

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 2.0

This 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 12.2.3 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

The Draft Modification Report (DMR) stated: "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."

Transco NTS supported this view by stating: “that the Modification Proposal would allow additional gas production fields to be brought on stream as a consequence of widening the gas quality envelope in line with the Gas Safety (Management) Regulations and Transco’s 10-year statement. This should increase the number of potential supplies at the Theddlethorpe sub-terminal and thereby facilitating effective competition between shippers and relevant suppliers”.

ConocoPhillips’ view is that “The incremental gas produced will also utilize the significant spare entry capacity at Theddlethorpe. The extra gas in the UK will secure the effective competition between shippers and suppliers, supporting point 8 of the DMR, the implications of implementing the modification proposal for consumers and suppliers.”

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

The DMR stated: “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.”

Transco NTS responded to say that it “agrees with the implications detailed in the DMR”

British Gas Trading (BGT) noted that “In common with a series of other proposals of a similar nature, the overall objective is to increase the volumes of gas, which may be accepted on to Transco’s network. This has benefits for continuity and security of supply.”

The proposer, ConocoPhillips stated that “The proposed changes of the Network Entry Provisions at Theddlethorpe are significant in addressing point 3 of the DMR, the implications of implementing the modification proposal in particular on security of supply. In recent times gas with a wobbe limit lower than the earlier developed fields in the Southern North Sea, is increasingly being discovered and exploited. Until recently it has been possible to blend all this gas with higher specification gas from offshore, to meet Transco’s local entry specifications. The depletion of offshore blend gas is now becoming a constraint, with the result that occasional production problems of blend gas can lead not only to the loss of that production but also production of the lower wobbe gas. This modification will ease this issue and potentially increase short-term security of supply.

ConocoPhillips stated that “medium term security of supply is also increased through this proposal. Discovered lower wobbe gas could be developed.

Development of such known reserves is also relatively quick as a consequence of new supplies being brought onto the system without any capital investment necessary to develop Transco’s system to allow this new gas source to enter the NTS. Furthermore this would extend the life of the terminal and allow as yet undiscovered gas to also be produced. As such the proposal facilitates the economic and efficient development of new gas supplies.”

Caledonia Oil and Gas Limited expressed an opinion that “UNC mod 0019 should be immediately progressed for the simple reason of security of supply and daily supply reliability. Not only would the implementation of UNC mod 0019 be helpful for the coming 05/06 supply year but it also facilitates the access of future low wobbe gas in the vicinity of the Theddlethorpe infrastructure for the 06/07 supply year and beyond.”

E.ON UK supported the modification as it is “in favour of the proposed changes to enable the economic and efficient delivery of new gas supplies at Theddlethorpe. We agree with the proposer that the proposal would secure greater flexibility in the operation of the sub-terminal and allow additional, proven gas fields to be economically developed, thus enhancing security of supply.”

RWE npower also “believe [the modification] will enhance security of supply and assist the UK government with its Gas Emergency Management”.

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

a) implications for operation of the System:

The DMR expressed “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.”

Transco NTS supported this view and “recognises that the physical configuration of the NTS largely mitigates any potential implications on CV shrinkage costs. ConocoPhillips have stated to Transco NTS that although the acceptable CV range resulting from the implementation of this Modification Proposal is wider the typical CV delivered will not be significantly affected by the implementation of this Modification Proposal”.

ConocoPhillips stated that “The report highlights its concern regarding the impact upon shrinkage as a consequence of these changes. The implication of the changes is a potential increase in the variability of the CV and wobble number of the gas. However over a period the approval of this modification will result in relevant insignificant change in the average CV and wobble number of the gas delivered from Theddlethorpe terminal.”

Scottish and Southern Energy plc (SSE) provided qualified support “On initial consideration this appears to be a Modification worthy of support. However, we are concerned that this is one of a series of similar Modifications which, taken in their totality, could have the combined effect of lowering the overall CV within the system. We therefore believe that consideration should be given to the medium/longer-term impact on the Total System of a higher proportion of lower CV gas coming into GB.

It may be, for example, that this is a matter that is covered (or could be covered) by the EASEE gas work ...”

SSE concluded “Therefore, on balance, whilst we believe that this Modification Proposal 019 should proceed to implementation; we also believe that more detailed consideration should be given to the overall strategic impact that a reducing CV has on the Total System energy composition.”

In response the points raised about changes in CV, the SME would note that the CV within the Total System is determined by the characteristics of the individual gases entering it. Some gases have naturally high CVs whilst others have low CVs. Predictions of future gas supplies published by National Grid Transco and the DTI, through the three phase exercise, indicate that there is no trend towards low average CVs; indeed much of the new gas that has been identified is Liquefied Natural Gas (LNG) which is high CV gas.

b) development and capital cost and operating cost implications:

Transco NTS has responded by clarifying that it “does not anticipate incurring any development or capital costs as a consequence of implementing this Modification Proposal.”

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

Views were 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.

BGT noted that “The report raises a specific question on the potential impact upon CV shrinkage due to the reduction of the Wobbe index number. We understand that due to the nature and mix of the supplies at this point on the system, the effect is not thought to be significant. On this basis we do not believe that any special provision is necessary in addition to the existing incentive

arrangement which Transco NTS SO are subject to. Should experience show that this is more significant than expected, it would seem appropriate to address this as part of the SO Incentive and sharing arrangements when these are reviewed.”

Transco NTS responded by stating “.. that any additional CV Shrinkage costs will not be significant and as a consequence would proposes that any such costs are best managed through the existing NTS SO Incentive arrangements”

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

Views were invited on whether any Party believes there would be any such consequences.

Transco NTS responded by stating that it “.. does not anticipate consequences on price regulation”

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 were invited on whether any Party believes there would be any such consequence.

Transco NTS responded by stating that “..Implementation of this Modification Proposal will not increase Transco NTS’s exposure to contractual risk.”

Three respondents supported the alignment of contractual Wobbe limits with GS(M)R limits:

ConocoPhillips noted that “The modification proposal seeks to marginally reduce the lower wobbe limit and the CV at Theddlethorpe. These adjustments being alignment with both the Gas Safety (Management) Regulations (GS(M)R) and Transco’s current 10 Year Statement, thus removing the risk of discrimination.”

BGT notes “that this is the second Modification Proposal seeking to amend the parameters of gas accepted into Transco’s system at Conoco-Phillips sub Terminal. The previous Modification (Ref 681) was limited at that time by the specification contained within Transco’s 10 Year Statement. Now that the specifications within the Transco 10 Year Statement have been aligned with the Gas Safety (Management) Regulations, we believe that it is appropriate to amend the specification for gas accepted at Conoco-Phillips in line with this standard.”

SSE noted that “the proposal seeks to amend the gas quality specifications at the ConocoPhillips sub-terminal at Theddlethorpe so that they are consistent with provisions introduced at other Network Entry Points to enable lower Wobbe gas supplies to be delivered to the NTS.”

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

The DMR stated that it is not believed that implementation of this Modification Proposal would have any impact on such systems.

Transco NTS responded by stating that it “ agrees with the DMR in that there is not expected to be 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 DMR reported that 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.

Transco NTS agrees that as it “is incentivised to minimise CV shrinkage and as ConocoPhillips have confirmed that the typical CV of gas delivered will not appreciably change Transco NTS therefore, does not anticipate any significant increase in the costs of CV shrinkage as a consequence of this Modification Proposal. Transco NTS agrees with the DMR in that any such increase would 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 DMR reported that 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.

The Transco NTS response supports this.

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 were invited as to whether any Party believes there would be any such consequences.

Transco NTS responded by stating that it “..does not believe there to be any such consequences if following the implementation of the Modification Proposal

ConocoPhillips and Transco NTS modify the Network Entry Agreement as envisaged in the Proposal.”

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

The DMR identified advantages and disadvantages as follows:

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.

Transco NTS responded to agree with the advantages expressed in the DMR but also stated that it “accepts that there is a risk of an increase in the CV shrinkage”. However, Transco NTS” is of the opinion that because the change in the typical CV of gas delivered is expected to be insignificant and as a consequence of the physical make up of the NTS the impact on CV shrinkage will be small.”

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

Supportive representations were received from seven respondents as listed below. The Scottish and Southern Energy plc (SSE) response was qualified as set out and discussed in section 4a above. The Transco NTS response was structured to mirror the format of the Final Modification Report, with a comment being provided for each heading.

- British Gas Trading (BGT)
- Caledonia Oil and Gas Limited
- ConocoPhillips
- E.ON UK
- RWE npower
- Scottish and Southern Energy plc (SSE)
- Transco NTS

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

“Transco NTS agrees with the DMR in that 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

“Transco NTS agrees with the DMR in that 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.

Transco NTS has confirmed that “Transco NTS and ConocoPhillips, the Delivery Facility Operator, have agreed to modify the existing Network Entry Agreement in order to implement this Modification Proposal.”

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

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

“Transco NTS is of the opinion that implementation could be achieved without the need for any information system changes and could follow swiftly on after the determination of the Authority.”

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

Views were welcomed on whether any Party believes there would be any such implications.

Transco NTS stated that it “..does not anticipate there being any implications upon Code Standards of Service as a consequence of implementing this Modification Proposal.”

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

At the Modification Panel meeting held on 13th July 2005, all ten Voting Members were in favour of the implementation of this Modification Proposal.

18. Transporter's Proposal

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas & Electricity Markets Authority in accordance with this report.

19. Text

UNC legal text changes are not required.

Subject Matter Expert sign off:

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

Signature:

Date :

Signed for and on behalf of Relevant Gas Transporters:

Tim Davis
Chief Executive Joint Office of Gas Transporters

Signature:

Date :