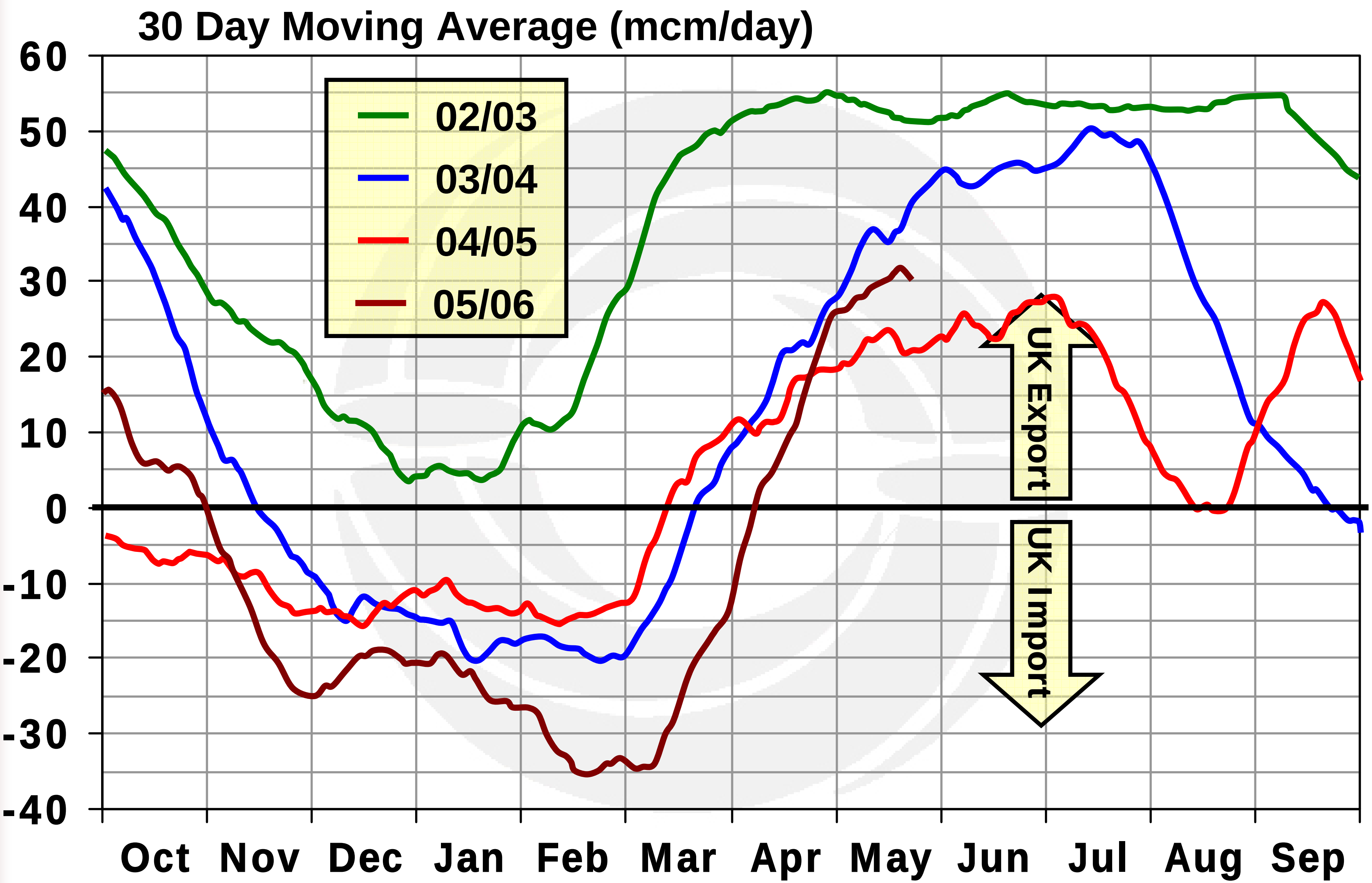
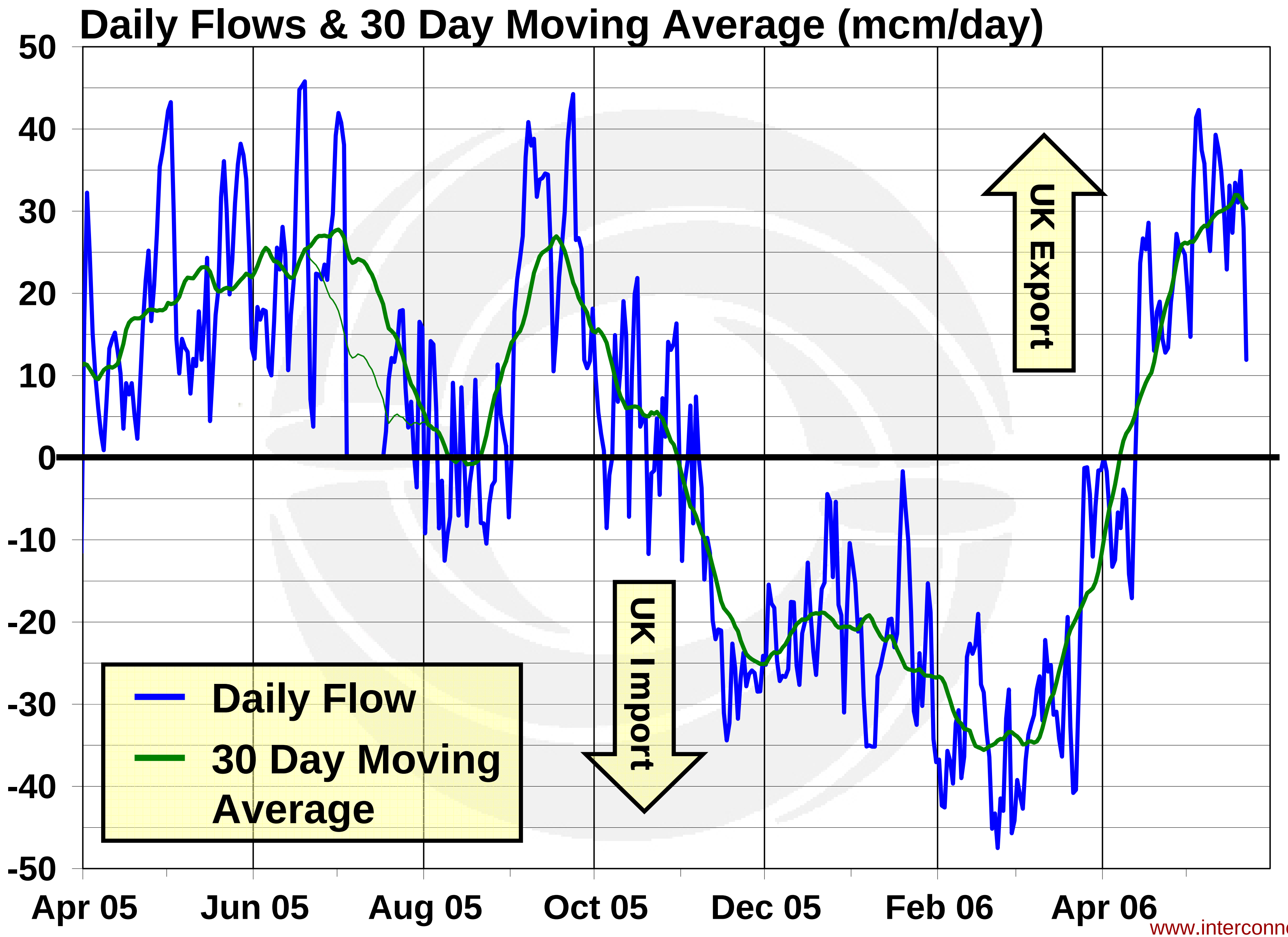
Promises, Promises…
UK Gas Supply for Winter 2006/7

Roger Cornish – Managing Director, Interconnector (UK) Ltd

Historic Flows



Recent Flows



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Flow patterns on Interconnector

Rough Outage

Import period prolonged, as unable to use/empty Rough

Rough injection start-up may lead to Interconnector Imports (depends on UKCS outages and weather)

Isle of Grain settled production?

May keep Interconnector in export mode for longer

Langeled start-up in September

May keep Interconnector in export mode for longer

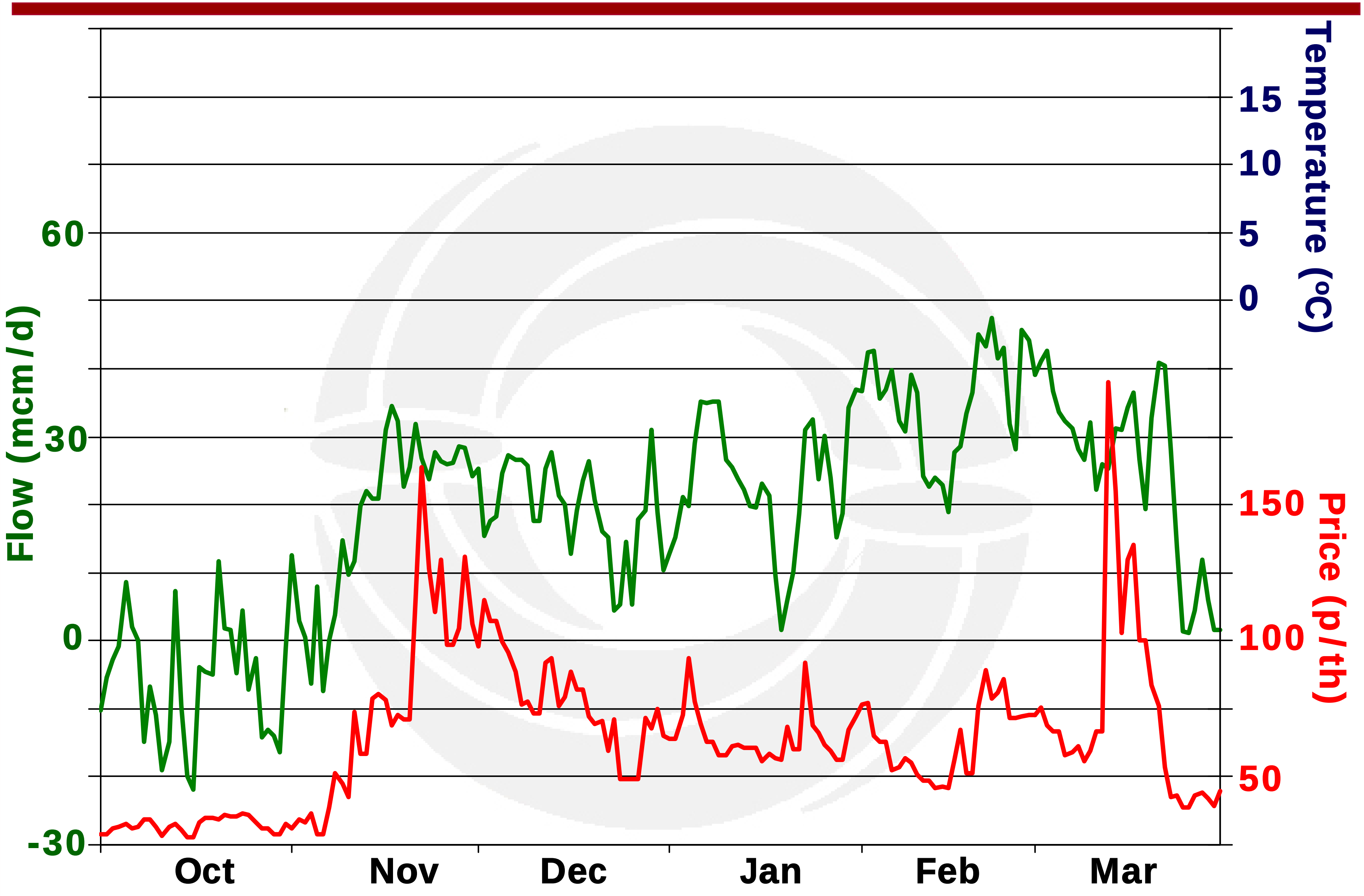
BBL start-up on 1st December

May keep/switch Interconnector in/to export mode

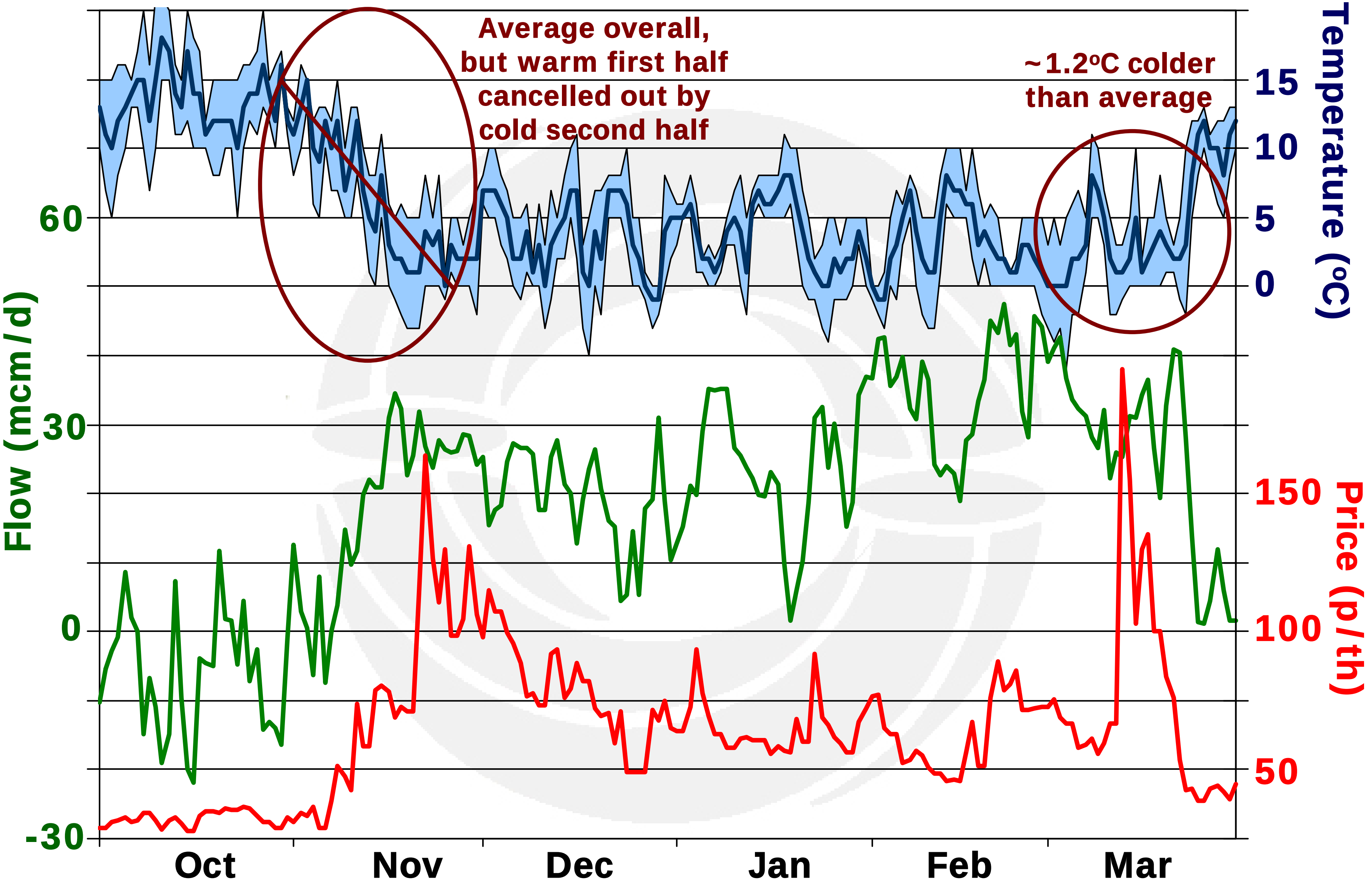
Interconnector Phase 2 enhancement on 1st December

May reduce imports from other sources

Interconnector Flows



Interconnector Flows



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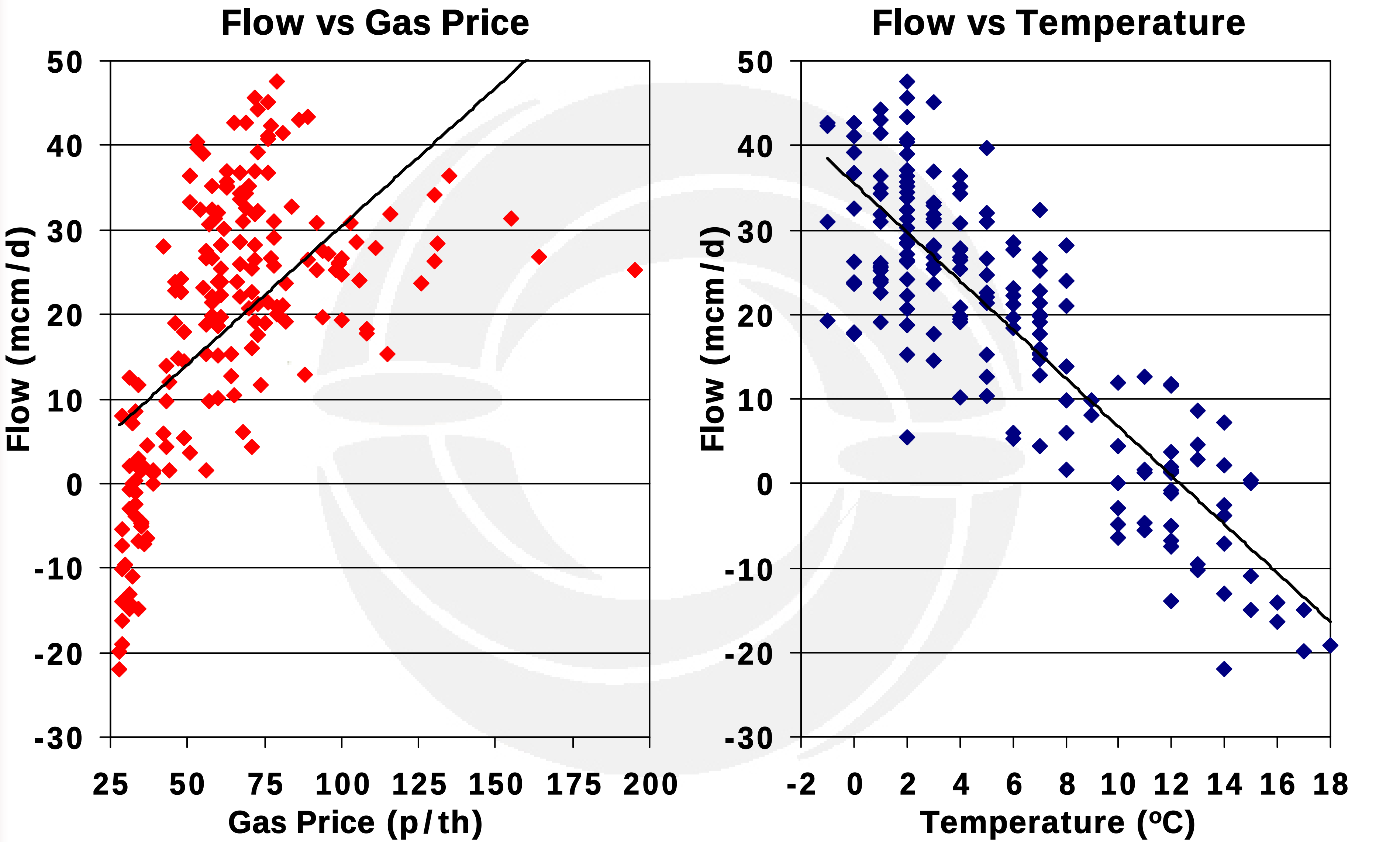
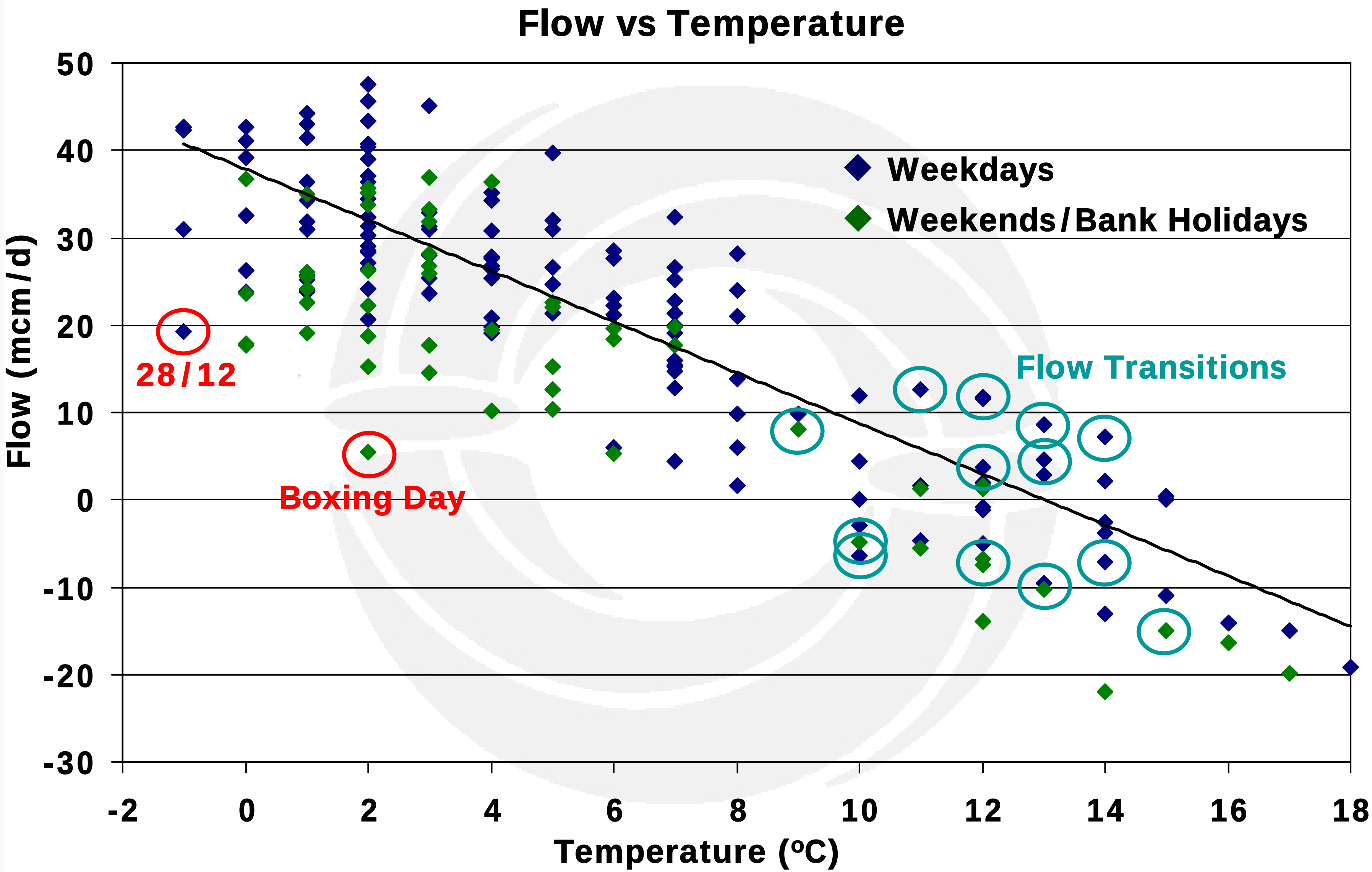
Flow Correlations



Flow/Temperature Correlation



Lessons learned from a winter of discontent

Infrastructure

Privately built infrastructure likely to be built too late for strategic supply

Investment signals are poor for the long run

Gas Prices

Rose to record levels on the fear of supply crises

Emotive talk by politicians, regulators, CBI, Met Office and industry possibly drove prices higher

Demand side response

Eased the situation, but do we want it as a regular supply management tool?

Lessons learned from a winter of discontent

Gas Supplies

Interconnector provided a reliable and early expanded service

Price alone will not move gas across borders

There is no single market

Storage can step-up production instantly, traded gas takes longer

Complementary infrastructural investment across borders takes time

EU Commission

Has assumed responsibility for and commitment to, the borderless market model …

… Will it deliver?

Why no gas in the line?

No gas available - no single market

Continent unwilling (not surprisingly) to share their stored gas with others until their supply is assured … or may be not at all

Market unable to step-up quickly to meet sudden demand … why?

in future

Limited capacity to deliver gas to the flange

IUK announced its expansion in 2002 and adjacent systems will respond by 2010

Complementary investment across borders takes time

Gas quality

UK gas specification is tighter than the dominant continental specification which may constrain trades and physical flows

No gas available – no single market

Continent unwilling (not surprisingly) to share their stored gas with others until their supply is assured …

… or maybe not at all

Pattern of release likely to be the same, i.e. restricted early/middle part of winter with release towards the end

Pressure from EU may result in modified behaviour?

Storage ownership rules and release still opaque

Economic nationalism increasing

IUK partly owned by the French state?

Unable to meet sudden demand

Market unable to step-up quickly to meet sudden demand … Why?

Significant percentage of IUK flows are contracts linking dedicated demand to dedicated supply

Response to price is therefore tempered by underlying demand

Liquidity at the Zeebrugge Hub partly reflects an opaque storage system and deters players

Levels of liquidity at the Zeebrugge Hub unlikely to change significantly for next winter

Limited capacity to deliver gas to the flange

IUK announced its expansion in 2002 and adjacent systems will respond by 2010?

Complementary investment across borders takes time

Zeebrugge LNG upgrading from ~13 mcm/day to 26 mcm/day output for winter 2007

German border constraints being partially removed for winter 2006 and completely by winter 2008

Belgian transit being upgraded for winter 2010 from 45 mcm/day to ??

Other changes to the Fluxys system?

Gas Quality (Wobbe)

UK gas specification (with respect to Wobbe) is tighter than the dominant continental specification which may constrain trades and physical flows

LNG sourced gas at Zeebrugge cannot meet UK specification

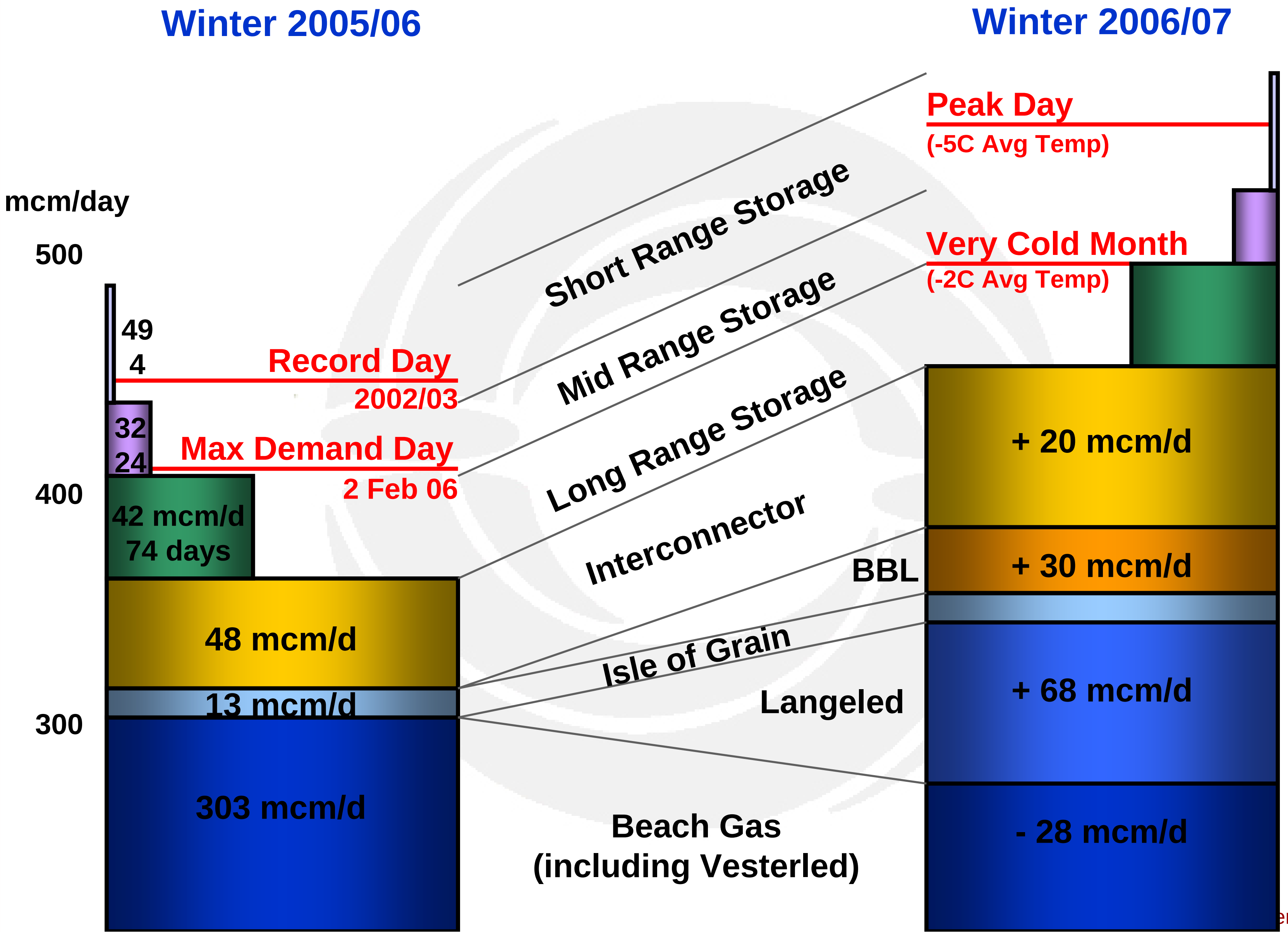
Zeepipe gas has traditionally met UK specification but is not contracted to do so

German sourced gas may not meet UK specification but de-bottlenecking will improve supply quality by winter 2006 and will be able to meet the required specification by winter 2007

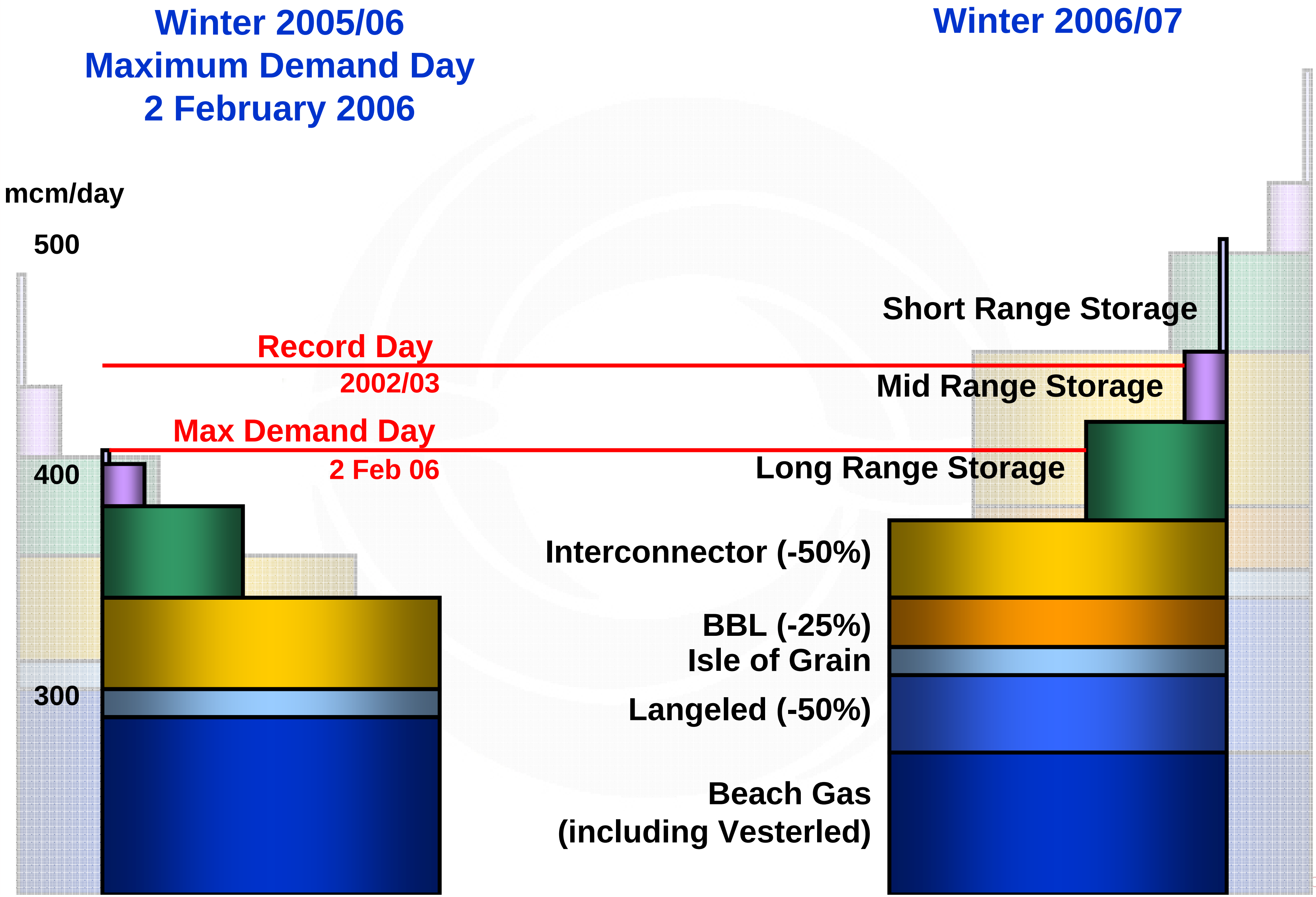
Gas can be ballasted with nitrogen or blended in order to meet the required specification

Either the gas seller should discount its gas or the buyer pay for treatment depending on the market fundamentals

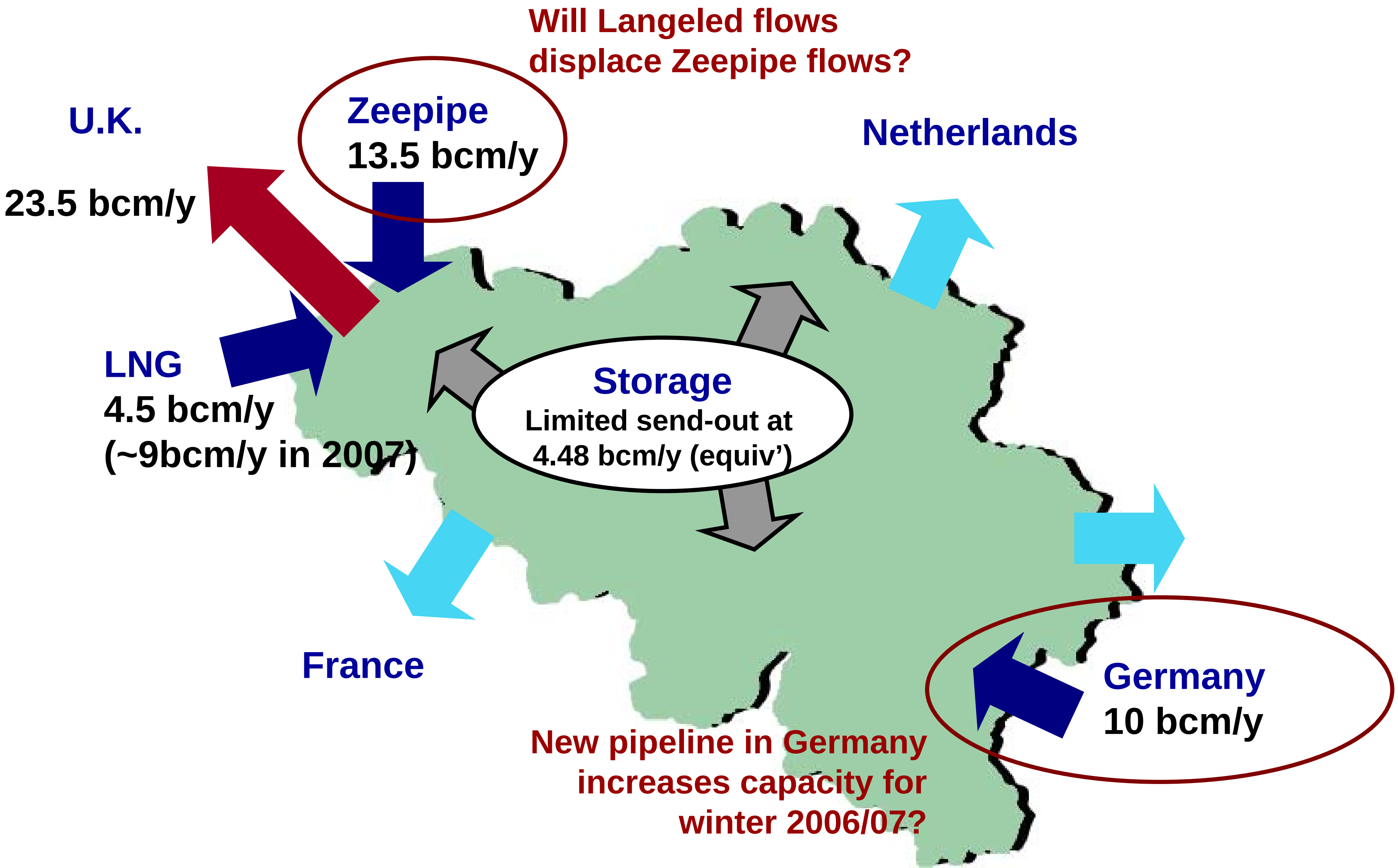
Max UK Winter Gas Supply (Capacity)



Max UK Winter Gas Supply (Flow)



Gas Sources for Interconnector?



Interconnector Phase 2 enhancement

Compressors delivered

Electric motors delivered

Cooling systems complete

Metering systems require upgrading

Control systems upgrade ongoing

Pipework requires hook-up to existing operating system

Testing and commissioning to commence in June/July

Still someway to go but confident of 1st December start-up

Zeebrugge: Site nearing completion

Zeebrugge: Motor / Compressor

Bacton: Boiler House

Bacton: Let Down Train/Heat Exchanger

Bacton: Pipework

Interconnector Phase 3 enhancement

Increasing UK import capacity

from 68 mcm/day to 74 mcm/day

Possible by winter 2007

Important to maximise the asset

Important to send firm signal for infrastructure expansion in Europe

Approached authorities in February

for confirmation that this new capacity enhancement would be treated the same as previous capacity enhancements in Interconnector ….

… awaiting an answer prior to marketing

Conclusion

“There are only two kinds of forecasters …

those who don’t know and …

those who don’t know they don’t know”

J. K. Galbraith