Winter Outlook Consultation 2006/07

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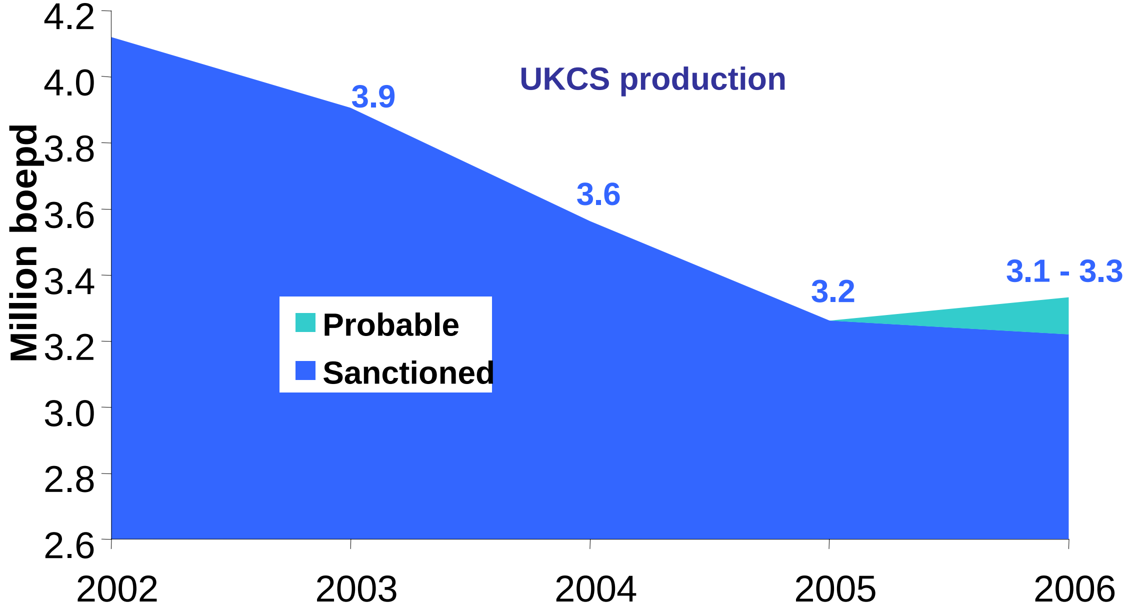
Ofgem Winter Outlook Consultation 2006/7

- Current trends on the UK Continental Shelf
- Beach Gas - Winter Performance 2005/6
- Outlook for 2006/7
- Answers to Questions

Current trends on the UK Continental Shelf

Sustaining Oil & Gas Production from the UKCS



Source: DTI / UKOOA

In 2005:

- Produced 3.2 mln boepd* (vs 3.6 million boepd in 2004)
- 10% overall decline (11% oil, 9% gas)
  - Oil production lower than anticipated
  - Gas production in line with expectations

In 2006:

- Anticipate slowing in rate of production decline (particularly oil) driven by sustained increase in activity

* barrels of oil equivalent per day

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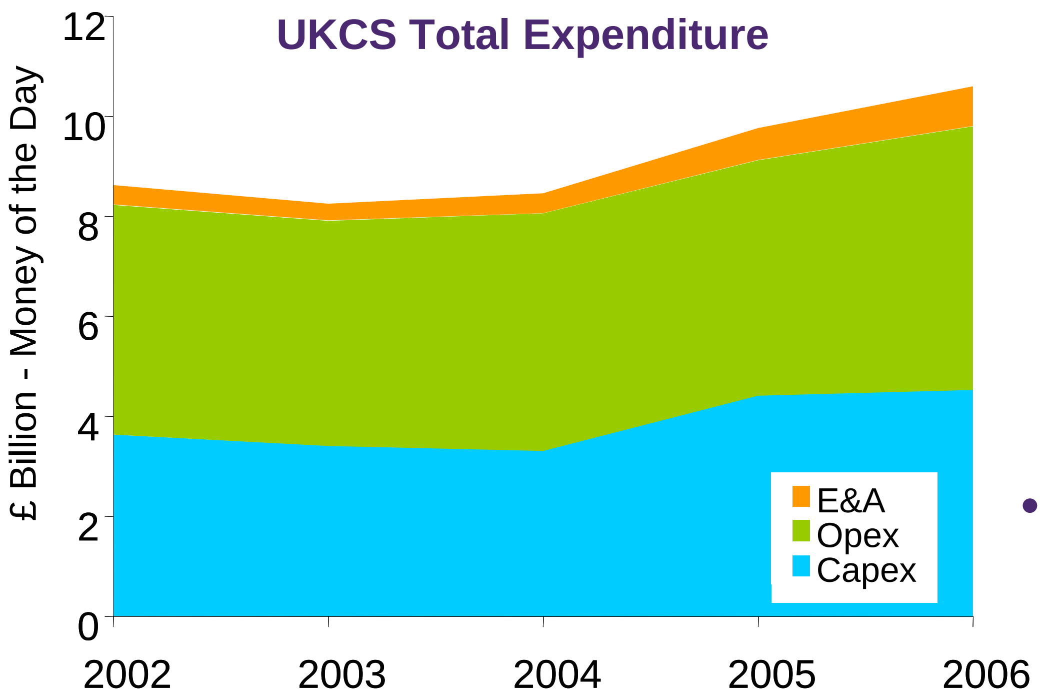
Investment is up …………. and Costs are increasing



Source: DTI and UKOOA

- In 2005
  - Drilling increase 30%
  - Capital investment up 30%
  - Operating costs up 15%
  - Total spend ~ £10 bln (vs £8.5 bln in '04)
  - Tax bill circa £10 billion
- In 2006
  - Total spend rising to ~ £11 bln
  - Sustaining 2005 rates of drilling
- Resource availability a constraint
- Rig rates now high enough to make some wells unaffordable

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Beach Gas - Winter Performance 2005/6

Beach Gas – NG Planning Assumptions 2005/6

- Historically assumed 100% availability (up to winter 2002/3)
  - Any unavailability of UKCS gas masked by over capacity pre 2003
- More realistic assumptions adopted in 2005/6
  - Assumed peak production capacity 327 mln m^3/d
  - Assumed availability of 92.5%
  - Planning capacity 303 mln m^3/d

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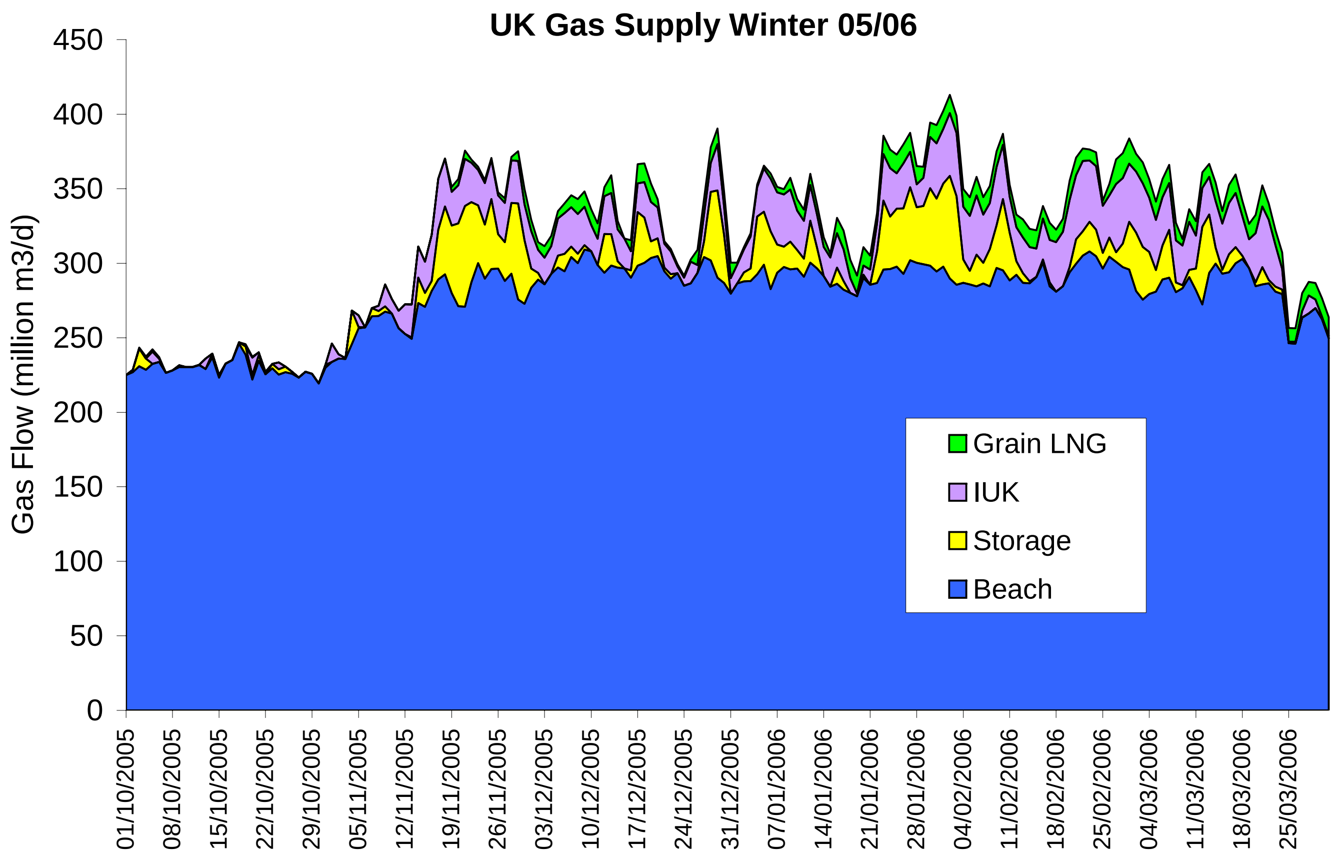
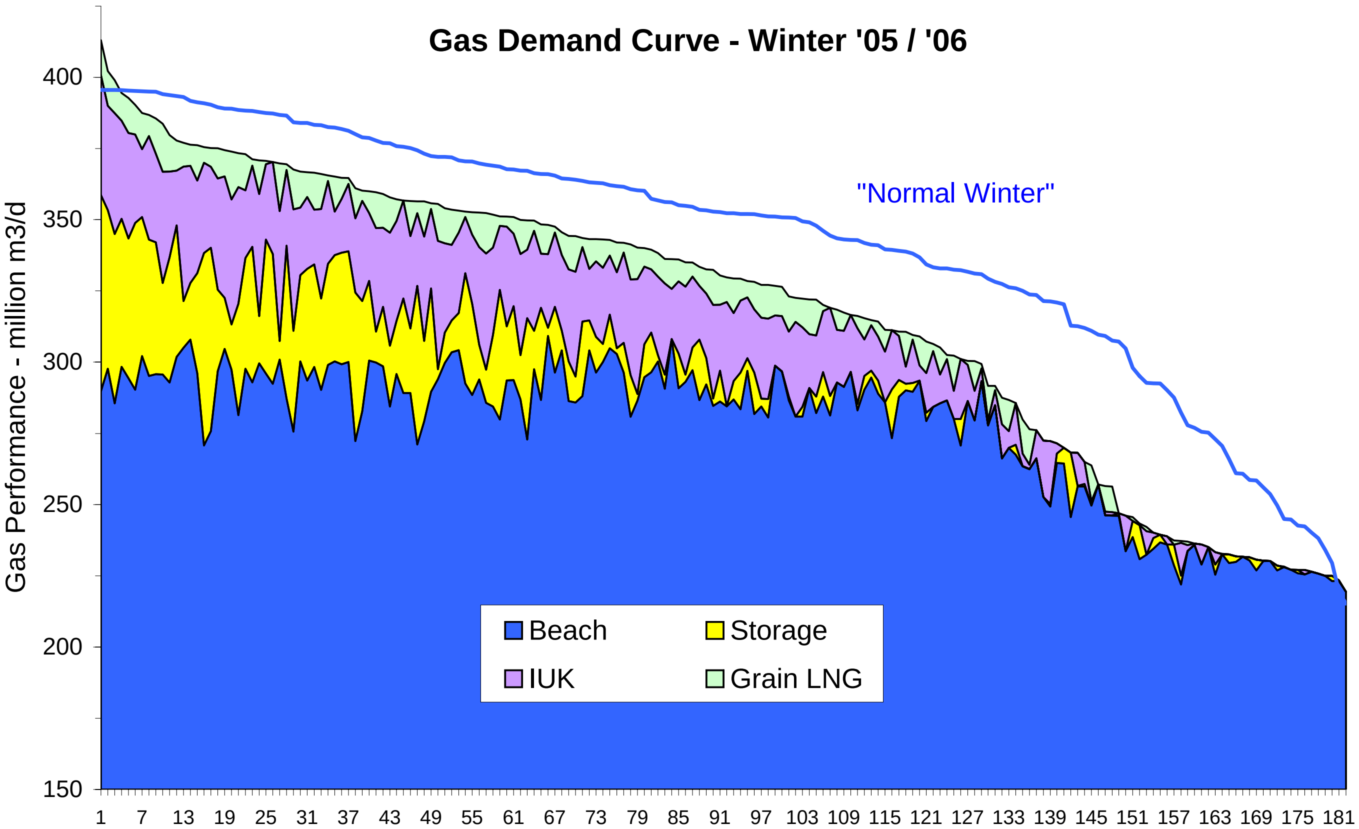
UK Gas Supply Winter 2005/6



- Gas demand peaked at 411 million m^3/d (2 Feb '06)
- Beach gas – pretty flat over most of winter, albeit with some volatility

UKCS continued to provide bulk of gas to the UK in Winter 2005/6



- Demand slightly lower than winter 2004/05
- However UK winter average slightly colder (3.8C - 2005/6 vs. 4.7C - 2004/5)

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Beach Performance v Forecast in Winter 2005/6

	Forecast (100%)	Maximum Demand Day 2/2/06	Beach Maximum 09/12/05	Terminal Maximum	Date of Maximum
Bacton (no IC)	83	72	76	78	12 Dec
Barrow	29	19	29	30	20 Nov
Point of Ayr	2	1	4	5	20 Jan
Easington	17	17	19	20	5 Dec
St Fergus	146	123	120	131	30 Jan
Teesside	28	31	32	34	7 Dec
Theddlethorpe	23	27	29	30	17 Dec
Beach	**327**	**290**	**309**	**328**	
IC Imports	48	42	26	41	22 Feb
Grain LNG	13	12	10	17	1 Mar
Rough	42	42	0	45	21 Nov

Source: National Grid

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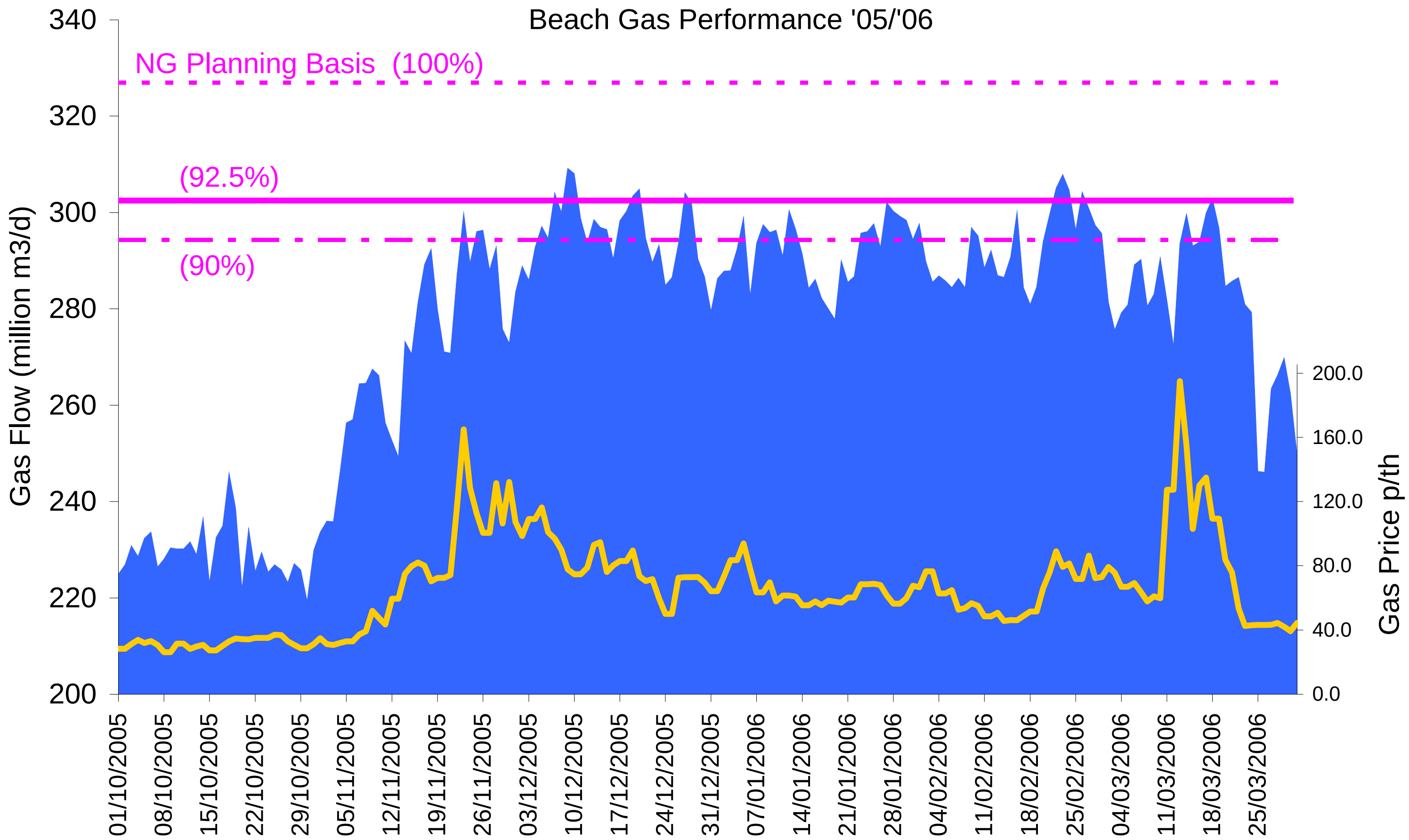
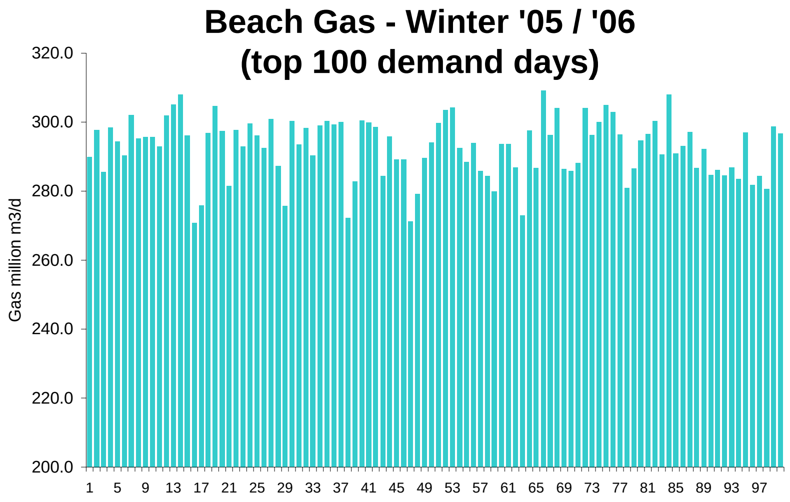
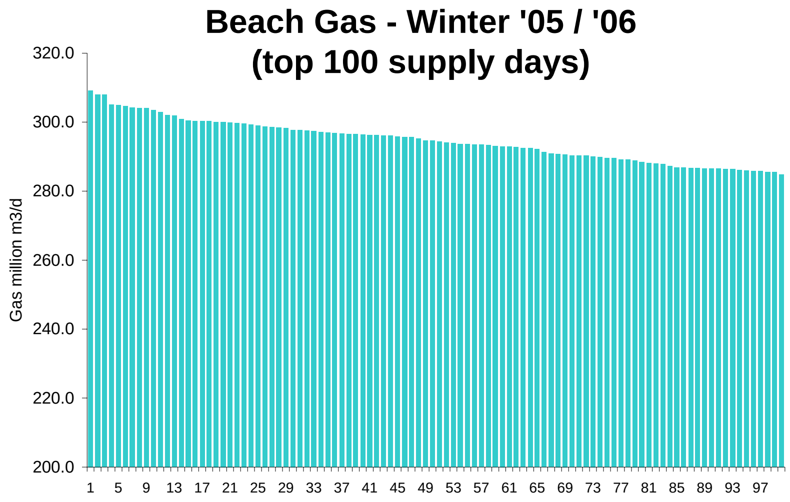
Beach Gas Performance – Winter 2005/6



- Beach gas performance suggests that a 90% availability more effectively represents performance over this and recent winters

Lessons from Beach Gas Performance in 2005/6





Beach Gas	Prioritised on Demand	Prioritised on Supply
Top 100 days	292 mln m^3/d (89%)	295 mln m^3/d (90%)
Top 30 days	294 mln m^3/d (90%)	302 mln m^3/d (92.3%)

- Beach gas has a high availability overall
- However, on-the-day reliability is less certain

Outlook for 2006/7

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What will UKCS production deliver in winter 2006/7

UKOOA – *Simple Estimate* UKCS performance in 2006/7	
1) Peak production Winter 05/06 (excludes Vesterled)	**292** mln m^3/d
2) Recent decline rate ('04 to '05)	**~ 9%**
3) UKCS availability based on 05/06	**90%**
4) Implied planning figure Winter '06/'07	**239** mln m^3/d

Compares well against National Grid Winter Outlook from TBE process	**240** mln m^3/d

- Downside risk – operational challenges / asset performance / project start-up
- Upside potential – strong investment / focus on asset performance

- UKOOA
  - Worked closely with NG on the 2006 TBE process
  - Is monitoring UKCS gas performance with DTI
  - Focussing on maximising asset availability throughout winter

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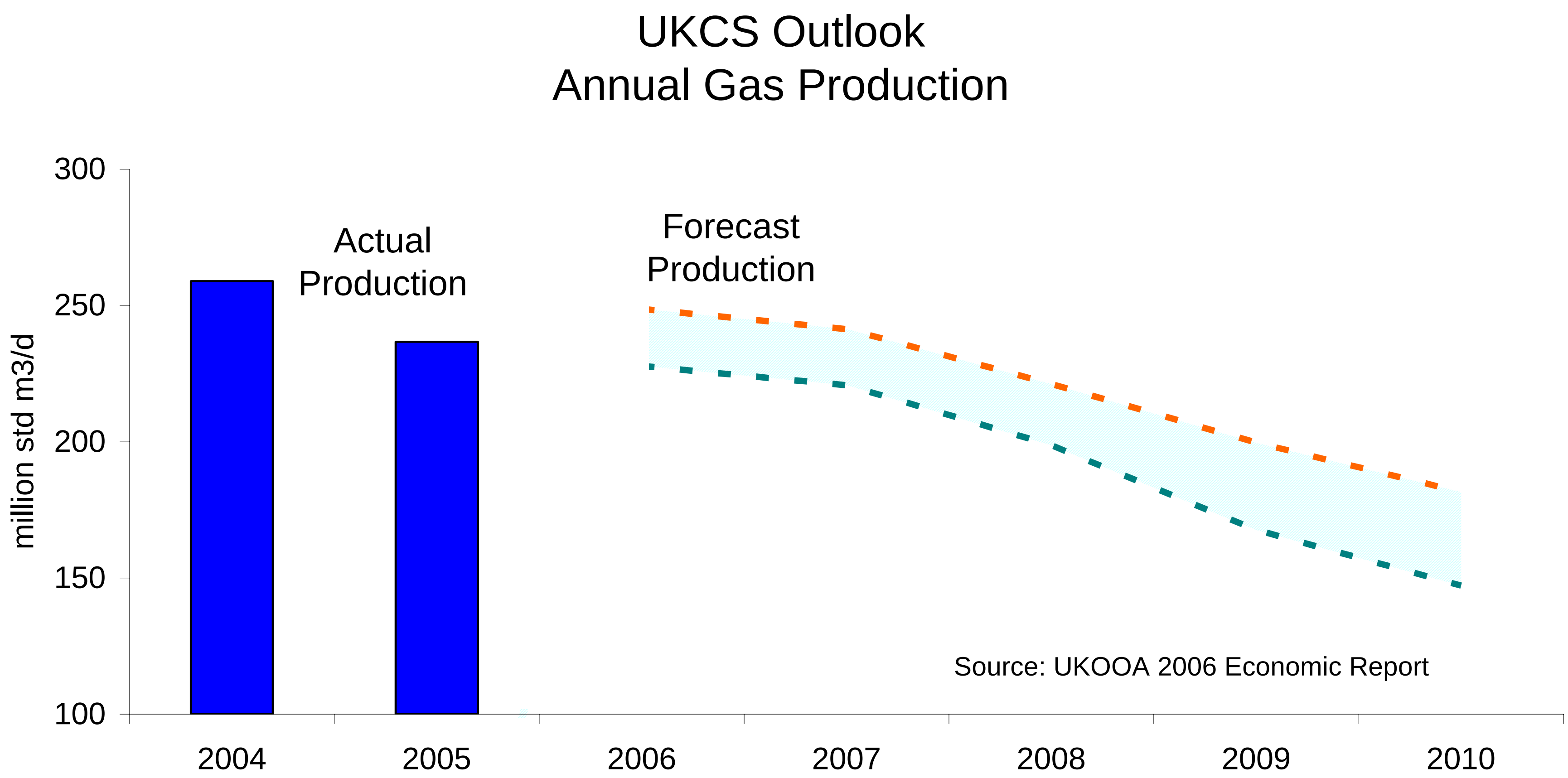
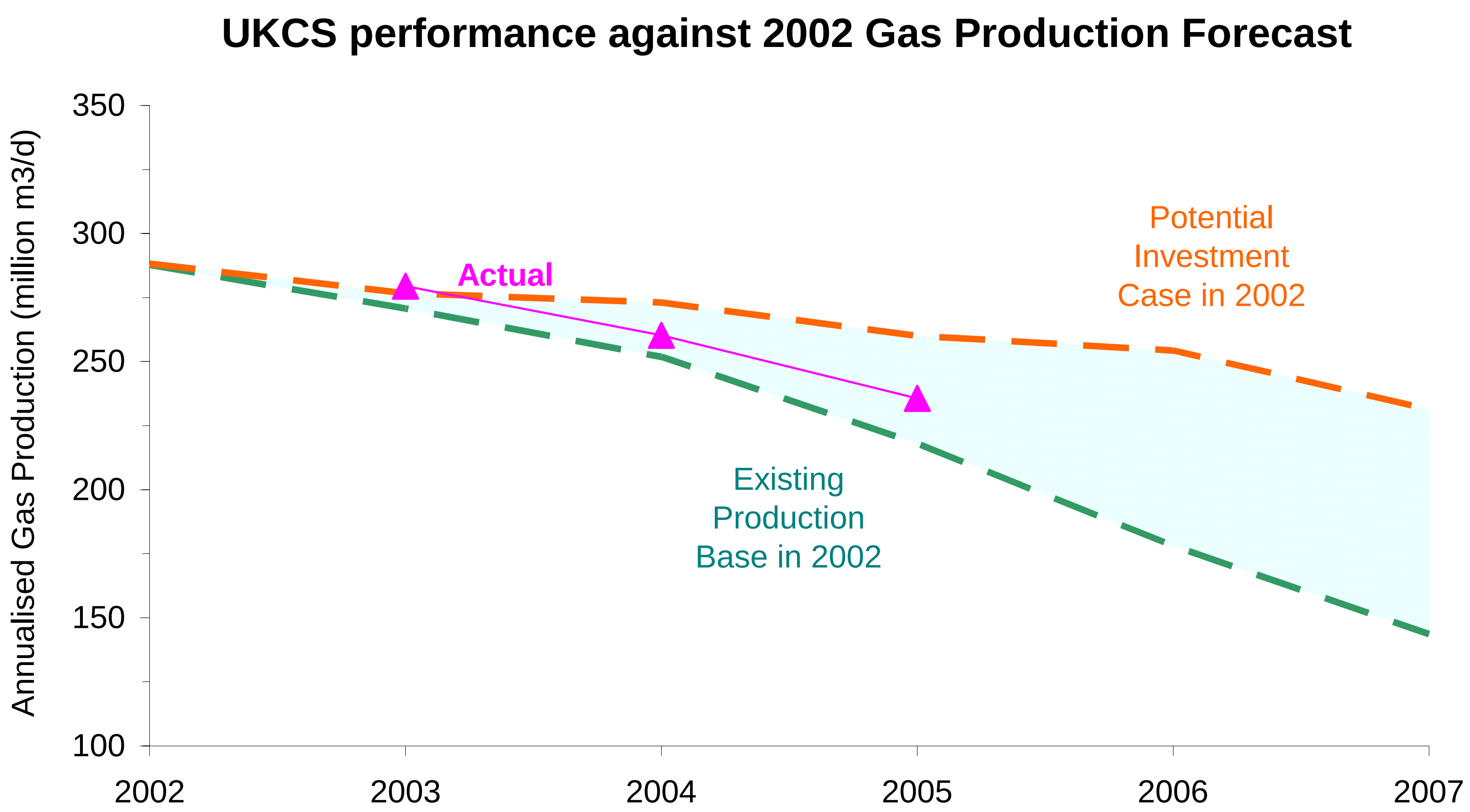
Forecasting UKCS production is not an exact science, even in short term



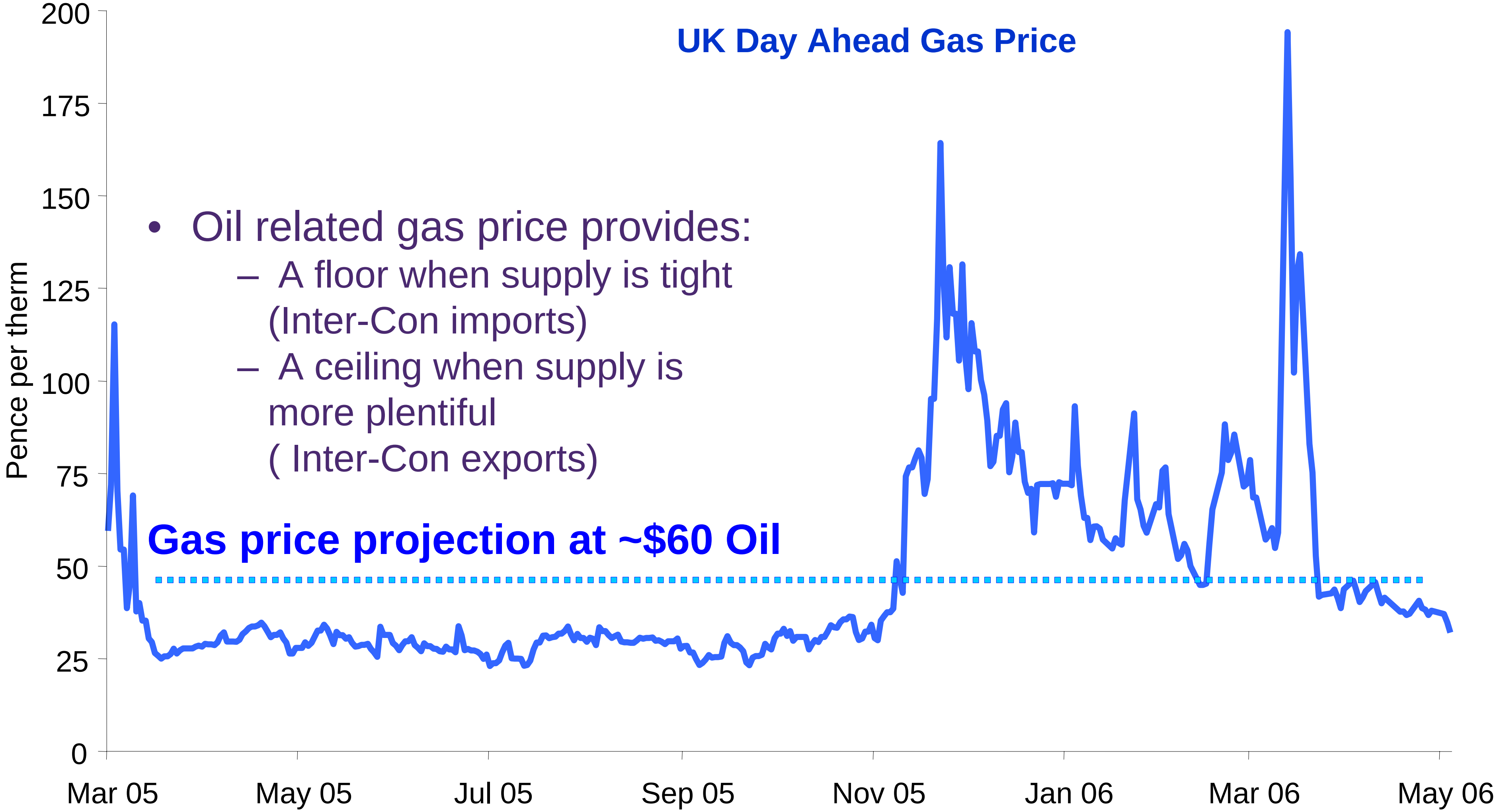
- UKOOA / DTI collect investment and production data annually
  - Even in short term considerable uncertainty remains on precise figures

Uncertainty increases the further ahead you look



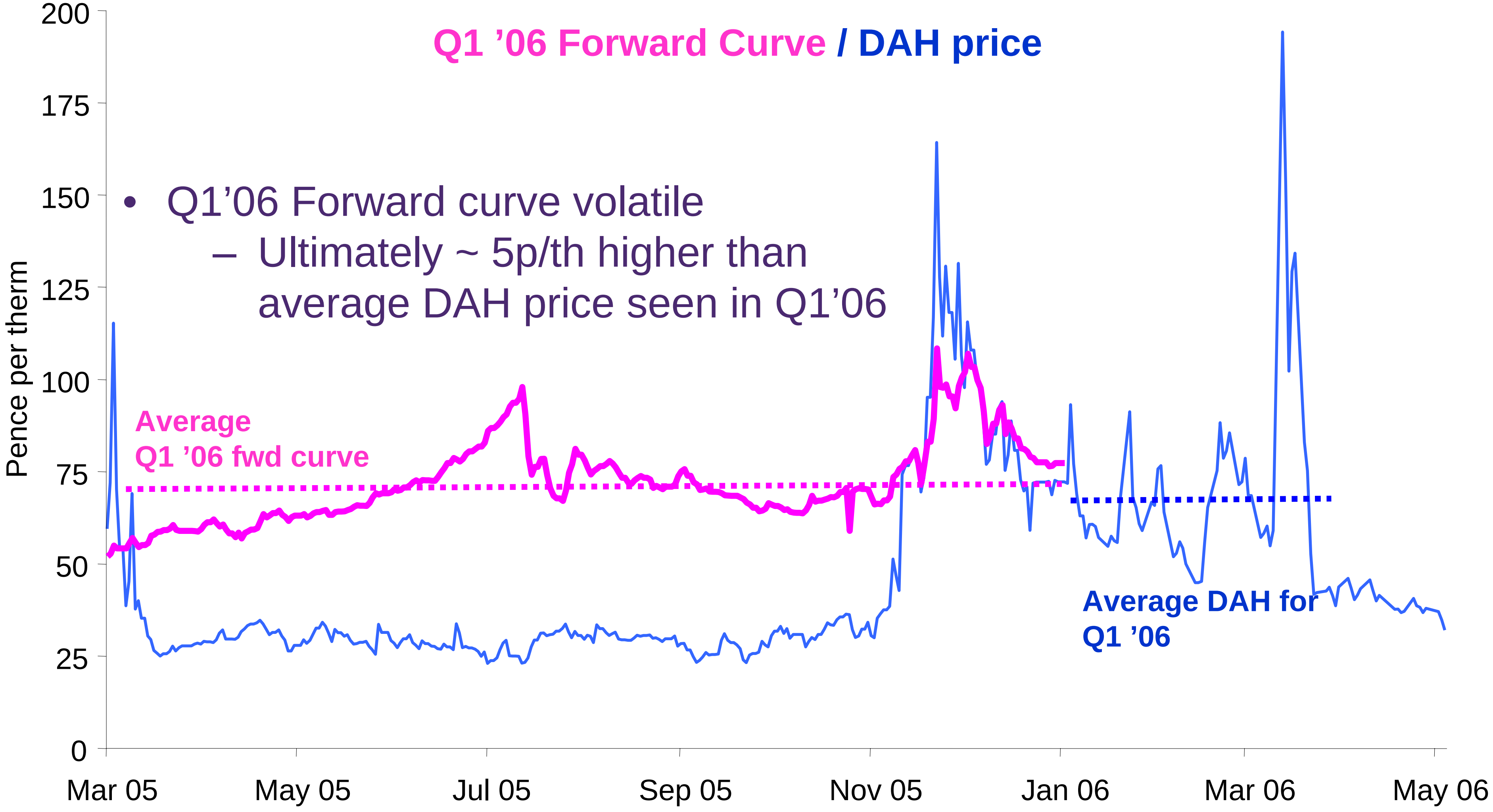
- All forecasts contain a range of uncertainties
  - needs to be recognised in overall framework of Security of Supply

Oil price continues to influence UK Day Ahead Gas Price



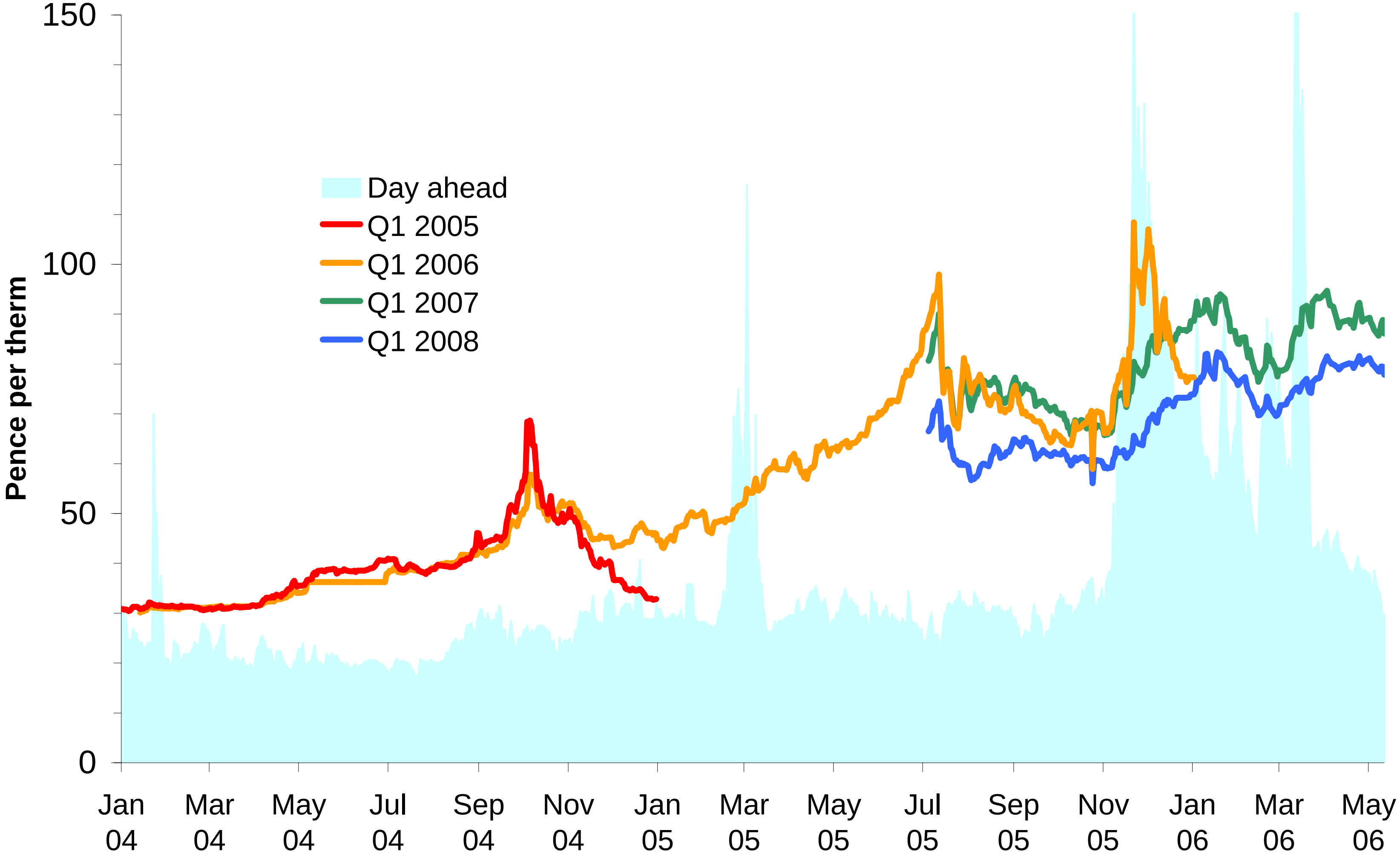
- Oil related gas price provides:
  - A floor when supply is tight (Inter-Con imports)
  - A ceiling when supply is more plentiful (Inter-Con exports)

Q1 2006 price may offer an insight into winter



- Q1'06 Forward curve volatile
  - Ultimately ~ 5p/th higher than average DAH price seen in Q1'06

Forward Curve implies worse in 2007, easing in 2008



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Addressing National Grid's Questions

- What assumptions should be made on the total volumes of UKCS gas in 2006/07 ?
  - Existing Production / New start-ups

- What should be used for percentage availability for UKCS?
  - What is impact of weather
  - How would UKCS availability vary over the winter – lower initially

- What are the implications for UKCS of Rough cooler unit failure ?