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24 June 2005

OFGEM CLOSES GAS PROBE

Ofgem has today (Friday) closed the outstanding GB aspects of its gas probe.

Ofgem's analysis concluded that there is no reason to take any further action at present in respect of flows of gas from the Sean fields or the Sean sales contracts. Ofgem will publish a report explaining the economic analysis and reasoning behind today's decision shortly.

In October 2004, Ofgem published its Gas Probe, which concluded that high gas prices were mainly the result of:

- high oil prices feeding through to British prices, predominantly via the pipeline link to the rest of Europe, and
- faster than expected decline in gas supplies from the North Sea.

Ofgem's analysis also highlighted a number of unanswered questions about why supplies of gas from continental Europe to the GB market did not respond more rapidly when GB prices increased unexpectedly.

Ofgem shared its analysis with the European Commission and other regulators at the time. Since then Ofgem has welcomed the decision by the EU Commission to investigate thoroughly the European gas and electricity markets and will be working closely with the Commission throughout this enquiry.

Market surveillance is a key part of Ofgem's role. Ofgem continually monitors all aspects of the wholesale energy markets for any signs of anti-competitive behaviour and has powers to take action against companies who are found to have behaved anti-competitively.

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Notes to Editors

1. **Sean contract.** Ofgem has been undertaking a detailed assessment of the conduct of the counterparties to the Sean South and Sean North contracts and of the contractual arrangements themselves with the co-operation of the three producers associated with the field, Shell, ExxonMobil and BP, and the buyer of gas from the Sean field, Centrica.

This followed on from Ofgem's gas probe analysis which indicated that there were contractual arrangements relating to a small number of UKCS gas fields which may have prevented gas that was physically available from flowing to the market during periods of high prices. Of these fields, Sean was the most material, in terms of volume.

2. A report explaining the economic analysis and reasoning behind today's decision will be published in due course. As a result of the confidential nature of some of the data involved in

Ofgem's analysis, Ofgem needs to discuss the contents of its report with Centrica, Shell, ExxonMobil and BP prior to publication.

3. **Outstanding European issues.** Ofgem concluded in **October 2004** that there were three further questions relating to European gas supplies that it was not able to answer, given the information available.

These questions were:

i) was any surplus gas contractually available to European gas companies offered to companies to import into Great Britain

ii) was the decision by several European gas companies to continue to put gas in store, rather than sell it to companies to import into Great Britain, reasonable, and

iii) was surplus capacity on the European gas pipeline networks made available to allow any surplus gas to be transported to the interconnector so that it could be imported to Great Britain?

4. Ofgem is the Office of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority, the regulator of the gas and electricity industries in Great Britain. Ofgem's aim is to bring choice and value to all gas and electricity customers by promoting competition and regulating monopolies. The Authority's powers are provided for under the Gas Act 1986, the Electricity Act 1989 and the Utilities Act 2000.

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