

Draft Modification Report
Amendment of Network Entry Provisions at ConocoPhillips sub-terminal at Theddlethorpe
to align with Transco's 10 Year Statement
Modification Reference Number 0019

Version 1.0

This Draft Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 9.6.

1. The Modification Proposal

The Proposal submitted was as follows:

"Changing the Network Entry Provisions at the Theddlethorpe sub-terminal will enable additional ullage capacity and enhance the availability of proven gas supplies at the Theddlethorpe System Entry Point (SEP). The reduction of the lower Wobbe number limit would allow the Delivery Facility Operator (DFO) increased scope to process greater quantities of offshore reserves and to extend the life of the Terminal. Producers would also be incentivised to develop new, proven gas fields with lower Wobbe numbers. In enabling the economic and efficient delivery of new gas supplies at Theddlethorpe, implementation of the proposal would be expected to facilitate the achievement of securing effective competition between the relevant shippers and relevant suppliers.

As a consequence of additional gas flows into the NTS through this proposal, security of supply would also be enhanced. Additional gas supplies from the UKCS could be readily developed and brought ashore without anticipated capital investment being required to develop Transco's system. The new gas supplies are likely to ease some of the constraints in the North Sea as gas fields are being depleted and as greater quantities of lower Wobbe gas reserves are being discovered. The Theddlethorpe sub-terminal would benefit from increased peak day capacity and a reduced risk of constraining gas due to the loss of blending gas.

When Transco raised modification proposal 681, 'Amendment of Network Entry Provisions at ConocoPhillips sub-terminal at Theddlethorpe', Transco's 10 Year Statement made reference to a lower Wobbe limit of 48.2MJ/m³ and not the GS(M)R limit of 47.2MJ/m³. In late 2003 Transco amended its 10 Year Statement in this respect so the lower Wobbe limit is now the same as that in the GS(M)R. The Calorific Value (CV) in the 10 Year Statement is 36.9MJ/m³. This proposal shall align the gas quality specification at the Theddlethorpe sub-terminal with the gas quality specification contained in the GS(M)R 1996 and published in Transco's current 10 Year Statement in respect of the Wobbe Number and CV limits.

It is proposed that some of the Gas Entry Conditions, which form part of the Network Entry Provisions, for Theddlethorpe SEP be amended in accordance with the following:"

Gas Quality Characteristic	Current Specification	Proposed Specification
Wobbe No: - Lower Limit	47.36 MJ/m ³	47.2 MJ/m ³
Calorific Value:- Lower Limit	37.3 MJ/m ³	36.9 MJ/m ³

The Proposer suggested that:

"The proposed changes to the Network Entry Provisions (NEPs) are required for the forthcoming winter, as they will facilitate the delivery of additional gas as well as reducing the risk of having to constrain flows should offshore problems arise.

Adoption of the proposed changes to the NEPs at ConocoPhillips sub-terminal at Theddlethorpe would:-

- Secure greater flexibility in the operation of the sub-terminal.
- Allow additional, proven gas fields to be economically developed.
- Extend the life of the sub-terminal.
- Remove the risk of discrimination due to aligning the lower Wobbe limit to that contained in both the Gas Safety (Management) Regulations (GS(M)R) and Transco's current 10 Year Statement."

and that:

"This proposal is raised in accordance with the provisions of UNC, Section I2.2.3 that require amendment of Network Entry Provisions by way of a Network Code Modification once Transco and the DFO have agreed to change the Network Entry Provisions and to incorporate these in a Network Entry Agreement (NEA). In raising this modification proposal, ConocoPhillips confirms that agreement in principle to change the Network Entry Provisions has been achieved with Transco. Therefore legal text is not required, as implementation would be achieved via completion of a modification to the NEA. ConocoPhillips proposes implementation of this modification proposal immediately following direction.

Implementation of this modification proposal is not believed to have any impact on systems, processes or procedures."

2. Extent to which implementation of the proposed modification would better facilitate the relevant objectives

In enabling the economic and efficient delivery of new gas supplies at Theddlethorpe, implementation of this Proposal would be expected to facilitate the achievement of securing effective competition between relevant shippers and relevant suppliers.

3. The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

As a consequence of implementation, additional gas supplies from the UKCS could be more readily developed and brought ashore without anticipated capital investment being required to develop the Total System. These new gas supplies could ease some of the constraints on development of North Sea gas reserves as current gas fields become depleted. As greater quantities of lower Wobbe Number gas reserves are being discovered, the Theddlethorpe sub-terminal would benefit from increased peak day capacity.

If these additional gas supplies were utilised, security of supply would be enhanced.

No adverse implications in respect of industry fragmentation have been identified.

4. The implications for Transporters and each Transporter of implementing the Modification Proposal , including

a) implications for operation of the System:

As stated in the justification for the approved Modification Proposal 0681, reducing the lower limit for the Wobbe Number might in turn, result in delivery of lower CV gas, which might impact on CV shrinkage costs. However, this impact would be largely mitigated by the physical nature of the NTS in this area, as gas from Theddlethorpe is currently mixed with other supplies prior to any off-take into an LDZ. Nonetheless, Transco NTS would seek to minimise any such CV Shrinkage; indeed Transco NTS is directly incentivised to do this by the current SO Incentive arrangements. Consequently, the potential impact is believed to be minor, particularly when set against the requirement to facilitate additional gas supplies into the UK.

b) development and capital cost and operating cost implications:

Views would be welcome if any Party believes there would be any such implications.

c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

Views are invited on whether it would be appropriate to include a provision for any additional CV Shrinkage costs that Transco NTS were not able to mitigate, by efficient operation of the NTS, in the next review of the Transco NTS SO Incentive arrangements.

d) analysis of the consequences (if any) this proposal would have on price regulation:

Views would be welcome if any Party believes there would be any such consequences.

5. The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

Views would be welcome if any Party believes there would be any such consequence.

6. The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

It is not believed that implementation of this Modification Proposal would have any impact on such systems.

7. The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

The reduction in the lower Wobbe Number limit could lead to lower CV gas being delivered at the Theddlethorpe terminal, which, in turn, could impact CV Shrinkage costs. CV Shrinkage costs are part of the Transco NTS SO Incentive arrangements and therefore any increase in costs would, in consequence, be shared with relevant shippers. However, any such increase would be expected to be small in comparison with the anticipated benefits of any additional gas supplies utilised as a consequence of implementation of this Modification Proposal.

8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party

The reduction in the lower Wobbe Number limit would allow the DFO, at the sub-terminal, scope to process greater quantities of offshore reserves and thereby, extend the life of that sub-terminal. This proposed extension of Wobbe Number limits might also reduce the processing requirements currently associated with low Wobbe Number offshore gas, so improving the economics of any such offshore development.

9. Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

Views would be welcome if any Party believes there would be any such consequences.

10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages

- Additional gas supplies could be more readily developed and brought ashore at Theddlethorpe rather than at another location so reducing the requirement for capital investment in the Total System.
- Increased security of supply as a consequence of facilitating the development of new gas reserves.

Disadvantage

- Potential increase in CV shrinkage.

11. Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Representations are now sought.

12. The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

Implementation is not required for this purpose.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

Implementation is not required having regard to any such proposed change.

14. Programme for works required as a consequence of implementing the Modification Proposal

Implementation of this Modification Proposal would be achieved through amendment of the Network Entry Provisions within the existing Network Entry Agreement.

15. Proposed implementation timetable (including timetable for any necessary information systems changes)

Implementation could follow any determination of the Authority to implement this Proposal.

16. Implications of implementing this Modification Proposal upon existing Code Standards of Service

Views would be welcome if any Party believes there would be any such implications.

17. Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel

Subject Matter Expert sign off:

I confirm that I have prepared this modification report in accordance with the Modification Rules.

Signature:

Date :

Tim Davis
Chief Executive

Signed for and on behalf of Relevant Gas Transporters:

Signature:

Date :