

Representation - Draft Modification Report 0498 and 0502

0498 - Amendment to Gas Quality NTS Entry Specification at BP Teesside System Entry Point

0502 - Amendment to Gas Quality NTS Entry Specification at the px Teesside System Entry Point

Responses invited by: **24 July 2015**

Representative:	Natasha Ranatunga
Organisation:	EDF Energy
Date of Representation:	24 July 2015
Support or oppose implementation?	0498 - Oppose 0502 - Oppose
Relevant Objective:	a) None d) None

Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

UNC 0498/0502 seeks to amend the upper CO₂ limit at Teesside from 2.9mol% up to 4mol%. This amendment is the preferred approach for the upstream gas field developer of the prospective gas field 'Jackdaw' otherwise it claims it would require additional investment in infrastructure and/or operating costs. The 'polluter pays' principle is the commonly accepted principle for charging policies such that those who cause environmental costs are made to pay the full cost of their actions. In this case, if UNC 0498/0502 is implemented and Jackdaw is developed, affected onshore parties will be wholly liable for the costs to meet CO₂ limit requirements and the developer will not bear any of these costs. The workgroup identified numerous impacts on consumers including CO₂ removal systems, storage facilities and Combined Cycle Gas Turbines (CCGTs). The proposers have not demonstrated that affected onshore parties will benefit from the proposed CO₂ limit changes. In fact those shippers who have contracts with Jackdaw gas may have a small cross subsidy from those who have not. Furthermore, other offshore operators will also be at a slight cost disadvantage. In any event these costs are likely to be passed down from the developer to the end consumer.

We do not believe that UNC 0498/0502 better facilitates Relevant Objective 'a'; the proposers have not demonstrated that the implementation of these modifications will ensure that Jackdaw will go ahead and consequently lead to extended utilisation of the existing NTS assets compared to potential curtailment of feasible supplies entering at Teesside. The proposers indicated during workgroup discussions that there is a very low likelihood that gas flowing into Teesside from Jackdaw will be above the existing 2.9%mol limit; therefore UNC 0498/0502 is not required for Jackdaw to be developed.

We do not believe that UNC 0498/0502 better facilitates Relevant Objective 'd'; this position was agreed by the workgroup. We note that the UNC Panel agreed to highlight a positive impact as National Grid National Transmission System (NTS) has a security of supply obligation in its Licence (Standard Special Condition A9¹); however we do not believe that the reasoning holds. This requires National Grid NTS to have in place capacity to meet all firm demand requirements on a one in 20 year peak day. National Grid NTS has not demonstrated that if UNC 0498/0502 is implemented, flows from Jackdaw will enable National Grid NTS to meet this obligation. The developer did not provide projected Jackdaw gas flow data or evidence that in the event that GB is experiencing tight gas supply Jackdaw would be able to increase its production so to provide additional support to National Grid NTS to meet its Licence obligation. Therefore, there is no evidence that UNC 0498/0502 better facilitates Relevant Objective 'd'.

We recognise the Government's efforts to maximise the UK Continental Shelf (UKCS), however this must be balanced with the desire for the UK to meet its targets to reduce emissions and move toward a low-carbon economy.

Implementation: *What lead-time do you wish to see prior to implementation and why?*

The proposer has confirmed that the developer's Final Investment Decision (FID) has been delayed from 2015 to 2017. The developer has stated² that it will undertake further studies to determine whether there are more economic and lower risk development solutions; this includes an assessment of a tie-back of the field to third-party infrastructure.

It would be prudent to delay implementation on these modifications if approved, until the developer confirms that it will be linking Jackdaw to the Central Area Transmission System (CATS) pipeline infrastructure with flows entering the NTS at Teesside.

Impacts and Costs: *What analysis, development and ongoing costs would you face?*

It has been very difficult to quantify the actual impact on individual plant as there is not sufficient data or information publically available. The workgroup has not been provided with multi-scenario projected flow data within the NTS and flow rates as a result of Jackdaw flowing into the NTS at Teesside. The variability of gas flow exiting the NTS, prevailing levels of CO₂, variability of gas flows into the NTS and gas flows from storage also needed consideration.

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution?*

The legal text reflects the intent of the solution; however we believe that the Network Entry Agreements (NEAs) should only be amended following a positive FID for Jackdaw.

¹ Standard Special Condition A9: Pipe-Line System Security Standards: <https://epr.ofgem.gov.uk/Content/Documents/Standard%20Special%20Condition%20-%20PART%20A%20Consolidated%20-%20Current%20Version.pdf>

² BG Group plc, 2014 Third Quarter & Nine Months Results: http://library.the-group.net/bggrouplc/client_upload/file/BG_Q3_2014_Results.pdf

Modification Panel Members have requested that the following questions are addressed:

Q1: Respondents are requested to quantify any additional costs they would incur as a result of a CO₂ excursion to 4.0 mol% at the Teesside terminal (flow maps are included to help respondents; see figures A2.1 to A2.4 in Appendix 2).

It is difficult to assess the additional costs we would incur as the projected Jackdaw gas flow data and gas flow rates and the forecast interactions with existing fields have not been provided by the proposer. However, the Draft Modification Report does provide a good overview of the impact on consumers.

Q2: Respondents are requested to quantify any wider benefits/dis-benefits for the UK economy that might be derived from these proposals.

The proposer has failed to quantify what the wider economic benefits to the UK economy would be if UNC 0498/0502 is implemented. The proposer has provided detail on what tax allowances the UK government has offered and in DECC's maximising economic recovery³ document it is highlighted that DECC is seeking to support the development of ultra high pressure, high temperature (uHPHT) projects and to incentivise the most efficient development of processing hubs and offtake routes. DECC has set the cluster allowance to encourage significant investment, while ensuring a fair return for the Exchequer.

The developer has publically indicated that these incentives are not sufficient for Jackdaw and has delayed its FID from 2015 to 2017. Therefore at this stage, even if UNC 0498/0502 is implemented it does not necessarily mean Jackdaw will be developed to provide any benefits for the UK economy.

Furthermore DECC's document also highlighted that associated exploration/ appraisal wells of HPHT and uHPHT costing in excess of £100 million (Jackdaw is estimated to be in the region of £3bn) carry up to a 90% probability of commercial failure without fiscal support.

Q3: Respondents are requested to quantify the security of electricity supply risk to CCGTs. It would be useful to know how many CCGTs could be affected, when they might be impacted and what flexibility there is elsewhere in the system to accommodate.

The Capacity Market seeks to ensure sufficient investment in the overall level of reliable capacity (both supply and demand side) needed to provide secure electricity supplies at levels up to and including peak demand. The 2014 Capacity Market resulted in 46% of the total capacity provided by CCGTs for delivery in 2018/19. With the closure of other technology plant, there is expected to be an increased reliance on CCGTs to support National Grid Electricity Transmission (NGET) to abide by the security standard as prescribed by secretary of state (currently three hours/ year loss of load expectation).

³Maximising economic recovery – consultation on a cluster area allowance: summary of responses (Dec 2014)
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/385159/cluster_allowance_response_doc.pdf

Changes to gas flows and/or variability of gas quality may lead to CCGTs facing additional challenges to run. If CCGT plant is unable to run during a stress event, the capacity provider will be liable for a capacity penalty and NGET may have to undertake some emergency measures to secure electricity supplies.

Are there any errors or omissions in this Modification Report that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

No

Please provide below any additional analysis or information to support your representation

No