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UNC 006 - Ofgem Impact Assessment - Case Study

Hannah Cook
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9 Millbank
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Dear Hannah,

Thank you for your letter of 10 January 2006 on "Publication of Near Real Time Data at UK Sub-Terminals (UNC Modification Proposal 006) – Ofgem Impact Assessment – Case Study". ExxonMobil International Limited welcomes the opportunity to comment, we are responding on behalf of our respective gas producing, Delivery Facility Operator and gas shipper affiliates.

We are concerned with this latest request for input into the proposed impact assessment on the release of near real time data at UK Sub-Terminals. The case studies in question, in our opinion, are not representing the information that is available to the market in the form that enables a well balanced opinion to be determined. In line with some of the comments we made in response to the UNC 006 Impact Assessment on 27 June 2005 we are of the view that Ofgem is continuing to provide a biased analysis in support of potential adoption of the UNC 006 modification.

In the case study provided we would make the following comments;

If we understand the case study correctly Ofgem is trying to determine the impact of production outages on the price of gas and the added value of providing sub-terminal real time flows. You state that "market participants would have to make assumptions on the reasons for the change in line pack and would not necessarily be aware that an offshore outage had occurred". Then in both cases there is no representation of the information that is available today ie the data on the total aggregated supplies to the UK which has been available every hour since July 2005. Is it not reasonable to compare the usefulness of the data that is available today on supplies which will indicate potential outages against the line pack? Furthermore there is no corresponding demand information to compare either the line pack, or supply volumes against.

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The graphical representation, and choice of scales, is potentially misleading. Firstly we believe that the example charts and text have inadvertently been swapped with the text on the first example referring to the second chart? On the chart labeled Example 1 the total scale for the line pack refers to a movement of only 3 mcm, whether this represents a significant enough event could be debated at length. There is also a discontinuity on the time axis which only provides uncertainty to the validity of the analysis. For the second example there is more price information from earlier in the day, where is the similar information for the first example? It would have been helpful to provide some background to the market movements on the previous day in both examples if any meaningful answers were to be expected. Again, there is a discontinuity on the time axis.

It is highly subjective then, to take any view on the analysis that you have provided in this case study in trying to answer questions on how we or the market may have behaved during any particular period.

To the extent that we can answer your question we feel that they have been answered previously in the numerous consultations that Ofgem and NGG have raised on this subject, please refer to our responses to the Draft Modification Report 0727 dated 1 March 2005, Consultation on Offshore Gas Production Information Disclosure dated 16 March 2005 and the UNC 006 Impact Assessment of 27 June 2005.

The main points we reiterate below:

Information on the supply to the UK is being provided in an aggregated form for the total UK and North and South zones since July 2005 as agreed between the DTI, Ofgem, NGG and UKOOA. Any new proposals should test the incremental benefit of the new information against the benchmark of the existing information.

We would caution that providing additional information is not always a benefit and inappropriate actions may result from misinterpretation of the new information. The shorter duration of the information that is proposed by UNC 006 may lead to a greater volatility of prices which, although this may benefit the financial trading market players, may lead to undue criticism by those players paying for the commodity.

The traded market is at the NBP and therefore the relevant information is the gas being delivered to the NBP on an aggregate basis not where the physical location of the shortage may be. This information of aggregated supplies is already being provided.

Moving to sub-terminal aggregation may expose those individual producers and gas suppliers with gas supply difficulties to discriminatory pricing when they attempt to balance their portfolio. The costs of which will depend on the length of the shortage and the pace of the price movement in the market. This discriminatory pricing effect is not imposed on all market players as they are not required to inform the market if they are suffering a shortage in their portfolio ie the traders or indeed the large industrial consumers.

To the extent the modification may release market sensitive information complex questions are raised as to the potential liability that may arise which can lead, amongst other things, to additional costs on market participants. ie If they are exposed to discriminatory pricing as a

consequence of their supply position being identified from the release of the dis-aggregated sub-terminal flows.

If you require any further discussion or clarification please do not hesitate to contact me.

C.J.Crane