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OFGEM MAKES PROGRESS ON OFFSHORE AND LNG GAS SUPPLIES

- National Grid's forecast of UK gas production remains robust
- All available North Sea gas has been flowing, but some genuine production problems have reduced supplies on certain days
- Gas companies confirm plans to ship in Liquefied Natural Gas (LNG) to ensure constant flow of gas over the winter and improve transparency
- The European Commission has assured Ofgem that it will analyse our concerns about the flow of gas from the continent quickly and will undertake the necessary investigations
- Ofgem continues to monitor market closely to ensure no anti-competitive behaviour is restricting gas supplies

Last week Ofgem made clear its concerns about the levels of gas supplies from the Britain's offshore fields, the Isle of Grain LNG terminal and through the interconnector pipeline with Belgium. Some of these concerns have eased following several urgent initiatives.

On UK gas supplies, Ofgem today (Monday) publishes analysis carried out jointly with the Department of Trade and Industry (DTI), using data provided by the offshore industry. This shows that all available gas supplies have been flowing from the North Sea during the recent period of high wholesale gas prices. Any shortfall on certain days resulted from a combination of planned and unplanned maintenance of North Sea gas facilities.

On LNG imports, Ofgem has today welcomed news from National Grid, BP and Sonatrach about the use of the Isle of Grain LNG import facility this winter. BP and Sonatrach have stated that the facility will be utilised fully over the next fortnight and that they expect to be using the full capacity of the facility until the end of the winter. The three companies are also improving the arrangements for transparency and "use it or lose it" at the Isle of Grain facility.

On European imports, Ofgem wrote to the European Commission on 25 November, asking them to investigate why more gas had not flowed through the interconnector when UK gas prices were above European levels. Ofgem also highlighted its concerns about arrangements in other Member States (such as Spain) that could be preventing LNG being delivered to the UK. Today the Commission confirmed that it will analyse Ofgem's concerns quickly and undertake any necessary investigations.

Chief Executive, Alistair Buchanan, said: "Good quality information is the lifeblood of any market. Uncertainty in this winter's tight gas market can lead to consumers paying an anxiety premium as market speculation takes the place of hard facts. Our announcements today are designed to ensure that everyone has the most accurate information about gas supplies this winter."

“Although Ofgem is not the offshore gas regulator, we have been pleased to assist the DTI. This has enabled us to reassure the market and consumers that National Grid’s forecast levels of UK gas production for this winter remain robust.

“We welcome BP and Sonatrach’s commitment to supply the UK with LNG gas and the prompt action by National Grid Grain LNG Ltd to improve transparency at the Isle of Grain terminal so other parties can use any spare capacity to bring gas into the UK if BP and Sonatrach do not.

Ofgem will continue to use the information provided to it by the DTI to monitor and analyse North Sea supplies to make sure that all available gas is flowing. Ofgem and DTI will continue to keep the market informed by publishing further announcements if this analysis suggests that the Winter Outlook forecasts need updating.

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Notes to Editors:

1. Offshore information

Ofgem has been working with the DTI, which regulates the offshore industry, to establish why offshore deliveries were lower than expected on a number of days during the cold spell at the end of November.

As part of this work, the DTI have shared information with Ofgem provided to DTI by the offshore producers. Analysis of this information has shown that a combination of unplanned and planned maintenance was the cause for lower deliveries from UK gas supplies at the end of November.

Ahead of this winter, Ofgem asked National Grid to carry out a consultation on the winter outlook. Following extensive consultation with the industry, including gas producers, National Grid established that maximum flows from beach could be expected to be at 327 mcm/d with average reliability of 92.5%.

The DTI’s most recent work confirms the Outlook forecast for both maximum daily gas delivery at the beach – 327 mcm/d - and offshore reliability. As in any year, it is expected that there will continue to be technical problems offshore affecting reliability but this was taken into account in National Grid’s forecast that assumed average reliability of 92.5%.

Actual production was 297 mcm/d or 91% of the maximum beach forecast, close to the average beach gas availability of 92.5% forecast by National Grid. Based on information producers have voluntarily provided to the DTI, all of the shortfall can be directly attributed to genuine and known production difficulties.

2. Isle of Grain LNG terminal

The Isle of Grain import facility is owned by National Grid Grain LNG Ltd and BP and Sonatrach have booked capacity at the terminal under long-term contracts.

Ofgem gave the terminal an exemption from European Directives requirement to have regulated access to the terminal on the condition that National Grid Grain LNG Ltd had in place effective “use it or lose it” arrangements so that other companies could import gas through the facility if BP/Sonatrach were not using the facility. Ofgem has the power to amend or revoke this exemption if the “use it or lose it” arrangements are not satisfactory.

Ofgem had written to National Grid Grain LNG Ltd on 25 November expressing concerns about transparency and the 'use it or lose it' arrangements. A copy of this letter was published on our website.

National Grid Grain LNG Ltd has assured Ofgem that it remains in full compliance with the terms of the exemption. In response to Ofgem's concerns National Grid have enhanced the information available on their website to companies who might want to use the facility and will launch further enhancements on the 16th December to the processes involved in both assessing the availability of LNG import capacity and how this is made available to potential LNG importers.

BP and Sonatrach have launched a new website (www.lngga.com) with information for gas suppliers on how to access their capacity at the facility.

National Grid will also host a workshop in the next fortnight with companies, who might want to use the facility this winter, if BP and Sonatrach are not using all of their capacity. This meeting will be chaired by Ofgem in a facilitation role and will consider any further enhancements to either transparency or the use it or lose it arrangements.

3. Europe

Ofgem identified its concerns to the European Commission in a letter from Sir John Mogg on the 25th November 2005. A copy of the letter is available on the Ofgem website. For more information on Ofgem's announcement last Monday 28 November, please see the Ofgem factsheet "Wholesale gas prices rises explained" on the Press Office section of the Ofgem website (www.ofgem.gov.uk).

4. Ofgem

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. Under the Utilities Act, Ofgem is not the sectoral regulator for the offshore gas industry.

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