

24 June 2005

Ms Sonia Brown
Director, Markets
Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

Dear Ms Brown,

**3rd Party Proposal: Publication of near to Real Time Data at UK Sub-Terminals –
Modification Number UNC 006 (727)**

We enclose our response to Ofgem's Impact Assessment dated May 2005 addressing the above modification proposal. In the short time allowed by Ofgem, UKOOA has managed to consult widely with member companies on the document.

UK offshore gas producers are committed to ensure that there is adequate information available to all to provide for the efficient operation of the UK gas market. DTI led an extensive voluntary initiative on the provision of gas information over 2003/4. This was supported by UKOOA, Transco and Ofgem, all of whom agreed to the process and the efficacy of the outcome. This two year process has already resulted in a significant increase to the quantity and quality of information provided to the gas market. However it will only be completed in July this year with the publishing of near real time gas flows into the NTS aggregated on a north south basis.

UKOOA believes that it is premature to make any further changes to the current agreements on the publication of gas information before the current process is complete. This seems even more sensible given that the published impact assessment clearly indicates that it will not be possible to implement the modification before this winter, and might extend beyond the next winter 2006/7.

UKOOA further believes that the proposed modification will increase price volatility, which would be prejudicial to consumer prices. This conclusion is supported by Oxa in their independent review of the provision of real-time gas information, which has been separately supplied to Ofgem. It also appears that the Impact Assessment does not address the potential impact on upstream investor confidence, which if damaged may ultimately reduce long term security of supply.

We would also note that this Impact Assessment does not indicate when Ofgem will respond to the wider consultation on the question of confidentiality of TBE information. We had hoped that the outcome of that consultation would be determined first, before a decision was taken on this modification.

Our full response to the Impact Assessment is attached. Naturally, we remain available to discuss our comments further, if you so wish.

Yours sincerely



Malcolm Webb
Chief Executive

Copy: Joan MacNaughton; Claire Durkin (DTI)

Response to Ofgem's Impact Assessment regarding 3rd Party Proposal for the Publication of Near to Real Time Data at UK Sub-Terminals: Modification reference number UNC 006 (727)

Introduction and Summary

UK Offshore Operators Association (UKOOA) responded to the draft report about this third party proposal in March 2005, as it did to Ofgem's separate consultation about information disclosure relating to gas production. We therefore welcome the opportunity to comment on the impact assessment (IA) dated May 2005.

In summary, UKOOA makes the following points:

- **UKOOA supports the increased provision of information to assist the functioning of the gas market, as agreed during talks chaired by DTI in the winter of 2003-4, to which Ofgem, Transco and UKOOA were parties and which led to Phases I, II and III information disclosure.**
- **However, this support has always been subject to the proviso that information which could prejudice the commercial position of individual companies should not be published. During the 2003-4 discussions, UKOOA understood this principle to have been accepted by both DTI and Ofgem (as set out in Ofgem's letter of 23rd October 2003 and elsewhere). For this reason, it was agreed that certain data under Phase III of the agreement should only be published in aggregated form.**
- **Modification proposal UNC 006, if implemented, would require Transco to publish such data in disaggregated form. This would be contrary to the agreement reached in March 2004 and to the principle of preserving the confidentiality of commercially sensitive data. In addition, any liabilities which might arise from such disclosure have been overlooked in the Impact Assessment.**
- **The IA, while addressing the effects of the modification on the downstream market, does not appear to have taken sufficient account of the damage which could result in the upstream sector, including effects on new import projects and the investment climate of the UK continental shelf. This has implications for security of gas (and oil) supplies.**
- **Figure 5.2, the schematic illustration of potential costs and benefits, presents a disproportionate view of the effects of the modification proposal. It suggests that the sizeable body of existing information has benefits which are less than those of Phases I, II and III of DTI's scheme and that this modification**

proposal could have benefits which exceed those of either that existing body of information or Phases I, II and III combined. It also does not portray the increase in price volatility which the modification is likely to induce.

- The net benefits of this modification over those provided by Phase III information are indeed marginal, being indicated in the IA at a few millions of £ p.a. (£6.3 million) against a value of gas flowing through the NTS of about £10 billion p.a. (i.e. a net benefit of about 0.06 per cent of the value). In addition, the IA does not appear to give due weight to estimates of potential costs suggested by other parties.
- While Ofgem has stated that the baseline for measuring costs and benefits is the full implementation of Phase III of DTI's scheme (with which UKOOA agrees and which will be achieved from July 2005 onwards), it is often very difficult to discern this when reading the text of the IA; indeed, it is far from clear that a consistent approach has been followed in this regard throughout the document.
- There is a tendency within the IA to draw much firmer conclusions than the conditional and tentative nature of the evidence presented would suggest is appropriate.
- Therefore, UKOOA believes that the correct course of action is to press ahead with the full implementation of Phase III of DTI's information disclosure scheme, in accordance with the agreement reached in 2004, allowing time for it to take effect before considering whether any further changes are desirable.

Information Disclosure

As is referred to in sub-sections 2.75 - 2.78 of the IA, Ofgem consulted on much wider issues regarding information disclosure in February and March 2005, albeit the genesis of this was the narrower matter of the temporary derogation to Transco's GT licence granted in April 2004 which related only to Phase II information of DTI's scheme. UKOOA responded to this wider consultation and understood that the outcome of this would be determined first, so that the broader framework regarding information disclosure would be established, before a decision was taken with respect to modification 727 (UNC 006).

Phase II information of DTI's scheme (TBE data), of all items of information which have been debated recently, is much the most significant with respect to the security of the UK's gas supplies. The informal, temporary derogation to Transco's GT licence which was only to last for 6 months, when it was introduced in April 2004, is now 14 months old and open ended in duration.

It would be helpful to know when these wider decisions will be taken and how the decision on UNC 006 will fit within this broader framework.

Oxera Report on Impact of real-time gas information

UKOOA has commissioned Oxera to conduct an independent review of the Impact of the provision of real-time gas information. Oxera have assessed the benefits of the voluntary initiative and have also considered the impact of the proposed network code modification (no. 0727) which would require gas flows on a sub-terminal basis to be published on a near real time basis.

Whilst UKOOA separately provided this document to Ofgem on 20 May, we would again highlight the conclusions in which Oxera state that:

- The current voluntary initiatives on information provision could benefit the consumer by up to £160 million over the next 15 years.
- It is not clear that providing data on a sub-terminal basis (network code modification proposal 0727) will offer net benefits, and could have a net negative consequence for the consumer.
- Further increase in the provision of information may create excessive volatility which would be prejudicial to consumer prices,
- The total benefits of providing information on gas flows into the NTS have been previously over estimated and are up to 15 – 70 times higher than Oxera's estimates.
- Phase III of the current initiative is yet to be completed. Time should be taken to assess the benefits to the market before contemplating further changes, such as modification 0727.

Market Functionality – Global Insight's Report for DTI

Global Insight's report which examined the workings of the forward gas market in Great Britain found that it was technically and functionally sound, free from major distortions and abuse, but lacked the scale and liquidity necessary to reach full maturity. It probably needed to evolve into a north-west European market to give it the scale and liquidity which is evident in North America.

During discussion of the report, when it was first presented to the industry, at a seminar organised by DTI on 16th May which Ofgem attended, it was clear that, in contrast to the forward market, the prompt/short term market in GB is of a sufficient scale and liquidity to have reached maturity, as well as exhibiting the other positive attributes above.

This has considerable significance in the context of the modification proposal. It is difficult to believe that UNC 006 would have benefits for security of supply in both the short and long terms, or that equal benefit weightings should be assigned to both in the summary of costs and benefits. The baseline for measuring costs and benefits is full implementation of Phase III of DTI's scheme, the difference between UNC 006 and Phase III being very short term, detailed information. Therefore, the benefits, if any, will be very small and short lived.

Furthermore, it is impossible to imagine that the decision to invest in, say, the Ormen Lange field and the Langeled pipeline would have been positively swayed by possession of such detailed knowledge. However, it is entirely plausible that an adverse effect would be created by UNC 006, if the investing participants believe that their commercial positions would be exposed to other participants within the market, as well they may now do.

This reinforces one of Oxera's conclusions in its report commissioned by UKOOA and provided to Ofgem: "It may, therefore, be prudent to wait for a period after the implementation of Phase III to estimate more accurately the likely outturn benefits to consumers of proceeding with additional disclosure, such as that proposed in mod. 727."

Detailed Points within the Impact Assessment

UKOOA offers the following detailed comments; we have tried, where possible, to group them and we have omitted some minor ones.

2.60. It should be noted that most nominations are made by shippers on producers (field owners) and not by producers. Field operators aggregate the nominations advised to them by the field owners, in order to determine how much gas to produce, and this information is passed on to sub-terminal operators who produce the DFNs for advising Transco of expected flows of gas into the NTS.

Table 2.1. The box of "Information" in Phase I seems to contain information relating to electricity.

3.50. (& 5.83) It is clear that UNC 006 will not be capable of introduction in time for next winter (2005-6), when the supply-demand balance is likely to be tighter than either previously or subsequently. Indeed it could easily take two years to implement based on Transco's response and assuming additional time is required for specification and design work. However, Phase III will be fully operational shortly, i.e. before next winter, with the beneficial effects that it will bring at a crucial time.

4.1. As noted in the summary, this list of impacts does not adequately consider the consequences for gas producers and upstream investment. It also does not mention potential breaches of confidentiality and the liabilities which may arise, particularly for Transco.

4.5 – 4.11. Ofgem does not appear to have considered the significance of linepack data which are freely available within the market. Furthermore, Ofgem does not consider here the benefits which will arise from the availability of Phase III information.

4.7 & 4.8. UKOOA's understanding of the interruptions in summer 2003 is that Transco's intervention in the OCM produced no offers of physical gas at East Anglian terminals, the only ones which could have helped. However, no use was made of LNG at Grain which was the nearest gas to the shortfall in satisfying demand, interruption being Transco's preferred (and legitimate) solution. The conclusions drawn in 4.8 are, therefore, highly questionable.

4.9. UKOOA notes the statement that "the beach supply situation was tighter than anticipated"; we would like to point out that it peaked at 91% of expected beach maximum, in line with UKOOA's earlier analysis which had been advised to DTI, Ofgem and Transco.

Also, it is a matter of meteorological record that the weather across mainland Europe was substantially colder than seasonal normal at the time (ref. "there were rumours of" – emphasis added by UKOOA) and it is also on record that widespread interruption of gas supplies was exercised in France, Spain and Belgium. These factors were combined with difficulties in Italy, following the reported disruption of pipeline flows from north Africa.

4.16. To some degree, volatility is a natural phenomenon of all markets, almost regardless of their maturity, as evidenced in the oil, currency and stock markets. To the extent that UNC 006 has an effect, it is likely to introduce more volatility, not less, as the IA recognises. The unknown is whether that volatility will remain or will decline with time.

4.25. It is most doubtful if the difference between UNC 006 and Phase III information could ever constitute a component of "conclusive information" with regard to reaching investment decisions.

5.5. We agree with the selection of the baseline.

5.15 & 5.16. We have commented in the summary on Figure 5.2 which we consider is a distorted view of the potential costs and benefits of UNC 006, ascribing possibly greater benefits from the proposal than from all three phases of DTI's scheme and from the large body of information already available (see the appendix for a table of short term information available to market participants and Oxera's report for a tabulation of all information). In reality, the proposal represents a change to one item in Phase III of DTI's scheme and has risks attached to it which Ofgem has not adequately assessed (see 4.1 above).

5.26. All markets are affected by rumours, whether they turn out to be true or false. This is in the very nature of markets and always will be.

5.27 – 5.30. We have commented above in 4.7 & 4.8 about the interruptions in summer 2003. Given the lack of reaction in the OCM, it is difficult to see how UNC 006 would have made a difference. The same applies to 5.72 – 5.73.

5.49. It is interesting to note that Ofgem's estimate of £5 million per year is predicated on real time information, including the magnitude and expected duration of an unplanned outage. Not only is it almost impossible to predict such information, any attempt to do so may well be misleading and, most importantly, the data which it is proposed should be published will only relate to physical flows of gas. The estimated benefit cannot, therefore, be realised via UNC 006.

5.61 & 5.62. UKOOA suggests that Ofgem's confidence in the metering of gas is not borne out by practical experience. Indeed, the end of day settlement procedures under the Network Code, for example, explicitly recognise the uncertainties and so allow sufficient time for these to be reconciled.

5.63 – 5.70. The benefits which UNC 006 may have could equally be ascribed to Phase III information, once fully available, i.e. from this July. The baseline line is, therefore, not being used with consistency throughout the IA.

5.85 – 5.101. UKOOA notes Ofgem's preliminary assessment of potential contractual renegotiation and liability risks and the lack of any thorough analysis. It is almost impossible to estimate the magnitude of the costs which would arise, because no one knows how many contracts would have to be renegotiated (or would be willingly renegotiated) or of the consequences of any breaches of confidentiality. We suggest that the implications contained in 5.88 and 5.90 would need to be carefully considered case by case

UKOOA simply points out that a) it expects all contracts to be honoured whether they are existing or amended contracts, b) some parties may be willing to renegotiate, but some may not, c) it agrees with Transco that any renegotiation is likely to be protracted and d) should liability risks for breaches of confidentiality crystallise, even if that is an unlikely event, these will probably involve substantial sums far in excess of the estimated annual benefits of UNC 006.

UKOOA also notes out that the 10 mcm/d capacity threshold affects all beach-head sub-terminals and most new import terminals; also, eight individual offshore fields can meet or exceed this rate of production. Therefore, it is likely that there will be a significant number of upstream parties affected by UNC 006 and their concerns should not simply be brushed aside by broad statements. See further comments in 5.102 – 5.112 below.

Finally, UKOOA wishes to point out once more that there is no equivalent in the electricity market of risk in the performance of a gas (or oil) reservoir (ref.

5.100) which offshore producers face at all times. We question, therefore, the validity of trying to draw parallels between the two markets.

5.102 – 5.112. It seems to UKOOA that issues relating to Phases II and III are being thoroughly confused here. Phase II data (TBE information) are protected under confidentiality provisions between individual producers and Transco which are specific to Phase II and have no bearing on Phase III.

UNC 006 information is similar to category 1 of Phase III, but less aggregated. In our response to the DMR on 2nd March, UKOOA stated that “Additionally, this aggregation [as agreed for Phase III] maintains the confidentiality of the information, a point which was recognised by all participants in the discussions. If such confidentiality were breached [as a result of mod. 727], it is possible that operators would seek redress and re-consider whether to continue to provide the data. This would not be in the interests of improving the operation of the gas market.” These sentences, therefore, relate to Phase III and not to Phase II (TBE) information which stands on its own and where resolution of the issue of the temporary derogation is still pending (ref. Ofgem’s separate consultation).

Ofgem was a party to DTI’s scheme, although it made its preference for compulsion known. However, it supported DTI’s scheme and, according to 2.69, continues to do so. In 5.102 – 5.112, Ofgem ascribes to producers an intent to withdraw information (Phases II and III) should the proposal be implemented. UKOOA would like to point out that this risk would not arise if DTI’s scheme were fully implemented and adhered to by all the parties to it and that this IA about UNC 006 (i.e. disaggregated Phase III information) should not be confused by introducing consideration of unrelated Phase II (TBE) information.

As stated in 5.85 – 5.101 above, 5.102 – 5.112 deal very broadly with the 10 mcm/d capacity threshold. For example, in 5.110 on p.87,

- “a dozen fields on average” masks a wide variation, given that eight individual offshore fields are each capable of this rate of production, and
- “...., in the majority of cases, the risk is relatively low” may well be true, but what is intended when these risks do arise?

All of this is inconsistent with Ofgem’s previous assurances regarding confidentiality which we would have expected to be honoured. Should such risks materialise and producers’ interests are thereby seriously and prejudicially affected, they will no doubt consider what remedies are available to them.

5.113. UKOOA does not agree that duplicate metering can simply be treated as a risk for Transco. It has a significant cost relative to the benefits of UNC 006.

5.128 – 5.131. Ofgem has been provided with a copy of Oxera’s analysis for UKOOA of the costs and benefits of near to real time gas information. As independent consultants of some standing, we believe that Oxera’s analysis deserves greater consideration within the IA than appears to be the case.

UKOOA intends to post the report on its web-site at the same time as submitting this response to Ofgem.

UKOOA remains convinced that this modification proposal, UNC 006, will have adverse effects on the upstream production industry which have not been fully assessed in the IA. In particular, the proposal risks the disclosure of commercially confidential information which the parties to DTI's scheme agreed should not happen.

Malcolm Webb
Chief Executive

24 June 2005

Appendix (reproduced from Oxera's report for UKOOA)

Short-term information available to gas market participants

Blue (light) shading = Phase 3 data to be provided from July 2005

Red (dark) shading = data proposed under energywatch Mod 727 (UNC 006)

Day Ahead	On the day	One-day lag
Interruptible capacity available	Likelihood of interruption	Daily balance report
Likelihood of interruption	Forecast demand by each LDZ and in aggregate ¹	MSEC auctions
Forecast demand by each LDZ and in aggregate	End-of-day aggregate forecast flows into the NTS, disaggregated by north/south (hourly)	Actual Demand
End-of-day aggregate forecast flows into the NTS, disaggregated by north/south	System nomination balance (incl. requested energy and scheduled energy (hourly))	Entry and exit capacity (within day futures)
System nomination balance (including requested energy and scheduled energy) (hourly)	Projected closing linepack and opening linepack	Projected throughout
	Capacity volume and price for advice within-day firm capacity bids by ASEP	Price information (e.g. data on bilateral deals via Heren)
	System nomination balance	Customer nominations for Hornsea
	Aggregate site nominations for Rough storage site ²	Natural gas price index
	Aggregate site nominations for Hornsea storage site ²	Number of traders on OCM, WAP, energy (th) values (£)
	Price information (e.g. via screen-traded markets)	SMP Buy, SAP and SMP sell
	Hourly data on actual flows into the NTS aggregated into north/south zones	Actual flows into the NTS at individual sub- terminals
	Real-time data on actual flows into the NTS at individual sub-terminals	

Notes: ¹ LDZs are now known as distribution networks (DNs). Information reported here as presented on Transco's website.

² The data highlighted for Hornsea and Rough storage sites is indicative. It does not present the only data available from storage sites based on an exhaustive search.

Source: Publicly available information from multiple sources, such as company websites.