NTS
Date of Representation:	7th November 2017
Support or oppose implementation?	Support
Relevant Objective:	**a)** Positive **d)** Positive

Reason for support: Please summarise (in one paragraph) the key reason(s)

Based on the Proposer's submissions to the 0607 Workgroup and our own analysis, National Grid NTS believes that implementation of this proposal, together with the subsequent amendment of the associated Network Entry Agreement (NEA), would facilitate the continued flow of gas from certain UKCS fields to enter the NTS via the NSMP sub-terminal at St Fergus. We consider that implementation of this proposal is likely to represent the most economic solution to the issue raised by the Proposer and is unlikely to result in any downstream party being exposed to a wider gas quality specification than is the case today. We agree with the Proposer that implementation is expected to better facilitate relevant objectives (a) and (d).

Relevant Objectives

Based on the Proposer's submissions, our views on the proposal's effect on the Relevant Objectives are as follows:

(a) Economic and efficient operation of the NTS

We believe that implementation would further the economic and efficient operation of the NTS by mitigating the risk of disruption to flows of UKCS gas that enter the NTS via the NSMP terminal and avoidance of the premature closure of certain UKCS offshore fields that feed into the offshore FUKA pipeline. It should also serve to prolong the useful life of our existing assets for gas transportation, as well as those operated by other parties offshore.

We would also note that:

- The carbon cost assessment in the Draft Modification Report indicates that the lower cost option and least impact in terms of overall CO_2 emissions would be to implement this proposal rather than install CO_2 removal plant;

- Implementation would enable the Proposer to avoid the cost of blending gas; and

- We have not identified any material increase in NTS operational costs as a result of implementing the Proposal.

Therefore, we are satisfied that implementation of this proposal represents the least cost option.

d) Securing effective competition between shippers and suppliers

We believe that implementation of this Proposal would maintain the economic viability of flows of gas from certain UKCS fields and manage the risk of interruption of those supplies. We would expect it to result in a greater quantity of gas from a greater diversity of supply sources to be available to the GB market compared with non-implementation, which should serve to enhance effective competition between shippers and suppliers.

Whilst a CO_2 limit of 5.5mol% is materially higher than that in place for CO_2 at any other NTS System Entry Point, we have not identified any detrimental impact on competition arising from implementing this proposal at this time because no other NTS entry party has to date indicated a need for an equivalent limit. We do however believe that competition could be negatively impacted, and our ability to comply with certain Licence obligations compromised, if such requests were to be made that we were unable to accommodate concurrently with this level of flexibility for NSMP. Whilst the Proposal addresses this possibility, we recognise that it introduces a degree of uncertainty and we are therefore currently consulting the industry separately about the change process for gas quality limits in NEAs.

We believe that competition between shippers and suppliers could also be negatively impacted if NSMP's right to deliver gas at up to 5.5mol% were to apply without a demonstrated need-case because it could act to prevent other parties from having access to an elevated CO_2 limit. Whilst the Proposer has demonstrated such a case in this Proposal, this need is likely to no longer be present by 2024 when the Rhum gas field is expected to cease production. We consider that the time-limited nature of the proposal and mechanism for extension adequately addresses this competition concern.

(b) Coordinated, efficient and economic operation of combined pipeline systems

Our flow modelling completed during the workgroup development phase showed that we do not expect gas deliveries at the NSMP System Entry Point with higher CO_2 content to have any material impact on cross border flows through interconnectors to Belgium and Ireland.

(g) Compliance with Regulation (EC) 715/2009 and any relevant legally binding EC / ACER decisions

We do not believe that there are any compliance issues with this regulation or other legally binding EU decisions. We note that the CO_2 limit sought by this Proposal exceeds

the CO_2 limits contained in the current version of the European standard on gas quality EN 16726 and that the EC has signalled its intention to revisit gas quality harmonisation upon the conclusion of CEN's ongoing efforts to harmonise Wobbe Index, which we currently expect to be around 2020. This should not in our view affect the case for implementation of the 0607 Proposal. If future EU wide regulation is introduced for gas quality – and if it is determined that GB should implement such regulation – we would seek to address this with industry parties at that time.

We have not identified any effects of this Proposal on the three remaining Relevant Objectives:

(c) Efficient discharge of the licensee's obligations

(e) Incentives to secure domestic customer supply security standards

(g) Efficient implementation and administration of the UNC.

Self-Governance Statement: *Please provide your views on the self-governance statement.*

N/A. Panel determined it should be Authority Direction

Implementation: *What lead-time do you wish to see prior to implementation and why?*

National Grid NTS does not have any particular lead-time requirement for implementation. Following an Ofgem direction to implement, we would expect to make the necessary changes to the NEA with NSMP as soon as reasonably practicable and notify the industry once execution had taken place pursuant to UNC TPD section I2.2.6.

Impacts and Costs: *What analysis, development and ongoing costs would you face?*

We have not identified any material additional costs for National Grid NTS associated with implementing this Proposal.

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution?*

Since this is a Modification which enables an NEA change, we agree that no UNC legal text is required.

We believe that the suggested text to modify the NEA appropriately reflects the intent of the Proposal.

Are there any errors or omissions in this Modification Report that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

Delete the following text on page 4:

~~"Modification 0607S is currently following self-governance procedures. However, the workgroup has considered the modification proposal at length and has come to the conclusion that the proposal should be subject to Authority Direction."~~

~~Requested Next Steps~~

~~The Workgroup now requests that Panel:~~

- ~~Re-assess whether self-governance procedures are suitable for this modification; and~~
- ~~Subsequently issue the report to consultation.~~

Replace with:

"Modification 0607 was following self-governance procedures until the completion of the Workgroup Report. At the October 2017 Panel meeting, Panel agreed with the recommendation of the Workgroup that the proposal should be subject to Authority Direction".

Please provide below any additional analysis or information to support your representation

NTS Asset Integrity

We have assessed the impact of the proposed CO_2 content on NTS pipeline corrosion risk and on the operation of our compressors at St Fergus. In summary, we concluded that there would be no material increased corrosion risk associated with gas with a CO_2 content of 5.5mol% compared to the current 4mol% and that no detriment to compressor operation is expected provided that total inerts remain within 7mol%. We discussed this latter conclusion with the Proposer which has been incorporated into the Proposal.

Modifications 0498/0502

We would like to explain our position on this Proposal with reference to Modifications 0498/0502 which sought an increased CO_2 limit from 2.9mol% to 4mol% at the Teesside System Entry Points.

Our support for the 0498/0502 proposals was qualified such that we would require future demonstration information from the Proposers that the new gas field(s) containing the higher CO_2 gas would be developed and that the gas would be delivered at Teesside prior to executing the NEA amendments. Modification 0607 is concerned with assurance of flows from existing gas fields rather than the development of new ones but we have worked with the Proposer to maintain the principle of demonstrated need via the time-limitation mechanism. As a result, our support for 0607 does not need to be qualified in the way that applied for the Teesside Modifications because these measures are incorporated within the Proposal itself. The only qualification we would offer to our support for 0607 is that we are not in a position to validate the Proposer's assertions that the current cost of purchasing contingency blend gas to cover Laggan/Tormore outages is prohibitive to enable Rhum flows to endure and that if Rhum cannot sustain sufficiently high flow rates then Bruce platform costs cannot be covered resulting in Bruce, Rhum and Keith field all ceasing production.

The CO_2 limit sought by the 0498/0502 proposals was equivalent to what was already in place at some other locations where gas enters the NTS, whereas the limit sought by the 0607 Proposal is materially higher than that which applies anywhere else at NTS entry. Given our contractual obligation to make gas available to IUK for offtake within 2.5mol%, we recognised during the development phase that our ability to accommodate this trend towards higher CO_2 limits was limited. While there is general industry agreement that each case to change gas quality limits should be treated on its own merits with respect to the relevant objectives, there is no agreed industry approach as to how National Grid NTS should allocate such scarce flexibility and we therefore worked with the Proposer to develop this Modification to facilitate sharing of such flexibility, should it be required. We acknowledge that this would introduce a degree of uncertainty for the Proposer and for shippers that deliver gas at the NSMP terminal but consider that the solution proposed is an appropriate measure which places the uncertainty risk with the party(s) that will benefit most from this Proposal whilst we consult the industry on this question separately as part of a wider consultation on gas quality[1].

[1] See http://www2.nationalgrid.com/uk/industry-information/gas-transmission-system-operations/gas-quality/