













0581S:

Amending the Oxygen content limit specified in the Network Entry Agreements at Grain LNG

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This modification will enable an increase to the oxygen content limit of gas permitted by the Network Entry Agreements (NEAs) at Grain LNG.

	Responses invited by 13 May 2016 .
	High Impact: None
	Medium Impact: None
	Low Impact: Transporters, Consumers.

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This Draft Modification Report is issued for consultation responses, at the request of the Panel on 21 April 2016. All parties are invited to consider whether they wish to submit views regarding this self-governance modification.		Systems Provider: Xoserve
The close-out date for responses is 13 May 2016 , which should be sent to enquiries@gasgovernance.co.uk . A response template, which you may wish to use, is at www.gasgovernance.co.uk/0581		 commercial.enquiries@xoserve.com
The Panel will consider the responses and agree whether or not this self-governance modification should be made.		
The proposer recommends the following timetable:		
Initial consideration by Panel	21 April 2016	
Modification Proposal sent for Consultation	21 April 2016	
Consultation close-out for representations	13 May 2016	
Final Modification Report available for Panel	16 May 2016	
Modification Panel Decision	19 May 2016	

1 Summary

Is this a Self-Governance Modification?

This enabling modification is suitable for Self-Governance because it is unlikely to have a material effect on gas transporters and consumers whose offtake facilities are sensitive to the level of oxygen content in gas.

Is this a Fast Track Self-Governance Modification?

This modification is not suitable for Fast-Track as it is not a house keeping modification.

Why Change?

The current oxygen content limits set out in the 3 relevant Network Entry Agreements (NEAs) at Grain LNG are set at what can be regarded as a minimum level. This unduly and unnecessarily restricts the UK market in accessing certain LNG cargoes and is not conducive to promoting market liquidity, gas security of supply or competition between Users. The Proposer therefore believes that allowing a relatively modest increase to the oxygen content limit in each relevant NEA will be beneficial to the UK gas market as a whole.

This modification request has therefore been raised to enable the proposed changes to the NEAs, pursuant to Section I of the UNC Transportation Principal Document.

The Proposer believes that workgroup assessment of this proposal is unnecessary and requests that it is referred directly to consultation.

Solution

The proposal is to increase the limit for oxygen, as defined within each of the 3 Grain LNG NEAs, from the current limit of 0.001 mol% (10 ppm), to 0.02 mol% (200ppm). The proposed value falls well within the Gas Safety (Management) Regulation limit of 0.2 mol% (2000ppm) and is consistent with the oxygen level recently approved for the BBL/NTS Interconnection Agreement under UNC Modification 0561S.

Relevant Objectives

The proposal will promote effective competition between shippers and suppliers by allowing greater scope for the importation of gas via sources of LNG. This furthers relevant objectives d) (i) and d) (ii).

Implementation

No implementation timescale is proposed but it is recommended that implementation is as soon as reasonably practicable under modification governance arrangements.

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

This modification will have no impact on the Switching SCR or Project Nexus.

2 Why Change?

Importers of LNG are seeing a slightly broader range of cargo compositions arrive on the LNG market and, in particular, the oxygen content of the gas will vary from cargo to cargo.

The ability of a Delivery Facility Operator (DFO) to deliver gas to the NTS at an entry point (or sub-terminal) is limited by the Network Entry Provisions contained in the relevant Network Entry Agreement

(NEA) between the DFO and the relevant gas transporter. Amongst other things, the NEA will set a limit on the oxygen content of the gas to be delivered to the gas transporter's system.

At the Isle of Grain LNG import terminals, Grain LNG (the DFO) has 3 NEAs in place with gas transporters: 2 with National Grid Gas and one with SGN. The oxygen content limit in each NEA is currently set at 0.001 mol%. This limit is expected to be too restrictive for the delivery of some LNG cargoes, meaning that such cargoes may not be available to the UK market. This would have implications for:

- security of gas supply
- security of price
- market liquidity
- competition between gas shippers and gas suppliers.

It is therefore in the interests of the UK gas market to better facilitate the delivery of LNG cargoes at the Isle of Grain and this can be achieved by increasing the oxygen content limits in the relevant NEAs to 0.02 mol%. This is a relatively modest increase when one considers that the limit imposed by the Gas Safety (Management) Regulations is 0.2 mol%.

Further, the proposed new limit would not appear to be out of step with permitted levels of oxygen at other NTS entry points. A letter written by Ofgem to industry stakeholders, dated 20 September 2004, and titled "Establishing a gas quality Review Group" contained a table (Annex 3 of that letter) providing the then gas quality parameters applicable at 21 NTS entry points. Based on this, the oxygen content limits can be summarised as follows:

<u>O₂ Content Limit (mol%)</u>	<u># Entry Points</u>	<u>Cumulative # Entry Points</u>
0.001	8	8
0.100	9	17
0.200	4	21

The proposed new limit of 0.02 mol% for the relevant Isle of Grain NEAs sits well towards the lower end of the above distribution.

It should be noted that a similar enabling Modification, 0561S "Amendment to the Oxygen Limit within the BBL/NTS Interconnection Agreement", was approved by the UNC Modification Panel in November 2015 and implemented under self-governance arrangements in December 2015. An identical 0.02 mol% oxygen content limit was agreed.

Therefore, consistent with similar change requests to NEAs in the past and in accordance with paragraph I2.2.3 (a) of the UNC Transportation Principal Document, a Code Modification has been chosen as the means by which to effect the changes to the oxygen content limits in the NEAs at Grain LNG.

Justification for Consultation

On the basis that this is an enabling modification that is entirely consistent with other recent amendments to arrangements and that the Transmission Workgroup was consulted ahead of submission, with no concerns raised, the Proposer suggests that there is no further assessment required. It is therefore requested that it be issued directly to consultation.

3 Solution

Increase the maximum oxygen limit in each of the three Grain LNG Network Entry Agreements.

The solution to the issue raised in this proposal is to increase the permitted oxygen content of gas in the Grain LNG Network Entry Agreements from 0.001 mol% to 0.02 mol%.

This increased level would remain well within the level of 0.2 mol% allowable under the Gas Safety (Management) Regulations. It would also appear to be significantly lower than the limits permitted at the majority of other NTS entry points.

The Proposer understands that the Delivery Facility Operator has consulted the relevant gas transporters on the proposed changes and that they appeared supportive.

User Pays	
Classification of the modification as User Pays, or not, and the justification for such classification.	This modification is not User Pays as it will not amend or create a User Pays service.
Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view.	N/A
Proposed charge(s) for application of User Pays charges to Shippers.	N/A
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.	N/A

4 Relevant Objectives

Impact of the modification on the Relevant Objectives:

a) Efficient and economic operation of the pipe-line system.	None
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) The pipe-line system of one or more other relevant gas transporters.	None
c) Efficient discharge of the licensee's obligations.	None
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) Between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Positive
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are	None

satisfied as respects the availability of gas to their domestic customers.	
f) Promotion of efficiency in the implementation and administration of the Code.	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

Positive Impact of Increasing Oxygen Limits

Removing unreasonable restrictions on the deliveries of LNG will allow more gas to enter the UK market, improve liquidity and will therefore help to promote competition between gas shippers and gas suppliers as per relevant objectives d) (i) and (ii).

5 Implementation

To be implemented as soon as possible, consistent with the code governance arrangements.

6 Impacts

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

This modification would not impact the Switching SCR or Project Nexus.

7 Legal Text

As this is an enabling modification, no UNC text changes are required.

8 Recommendation

The Panel have recommended that this report is issued to consultation and all parties should consider whether they wish to submit views regarding self-governance this modification.