URGENT Modification Report
Amendment of Network Entry Provisions at BP sub terminal at Dimlington
Modification Reference Number 0711

Version 3.0

This Modification Report is made pursuant to Rule 9 of the Modification Rules and follows the format required under Rule 8.9.3.

Circumstances Making this Modification Proposal Urgent:

In accordance with Rule 9.1.2 Ofgem has agreed that this Modification Proposal should be treated as Urgent because the "*modification relates to a time related event insofar as the relevant gas year commences 1 October 2004. The granting of urgent status and adherence to the timetable set out below would ensure that the proposal is in a position to be decided upon and if appropriate implemented in readiness for the gas year 2004/05. In coming to this decision, Ofgem has also been mindful of its statutory duty to secure that, so far as it is economical to meet them, all reasonable demands for gas are met*."

Procedures Followed:

Transco agreed with Ofgem (and has followed) the following procedures for this Proposal:

Proposal agreed as urgent	08/09/04
Circulate to users requesting representations	08/09/04
Representation Close-out	22/09/04
Urgent Modification Report issued to Ofgem	29/09/04
Ofgem decision by	30/09/04

1. The Modification Proposal

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

a. Proposed changes as requested by BP to enable increased gas supplies at the Dimlington System Entry Point.

Gas Quality Characteristic	Current Specification As Stated	Proposed Specification
Wobbe No - Upper Limit / Lower Limit	51.2 MJ/m³ 48.2 MJ/m³	51.41 MJ/m³ 47.20 MJ/m³

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

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

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

Gas Quality Characteristic	Current Specification As Stated	Proposed Specification
Water Dewpoint	< - 10 °C@ 69 barg	< -10 °C@ 70.33 barg

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 BP sub terminal.

2. Transco's Opinion

Transco supports implementation of this Modification Proposal and the intention that the revised gas quality specification would be incorporated in a Network Entry Agreement (NEA). Any change to the Network Entry Conditions should only apply upon implementation of the NEA.

Transco agrees that it would be appropriate to use the opportunity of entering into a NEA to bring the water dewpoint limit in line with the maximum delivery pressure of this sub-terminal as is the practise for water dewpoint measurement at most sub-terminals.

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

Implementation of the Proposal would be expected to enhance security of supply by enabling increased gas volumes to be available to the System and by creating the commercial environment required for the development of reserves. In enabling the economic and efficient delivery of additional gas supplies at Easington, implementation of this Proposal would be expected to facilitate the achievement of securing effective competition between relevant Shippers and relevant Suppliers.

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

a) implications for the operation of the System:

Increasing the upper and lower limit for the Wobbe Number may facilitate a different pattern of gas delivery into the System. At this stage, Transco would not anticipate a need to amend its investment plans should this Modification Proposal be implemented. This may change, however, if future auction signals reveal that the release of incremental entry capacity is justified.

Transco notes that the existing contractual upper and lower Wobbe Number limits are narrower than the limits prescribed in GS(M)R. The Proposal would therefore remove this margin and presents an increased risk that any Wobbe Number excursion would breach GS(M)R. Transco requires the full co-operation of the Delivery Facility Operator (DFO) at each System Entry Point to ensure that gas supplies are compliant with GS(M)R.

Transco notes that the proposal to amend the pressure at which the water dewpoint is calculated represents a marginal improvement to the risk of water drop out by gas from this sub-terminal and as such has a positive impact by reducing the likelihood of water drop out affecting the operation of the System.

b) development and capital cost and operating cost implications:

Transco has set out its views of potential cost implications on its system should Modification Proposal 0711 be implemented in a paper circulated to Users to inform representations - a copy of the paper is included as an annex to this report. The summary of this paper is that there is no

substantive increase in the risk of capacity buybacks at either Easington or any terminal in the northern triangle as a result of the implementation of this modification. Whilst Transco was unable, in the time allotted, to calculate the scale of any changes to CV shrinkage levels as a result of this proposed change it was accepted by Ofgem in its decision letter for modification 0681 on 16th July 2004 that CV shrinkage changes did not present a direct cost increase or decrease to customers but was a cost transfer resulting from the Flow Weighted Average CV calculation methodology.

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:

As no costs were identified as a consequence of the implementation of this Modification Proposal then no cost recovery analysis has been undertaken.

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

Although it is not anticipated that there would be any impact on price regulation, any increases in costs as a result of this Proposal would flow through the SO Incentives and would be recovered ultimately through increased transportation charges.

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

As noted in the Modification Proposal, implementation of this Proposal would be achieved through execution of a NEA with the Delivery Facility Operator (DFO). This NEA would meet the requirements of Section I of the Network Code.

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 increase in the upper and lower Wobbe Number limit is not anticipated to have any cost implications for Users. The addition of Incomplete Combustion Factor, Sooting Index and Hydrogen limits to the NEA for this sub-terminal will have no impact upon Users as they already reside in the NEPs for this sub-terminal by virtue of Section I 2.4.5 of the Network Code. The changes to the water dewpoint limit is likely to have a marginally positive impact in terms of the reduced likelihood of water drop out occurring in the System and impacting upon the operation of the System.

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

The increase in the upper and lower Wobbe Number limit would allow the DFO at the sub terminal greater scope to process greater quantities of offshore reserves. Producers would also be able to economically develop gas fields with higher or 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 has not identified any such consequences.

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

Advantages:

Additional gas supplies may be made available to the market, thereby enhancing competition, putting downward pressure on prices, and enhancing security of supply.

Disadvantages:

Inconsistent with gas quality limits at the Rough storage facility.

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

Representations have been received from:

Respondent	Response
Centrica Storage Ltd (CSL)	Against
Caledonia Oil and Gas Limited (COG)	Support for
BGT	Qualified Support for
BP	Support for
EDF Energy (EDF)	Support for
Statoil (UK) Limited (STUK)	Support for

11.1 General Principles

Six responses were received, five of which were broadly supportive and one objected on the grounds that it presented serious operational difficulties to its own operation.

Four respondents (BP, EDF, COG, STUK) fully supported implementation of the Modification Proposal. COG considered that the Modification Proposal “should be immediately progressed for the simple reason of security of supply and daily supply reliability”.

CSL strongly objected to implementation of this Modification Proposal. They stated that “Rough exit point takes gas from the NTS in the Easington area and therefore it is to be expected that, at some time during injection operations, Dimlington produced gas will enter the Rough reservoir. CSL must ensure that gas re-delivered from Rough to the NTS is compliant with Rough’s current entry provisions. If gas is injected into Rough at the lower Wobbe limit proposed by this modification then the gas will not be compliant when re-delivered. This could cause Transco to prevent gas entering the NTS from Rough, leading to discrimination against Rough Users and removal of potential benefits from the additional winter supplies that Transco’s Cost Implications paper contemplates”. CSL stated that if a concurrent amendment to the Rough Storage Connection Agreement could be agreed to bring its Wobbe Number limit in line with that of Dimilington then it could offer “qualified support” for implementation of this Modification Proposal.

BGT stated that they "generally welcome developments that increase the volume of gas available to the GB market" but noted a number of concerns including the granting of urgent status for this Modification Proposal and why "the option of agreement covered by NWC Clause I 2.2.2 has not been used" instead of the Network Code modification process.

STUK further commented "while these short-term changes should improve security of supply to the UK it is important to recognise the need for longer term changes in UK gas quality specification in order for it to compete globally for energy supplies".

Transco Response

Transco is supportive of any moves that increase the availability of gas supplies to the UK. It recognises that the implementation of the modification could cause operational difficulties for the Rough storage facility and would expect to support any proposal to amend the Wobbe number range in the Rough Storage Connection Agreement to match the Wobbe range for the Dimlington sub-terminal.

It is for the proposing party to consider which option to adopt when seeking to amend Network Entry Provisions (NEPs) but Transco does recognise the NWC clause I 2.2.2 was drafted when the entry capacity regime was different and that to now establish who holds entry capacity on the day of implementation of a change to the NEPs could prove to be difficult given the present extent of on-the-day trading.

11.2 Safety and GS(M)R

Both BGT and CSL commented that they felt that all entry point gas quality specifications should be aligned to the full GS(M)R ranges as both suggest "the Gas Safety (Management) Regulations ("GS(M)R") should form the basis for gas entering the Transco System".

COG noted that "this is the third gas quality modification that has been raised this year and we hope that any amendments under the Network Code are being taken into consideration by the HSE and DTI". STUK added, "this modification does not seek to deliver gas outside the GSMR but to maximise supplies within these boundaries".

Transco response

As indicated in Ofgem's open letter on gas quality, Transco intends to facilitate a Network Code Review Group to take these issues forward and looks forward to the respondents' input to that group.

11.3 Security of supply

All parties offered support for the concept of amending of gas quality limits to maximise GB gas supplies. CSL commented that whilst it "supports in principle the declared intention of altering entry conditions wherever practicable *'to maximise current gas supplies'* " it could not support the current proposal due to the impact upon its Rough storage facility to deliver into the NTS which they argue would have a significant detrimental effect on the System's security of supply.

Transco Response

Transco agrees that, if the implementation of this Proposal allows existing offshore supplies to flow on a more reliable basis, the initial impact would be enhancement to the security of supply within GB. Transco however also accepts that if the Proposal were to result in the partial or complete inability of Rough

shippers to be able to input gas into the System then this would represent a risk to security of supply. However we do not see this as an eventuality.

11.4 Securing competition

"BP believes that the Proposal would effectively strengthen the medium-term security of supply situation by creating the commercial environment required for the development of UKCS reserves. In increasing the probability of the economic and efficient delivery of new gas supplies at Dimlington, implementation of the Proposal would be expected to facilitate the achievement of securing effective competition between relevant Shippers and Suppliers".

Transco Response

Transco considers that this Modification Proposal, if implemented, would enable the delivery of additional gas at Easington where it is economic to do so. Transco therefore supports the view that it would facilitate the relevant objective of securing effective competition between relevant shippers and suppliers.

11.5 Other Comments

BGT commented "it is unclear why factors such as the Upper Wobbe limit are being amended when the Proposer's request refers only to a lowering of the current Lower Limit".
They also sought clarification that the changes to the NEPs and the NEA that would be entered into would be in relation to the BP Dimlington sub-terminal only.

Transco Response

The changes to the NEPs and the NEA that will be entered into will apply solely to the BP Dimlington sub-terminal.

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 contractually agree the revised gas quality specification through the execution of a NEA with BP Dimlington, acting in its role as a DFO at BP Dimlington. Upon implementation of the NEA, System Users would be able to flow gas at the relevant System Entry Point in accordance with the revised specification.

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

The proposer sought implementation of this Modification proposal on 1 October 2004. Agreement of an NEA would also be required, and Transco would expect this to be achieved by 1st November 2004.

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 execution of the NEA.

Signed for and on behalf of Transco.

Signature:

Richard Court
Commercial Frameworks Manager
NT & T

Date:

Annex 1

Transco note on costs as circulated on 17th September 2004.

Network Code Modification Proposal 0711: Amendment to Network Entry Provisions at BP Dimlington sub-terminal at Easington - cost implications

Background

As indicated in Ofgem's letter of 8th September 2004 granting urgent status to Modification Proposal 0711, Transco has been asked to set out its views of potential cost implications on its system were Modification Proposal 0711 to be implemented. In the Modification Proposal, the proposer indicates a requirement for amendment of Network Entry Provisions by way of a Network Code Modification once Transco and the Delivery Facility Operator have agreed to change the Network Entry Provisions and to incorporate these in a Network Entry Agreement. When considering the potential costs associated with implementation of the Proposal, Transco has therefore assumed that the proposed Network Entry Provisions are implemented in a Network Entry Agreement.

Cost implications

The financial impact across Transco's system of any change to the gas quality specifications at a System Entry Point would be expected to reflect the resulting change in the quantity and quality of gas entering the system at that System Entry Point. However, any change in gas flow at one System Entry Point will, given no change in demand, be offset by equal and opposite flow changes elsewhere. It is difficult to accurately predict the likely change in gas flows over time at either Easington or other entry points that might be anticipated were this Modification Proposal to be implemented.

This note focuses on the potential cost impact associated with Transco's operation of the NTS. However, perhaps the largest potential cost impact would arise as a result of any change in the gas price as a result of implementing this Modification Proposal. Views on the likely scale of such an impact would be welcome, but Transco would observe that, if implementation of the Modification Proposal were to lead to a change in the pattern of gas supplies entering the NTS, it would be reasonable to assume that this would be because lower cost supplies were available. Other things being equal, it would be expected that the highest cost supplies would be displaced, such that the marginal cost of gas should be expected to fall. If competition in

the market is effective, the availability of lower cost supplies should lead to reduced gas prices and a potential benefit for all gas consumers.

Transco has also considered the likelihood that implementation of the Modification Proposal would impact its NTS investment plans. At this stage, Transco would not anticipate changing its investment plans were the Modification Proposal to be implemented. This may change, however, if future auction signals reveal that the release of incremental entry capacity is justified.

System Operation Cost Impacts

Entry Capacity Buy-Back Costs

Based upon data provided by BP on the anticipated incremental increase in supplies through the BP Dimlington sub terminal as a result of implementation of this Modification Proposal, Transco does not believe there is a significantly increased entry capacity buyback risk at Easington within the present price control period. Furthermore, when modelled the increase in flows indicated by BP show no significant risk of increased buyback in the Northern Triangle.

Shrinkage Costs

Any change to the CV of the gas entering the NTS is likely to impact CV shrinkage. The precise impact is, however, particularly difficult to estimate in view of the complexity of modeling the potential changes in network conditions. The specific impact can vary widely depending on the assumed flows across the NTS, and they could vary from day to day. At this stage Transco has not been able to quantify this further.

Other Costs

No other potential costs have been identified at present within the present price control period.

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 **0711**, version **3.0** dated **29/09/2004**) 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 **3.0**.

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.