Modification Report
Amendment of Network Entry Provisions at ConocoPhillips sub terminal at Theddlethorpe
Modification Reference Number 0681

Version 1.0

This Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 8.9.3.

1. The Modification Proposal

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

Proposed changes as requested by ConocoPhillips to enable increased gas supplies at the Theddlethorpe System Entry Point.

Gas Quality Characteristic	Current Specification As Stated	Current Specification Metric Equivalent	Proposed Specification
Wobbe No : -			
Upper Limit	1,351 Btu/ft³	51.3 MJ/m³	51.41 MJ/m³
Lower Limit	1,272 Btu/ft³	48.3 MJ/m³	47.36 MJ/m³
Calorific Value[1]			
Upper Limit	1,115 Btu/ft³	42.3 MJ/m³	42.3 MJ/m³
Lower Limit	973 Btu/ft³	36.9 MJ/m³	37.3 MJ/m³

[1] For the metric conditions the gas is dry whilst for the imperial conditions the gas is saturated.

2. Proposed changes to update the gas quality specification to take into account specific requirements within GS(M)R not currently specified at Theddlethorpe.

Gas Quality Characteristic	Current Specification As Stated	Current Specification Metric Equivalent	Proposed Specification
Hydrogen	-	-	< =0.1 % (molar)
Soot Index	-	-	< =0.6
Incomplete Combustion Factor	-	-	< =0.48

3. Proposed changes to update the gas quality specification to convert the specification to standard conditions.

Gas Quality Characteristic	Current Specification As Stated	Current Specification Metric Equivalent	Proposed Specification
Water Dewpoint	< 15 °F @ 1,000 lbf/in²	< - 10 °C @ 69 barg	< -10 °C @ 69 barg
Hydrocarbon Dewpoint	< 29 °F up to 1,087 lbf/in²	< -2 °C up to 75 barg	< -2 °C up to 75 Barg
Gas Temperature – Lower Limit Upper Limit	33 °F 100 °F	1 °C 38 °C	1 °C 38 °C

If this Modification Proposal were approved then the revised Gas Quality Specification would be intended to be incorporated within a Network Entry Agreement at the ConocoPhillips sub terminal.

2. Transco's Opinion

Transco considers that the proposed reduction of the lower Wobbe Number limit at the ConocoPhillips sub terminal at Theddlethorpe would allow additional gas supplies to be delivered into the National Transmission System. ConocoPhillips have indicated that this could be in the order of an additional 9,900 mcm of gas. This would enable increased UK production where such production is competitive in the market.

New UK developments through Theddlethorpe would also utilise existing onshore and offshore assets and as such these new developments could be brought onstream quickly (in typically 1-2 years) enhancing the UK's longer-term security of supply. Theddlethorpe has considerable surplus entry capacity available and even with these extra flows, it is considered that there would be no immediate requirement to invest in the NTS to support these additional supplies.

3. Extent to which the proposed modification would better facilitate the relevant objectives

The Proposal would effectively strengthen the medium-term security of supply situation by creating the commercial environment required for the development of proven UKCS reserves. 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 relevant Shippers and Suppliers.

4. The implications for Transco of implementing the Modification Proposal , including

a) implications for the operation of the System:

Reducing the lower limit for the Wobbe Number may facilitate a different pattern of gas delivery into the System. The delivery of lower CV gas may change CV Shrinkage levels. However, any adverse impact would be largely mitigated by the physical nature of the NTS in this area as gas from Theddlethorpe is mixed with other supplies prior to any offtake into an LDZ. Nonetheless, Transco is incentivised to manage CV Shrinkage through the SO Incentive

arrangements. Consequently, the potential impact is believed to be minor, particularly when set against the requirements to facilitate additional gas supplies into the UK.

b) development and capital cost and operating cost implications:

Transco has not identified any development or capital costs that would arise from implementation of this Proposal.

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

Not applicable.

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

Transco is unaware of any such consequences.

5. The consequence of implementing the Modification Proposal on the level of contractual risk to Transco under the Network Code as modified by the Modification Proposal

Implementation of this Proposal would enable a Network Entry Agreement (NEA) to be entered into with the Delivery Facility Operator (DFO). This NEA would meet the requirements of Section I of the Network Code and establish a direct contractual relationship between Transco and the DFO.

6. The development implications and other implications for computer systems of Transco and related computer systems of Users

Implementation of this Modification Proposal would not have any development or other implications for computer systems.

7. The implications of implementing the Modification Proposal for Users

The reduction in the lower Wobbe Number limit could lead to lower CV gas being delivered from the Theddlethorpe terminal, which could impact CV Shrinkage levels. CV Shrinkage costs are part of the SO Incentive arrangements and therefore any change in costs would be shared with relevant Shippers. However, any such increase is expected to be small. Implementation of the Proposal would permit additional gas to have access to the market affording Users with greater options in respect of how they might source gas to satisfy their balancing requirements.

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

The reduction in the lower Wobbe Number limit would allow the DFO at the sub terminal greater scope to process greater quantities of offshore reserves and to extend the life of the

Terminal. Producers would also be able to economically develop new gas fields with lower Wobbe Numbers compared to that currently contractually permitted.

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

Transco is not aware of any consequences

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

Advantages:

- Additional gas supplies from the UKCS could be readily developed and brought ashore without capital investment being required to develop Transco's System; and
- Increased security of supply arising from increased gas availability at the Theddlethorpe entry point from 2004.

Disadvantages

- Potential change in gas inputs may change CV Shrinkage levels.

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

5 representations were received to the consultation:

Respondent	Response
British Gas Trading (BGT)	Qualified support
BP Energy (BP)	In support
ConocoPhillips (UK) Limited (COP)	In support
Powergen UK (PG)	Qualified support
Shell Gas Direct Limited (SGD)	In support

BP, SGD & COP supported the Proposal. BGT and PG offered qualified support subject to agreement being reached between the affected parties.

SGD believed that the Proposal " will facilitate effective competition between shippers as well as ensuring on-going security of supply by ensuring that supplies of gas can be delivered in a efficient and economic manner."

COP believed the Proposal would ease constraints as a consequence of the depletion of blend gas, gas with a higher Wobbe Number, and would potentially increase short-term security of supply. In addition, COP stated "Medium term security of supply is also increased through this proposal. Discovered lower Wobbe gas could be developed". COP believed "the extra gas in the UK will secure effective competition between shippers and suppliers."

BP stated that "the Proposal would effectively strengthen the medium-term security of supply situation". BP added that "implementation of the Proposal would be expected to facilitate the achievement of securing effective competition between relevant Shippers and Suppliers". BP also expressed the opinion that "the reduction in the lower Wobbe Number limit would allow the DFO at the sub terminal greater scope to process greater quantities of offshore reserves and extend the life of the Terminal."

BGT commented, "that changes to the entry specifications could potentially have implications for Shipper's existing gas purchase agreements. For this reason we feel that entry provisions should only be changed with the agreement of all Shippers who are likely to be affected by the change. Providing agreement can be reached between affected parties, BGT would have no objection to the entry specification being changed."

Transco's Response

Transco welcomes the views expressed by COP, SGD and BP that implementation of this Proposal would facilitate the achievement of competition between relevant Shippers and Suppliers and strengthen the security of supply situation.

Transco notes BGT's comments. However, as the affected Shippers did not express any specific concerns in their responses Transco does not therefore envisage any major problems as a result of the changes to the gas quality specification contained within the Proposal. Transco believes that the lack of concern reflects the view that no Shipper would be adversely affected if the Modification Proposal was implemented.

The response from PG is attached, but has not been analysed due to late submisssion.

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

Transco is not aware of any such requirement.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 4(5) or the statement furnished by Transco under Standard Condition 4(1) of the Licence

Transco is not aware of any such requirement.

14. Programme of works required as a consequence of implementing the ModificationProposal

Transco would expect to execute a Network Entry Agreement with ConocoPhillips acting in its role as DFO at Theddlethorpe as a means of contractually agreeing the revised gas quality specification. Only upon completion of the NEA, would ConocoPhillips be able to flow gas in accordance with the revised specification.

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

Transco proposes implementation of this Modification Proposal immediately following direction.

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends implementation of this Proposal.

17. Restrictive Trade Practices Act

If implemented this proposal will constitute an amendment to the Network Code. Accordingly the proposal is subject to the Suspense Clause set out in the attached Annex.

18. Transco's Proposal

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

19. Text

Revised Network Code legal text is not required as implementation would be achieved via completion of the NEA.

Signed for and on behalf of Transco.

Signature:

Mike Calviou
Commercial Frameworks Manager
NT & T

Date:

Gas and Electricity Markets Authority Response:

In accordance with Condition 9 of the Standard Conditions of the Gas Transporters' Licences dated 21st February 1996 I hereby direct Transco that the above proposal (as contained in Modification Report Reference **0681**, version **1.0** dated **20/02/2004**) be made as a modification to the Network Code.

Signed for and on Behalf of the Gas and Electricity Markets Authority.

Signature:

The Network Code is hereby modified with effect from, in accordance with the proposal as set out in this Modification Report, version **1.0**.

Signature:

Process Manager - Network Code

Transco

Date:

Annex

1. Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which The Restrictive Trade Practices Act 1976 ("the RTPA"), had it not been repealed, would apply to this Agreement or such arrangement shall not come into effect:

   (i) if a copy of the Agreement is not provided to the Gas and Electricity Markets Authority ("the Authority") within 28 days of the date on which the Agreement is made; or

   (ii) if, within 28 days of the provision of the copy, the Authority gives notice in writing, to the party providing it, that he does not approve the Agreement because it does not satisfy the criterion specified in paragraphs 1(6) or 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996 ("the Order") as appropriate

   provided that if the Authority does not so approve the Agreement then Clause 3 shall apply.

2. If the Authority does so approve this Agreement in accordance with the terms of the Order (whether such approval is actual or deemed by effluxion of time) any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which the RTPA, had it not been repealed, would apply this Agreement or such arrangement shall come into full force and effect on the date of such approval.

3. If the Authority does not approve this Agreement in accordance with the terms of the Order the parties agree to use their best endeavours to discuss with Ofgem any provision (or provisions) contained in this Agreement by virtue of which the RTPA, had it not been repealed, would apply to this Agreement or any arrangement of which this Agreement forms part with a view to modifying such provision (or provisions) as may be necessary to ensure that the Authority would not exercise his right to give notice pursuant to paragraph 1(5)(d)(ii) or 2(2)(b)(ii) of the Order in respect of the Agreement as amended. Such modification having been made, the parties shall provide a copy of the Agreement as modified to the Authority pursuant to Clause 1(i) above for approval in accordance with the terms of the Order.

4. For the purposes of this Clause, "Agreement" includes a variation of or an amendment to an agreement to which any provision of paragraphs 1(1) to (4) in the Schedule to the Order applies.