

**Flare Transfer Pilot Trading Scheme
Framework for the Voluntary Transfer Scheme
2006
(FTPTS “RULES BOOK”)**

**Produced by the FTPTS Rules Group
11th April 2006**

1. OBJECTIVE

The objective of the pilot scheme is to evaluate the cost-effectiveness and practicality of transferring/trading flare consents as part of a voluntary initiative to reduce the amount of gas flared in the UKCS.

The scheme shall be:

- Voluntary, with minimal risk for participants;
- Committed to reduce flaring;
- Simple to administer and implement;
- Transparent in structure;
- Credible to stakeholders;
- Demonstrate the commitment of participants to self-regulation and continuous improvement in environmental performance;
- Aligned with the UKOOA Sustainable Development Strategy;
- Geared to compatibility with the work of the UK Emissions Trading Scheme (ETS);
- Aligned with legislative developments.

The success of this scheme will be assessed in terms of demonstration that flare “Transfer” is realistic and workable and results in demonstrable reductions in the amount of gas flared, over and above that which could be achieved under the existing control framework.

2. LEGAL FRAMEWORK

- The scheme will operate within the existing framework of legislation covering flare consents. The scheme is generally applicable to 12-months consents. However, 6-months consents would be considered for entry within the FTPTS providing the DTI were content with inclusion of that consent within the scheme. The decision for actual entry of the 6-month consent into the FTPTS would then be taken by consensus of the Steering Committee;
- The scheme shall be voluntary. It will be open to all operators who can nominate the assets to be included in the scheme;
- The point of entry of the scheme for an asset will be through setting a voluntary asset target at a minimum percentage of the DTI consent (set annually). Contact for inclusion in the FTPTS shall be made directly with the Chair.
- No financial transactions will take place. The terms “Buyers” and “Sellers are use here for convenience only;
- Participants are permitted to leave the scheme. It should be noted, however, that any revised flare consents issued within the “Transfer” scheme will remain applicable to participants who leave the scheme early;
- Participants will not be under any obligation to transfer any mass of flare;
- Flare consents will be issued in the same format as they are now at the beginning of 2006, but the DTI will seek to facilitate the ‘Transfer’ of flare consent mass between fields to achieve better working flexibility.

3. DEFINITIONS

- The emission to be included within the scheme is the flare for an operated facility, as defined by a single DTI consent.

4. DURATION OF TRIAL

- The voluntary transfer scheme will run from 1st January 2006 to 31st December 2006;
- All participants will be expected to prepare for entry on 1st January 2006. There will be scope for late entry into the voluntary transfer scheme. However, late entry will be determined on a case by case basis and must be specifically authorised by consensus of the Steering Committee;
- The deadline for notification of intention to enter into the scheme will be the 31st January 2006.

5. TARGETS & "CAPPING"

- Companies will set their own voluntary targets for each asset entered into the scheme. Targets shall be lower than the consent awarded. These targets should be realistic and achievable, but will also need to be sufficiently stretching to be credible to stakeholders;
- The consents issued by the DTI will essentially cap the voluntary transfer scheme. The DTI will not increase the overall level of consents already issued to operators;
- However, companies may undertake voluntary "Transfer" above their consent levels. This will only be possible if they are able to identify a "Seller", willing to reduce their consent level by official application to the DTI. In this way, the "Seller's" consent would be decreased and the "Buyer's" consent would increase, such that the overall total of consents issued by the DTI to the two participating parties would not be increased;
- Companies may only "sell" unused flare below their voluntary target level.

6. OPERATIONAL FRAMEWORK

Two operational scenarios can be envisaged within the course of the scheme:

- See appendix A. All transfers are below the DTI consent level for both "Buyer" and "Seller". It is envisaged that such transfers will not require any modifications to consents held by the "Seller" or "Buyer";
- See appendix B. Transfers require that one or more consents are exceeded. If a participating field believed it would exceed its flare consent, licence holders/operators could examine the possibility of obtaining the shortfall from other fields participating in the scheme, where spare consent may exist. In this case, both the "Seller" and the "Buyer" operators involved will then have to apply to the DTI under the terms of the existing model clauses to have consents adjusted accordingly for their respective fields. In practical terms, the "Seller" would be required to apply for a lower consent level while the "Buyer" would be required to apply for a higher consent level. If either operator then left the scheme, the revised consent levels would be legally applicable. Operators will not be able to revert to their "original" consents without further negotiation with the DTI;
- Where flare transfers take place, voluntary asset targets shall be adjusted accordingly;
- If a member field stopped production, continued participation within the FTPTS scheme would need to be negotiated with the DTI on a case-by-case basis.

It is recognised that an operator/asset could be forced to leave the scheme in the event that it attempted to access flare mass but none was available. In this case, the operator would have to withdraw the asset from the voluntary scheme and apply to the DTI to increase flare consent following standard procedures.

7. ADMINISTRATION & RECORDING

- Each company participating in the scheme will nominate an authorised person or persons as their focal point(s) in the scheme;
- The DTI will maintain a record of all focal points of participating companies in the scheme;
- The DTI Consents Group (based at Atholl House, Aberdeen) will be notified of all transfers and will act as a central repository for associated records. This recording will be done as part of ongoing data capture and recording processes i.e. no additional bureaucracy;
- "Buyers" will inform the DTI in writing of a desire to access consent and "Sellers" will likewise inform the DTI of a willingness to provide any surplus;
- Any request for consent-related transfers shall be responded to within 2 weeks;
- The DTI will act as a co-ordinator in all transfers. The policy is to ensure that for each increase there will be a corresponding decrease in consent mass;
- All requests, both full and partial, will be allocated on a "first come, first served" basis;
- Where a company has more than one asset participating in the scheme, these assets may transfer consent between them (intra-company transfers) prior to offering/requesting consents to/from the wider scheme.

8. UNITS OF TRANSFER

- The minimum unit of transfer will be expressed as an average daily rate for the year as 3 tonnes per day, in accordance with existing DTI guidelines for flare measurement;
- The voluntary scheme will not be limited by a maximum amount of “Transfer”.

9. MEASUREMENT AND DATA ACCURACY

- Established, auditable, practices within the industry will be the basis of measurement and data accuracy. New flare metering facilities will **NOT** be necessary for participants in the FTPTS;
- Reductions resulting from modifications to calculation methods will not be accepted within the voluntary scheme unless the consent levels have been revised accordingly.

10. GOVERNANCE & RECONCILIATION

- A steering group will be formed, comprising of all participating companies, the DEFRA and the DTI, to review progress with the scheme and address any issues that arise during the course of the year. UKOOA will be offered observer status within this group;
- The group will meet quarterly, with this frequency reviewed as appropriate;
- There will be a forty-five (45) day reconciliation period at the end of the pilot scheme.

11. CONTACTS

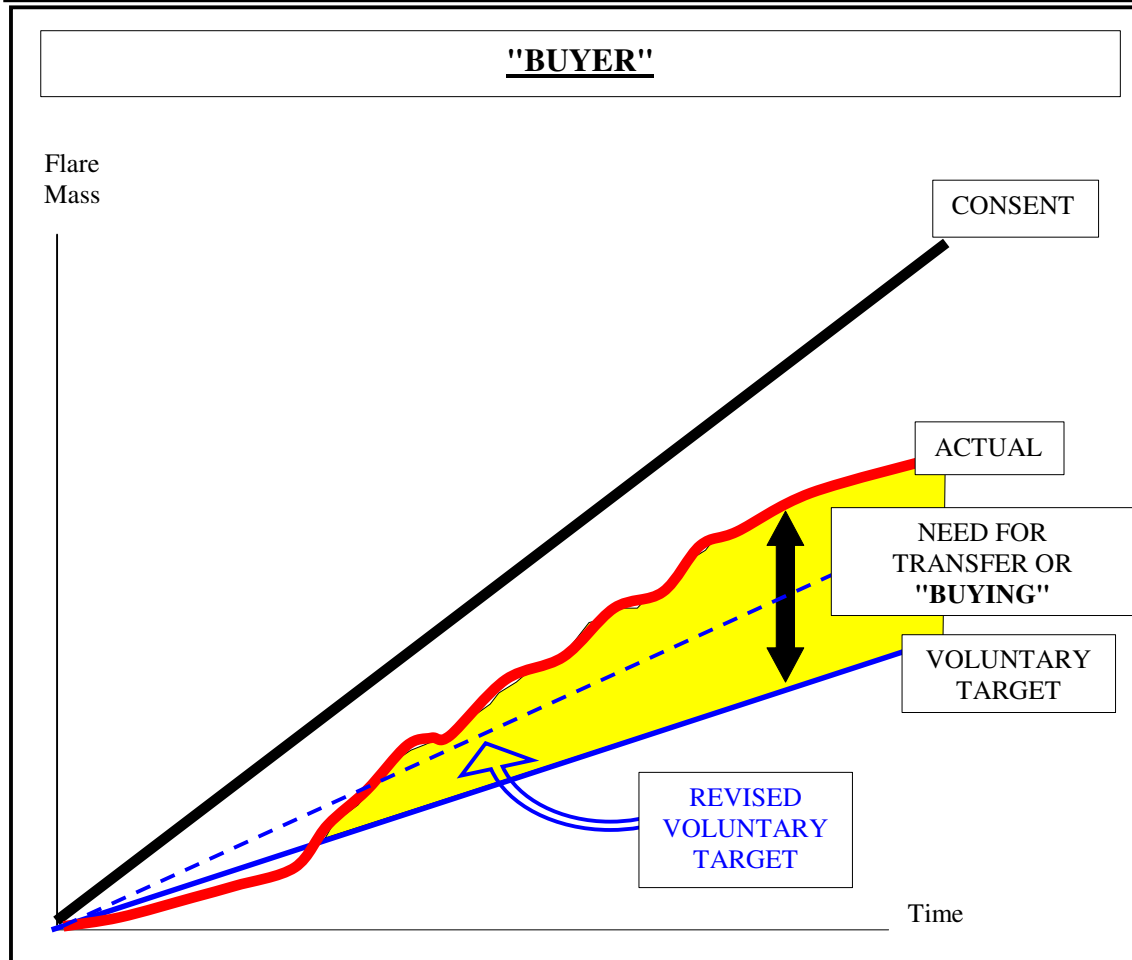
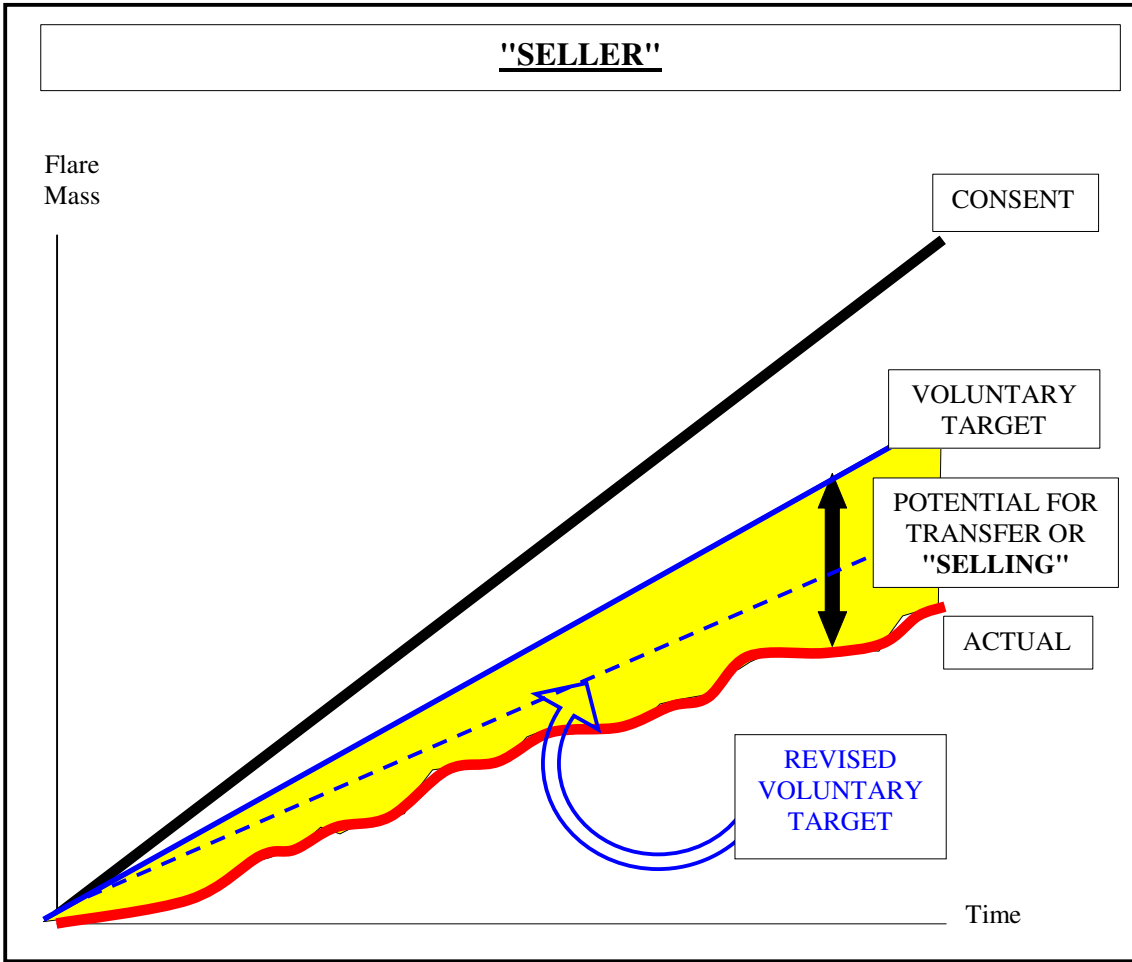
If you wish to join the voluntary transfer scheme, please notify the following DTI representatives before 31st January 2006:

Mark Simpson	DTI	Mark.Simpson@dti.gsi.gov.uk Tel: 01224-254-068 Fax: 01224-254-089
Carol Campbell	DTI	carol.campbell@dti.gsi.gov.uk Tel: 01224 254053 Fax: 01224-254-089

If you have any queries regarding any items within this Rules Book, please contact the following industry representative:

Jill Caspers	Shell	jill.caspers@shell.com Tel: 01224 883962 Fax: 01224 881729
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Appendix A, showing transfer of flare by assets operating within levels set by their flare consents.



Appendix B, showing transfer of flare above consented masses. This situation would require formal review by DTI, with both "Seller" and "Buyer" consents modified accordingly.

