

Winter Outlook Consultation 2006/07

2 June 2006

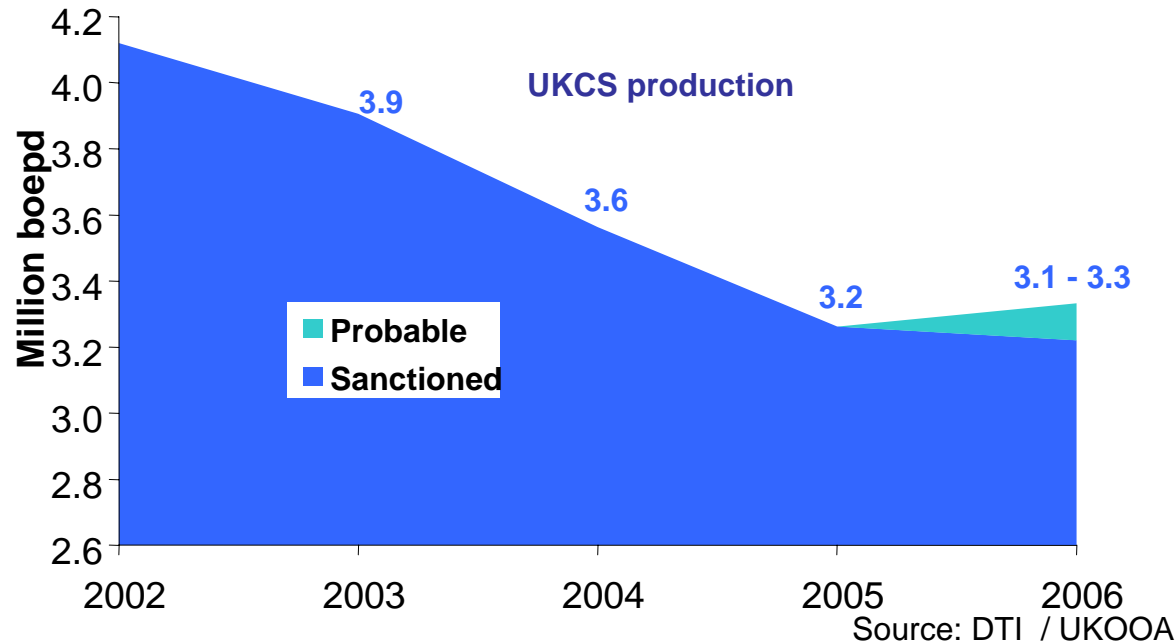
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Ofgem Winter Outlook Consultation 2006/7

- 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



In 2005:

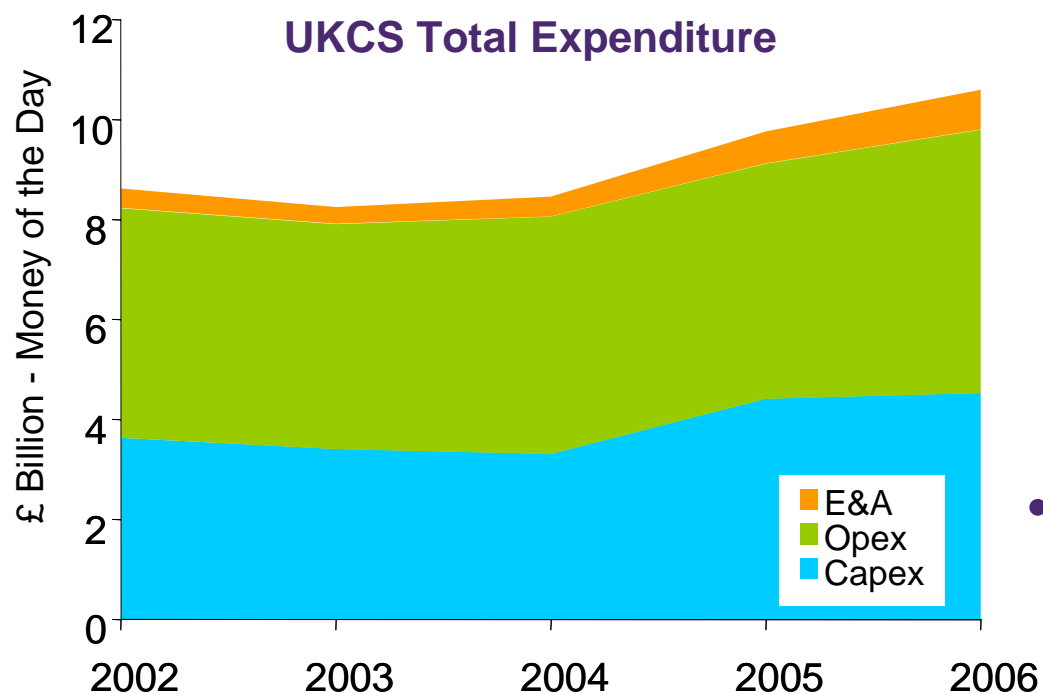
- Produced 3.2 mln boepd* (vs 3.6 million boepd in 2004)
- 10% overall decline (11% oil, 9% gas)
 - Oil production lower than anticipated
 - Gas production in line with expectations

In 2006:

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

* barrels of oil equivalent per day

Investment is up and Costs are increasing



Source: DTI and UKOOA

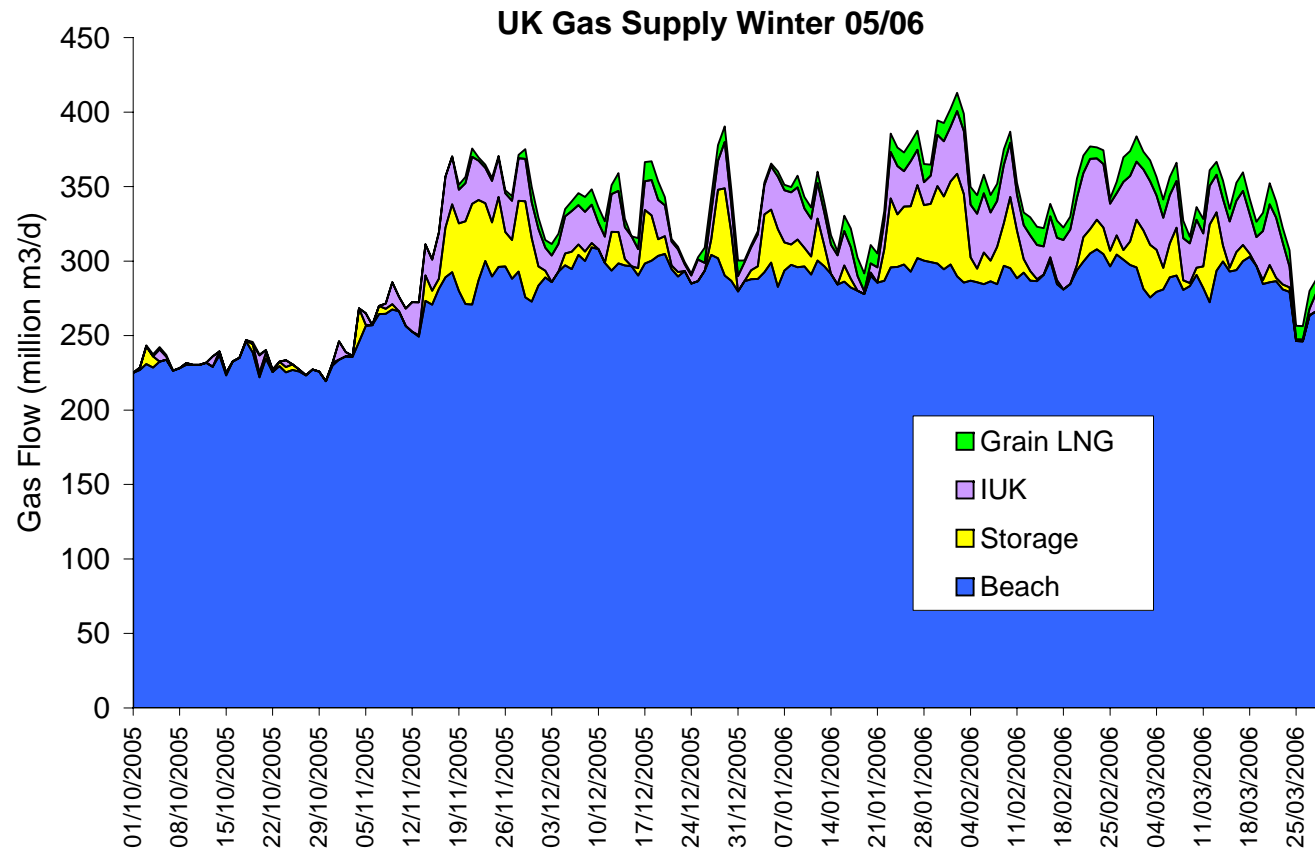
- In 2005
 - Drilling increase 30%
 - Capital investment up 30%
 - Operating costs up 15%
 - Total spend ~ £10 bln (vs £8.5 bln in '04)
 - Tax bill circa £10 billion
- In 2006
 - Total spend rising to ~ £11 bln
 - Sustaining 2005 rates of drilling
- Resource availability a constraint
- Rig rates now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

Beach Gas - Winter Performance 2005/6

Beach Gas – NG Planning Assumptions 2005/6

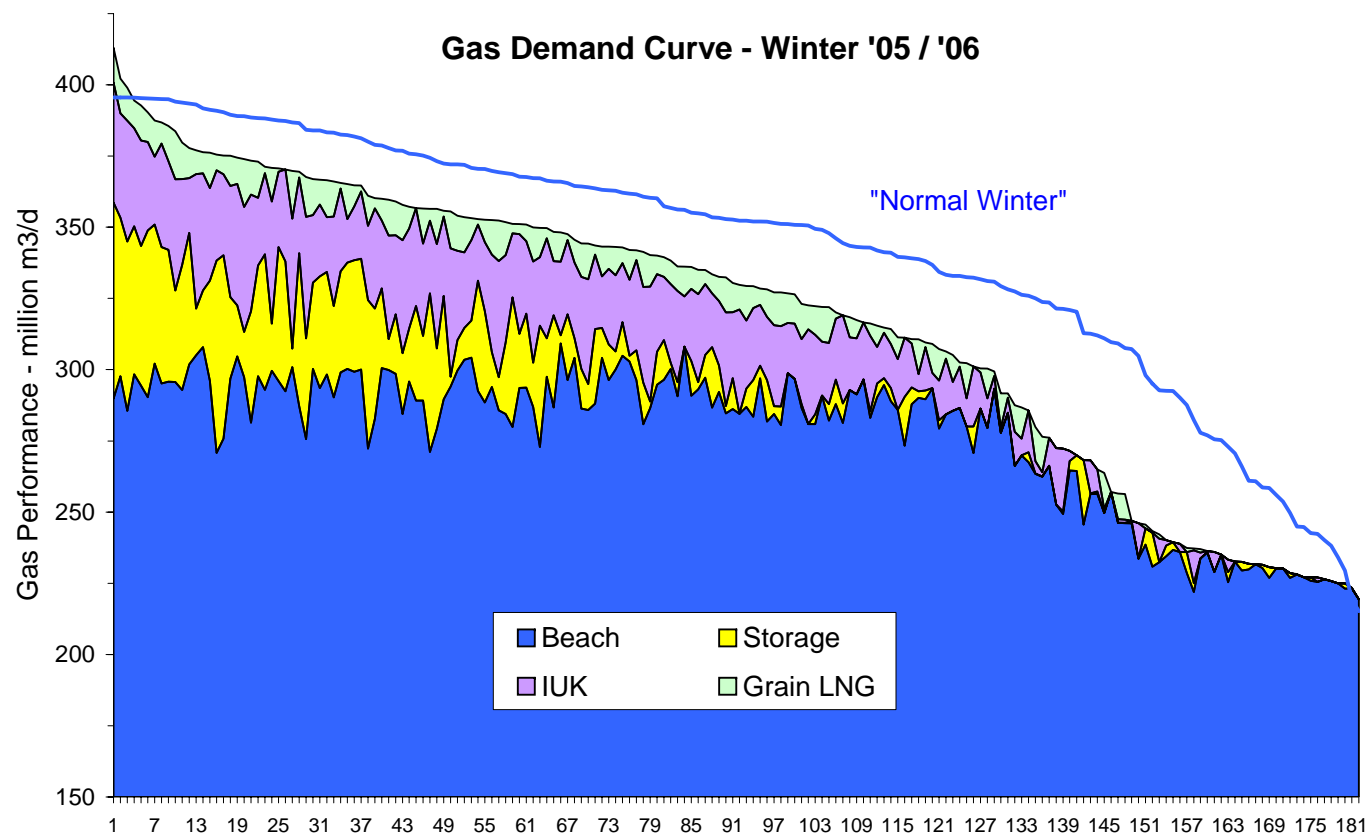
- Historically assumed 100% availability (up to winter 2002/3)
 - Any unavailability of UKCS gas masked by over capacity pre 2003
- More realistic assumptions adopted in 2005/6
 - Assumed peak production capacity 327 mln m³/d
 - Assumed availability of 92.5%
 - Planning capacity 303 mln m³/d

UK Gas Supply Winter 2005/6



- Gas demand peaked at 411 million m³/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

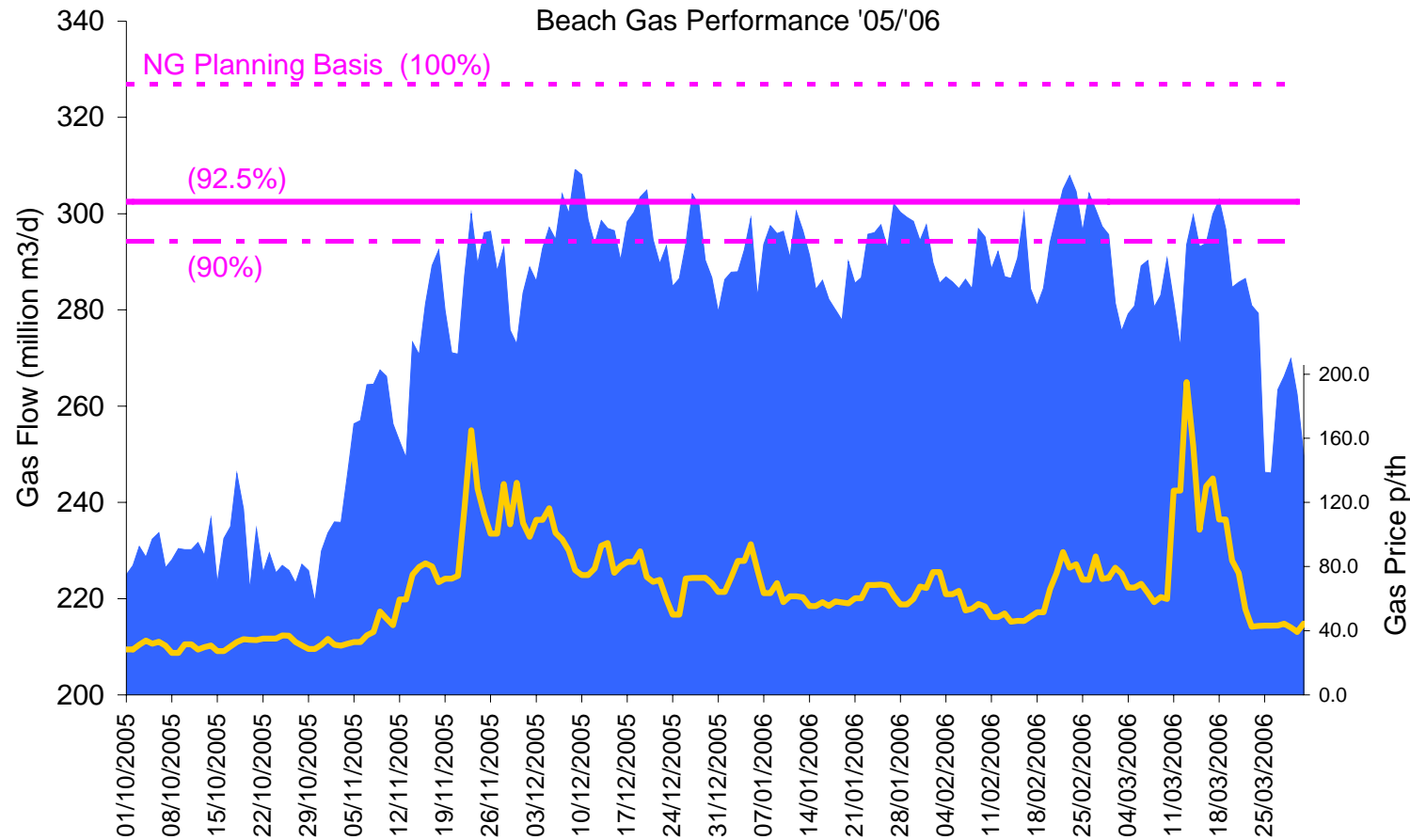


- Demand slightly lower than winter 2004/05
- However UK winter average slightly colder (3.8C - 2005/6 vs. 4.7C - 2004/5)

Beach Performance v Forecast in Winter 2005/6

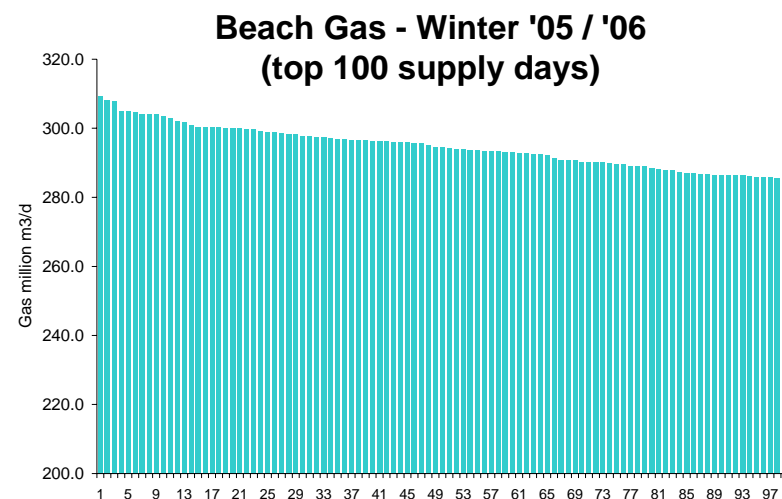
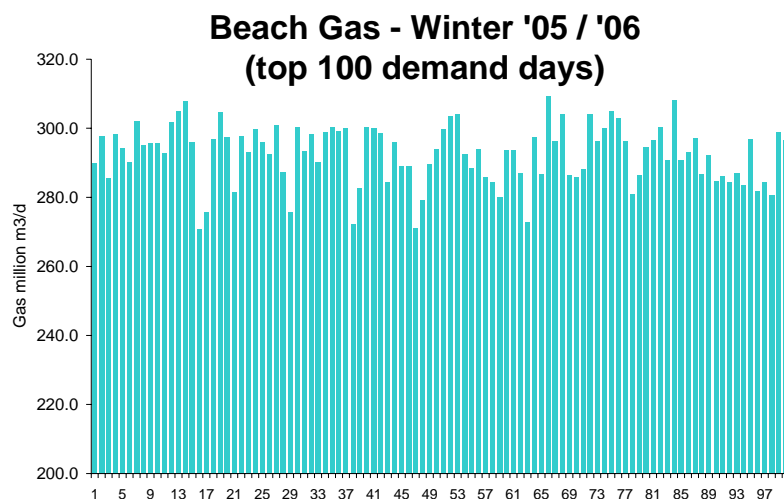
	Forecast (100%)	Maximum Demand Day 2/2/06	Beach Maximum 09/12/05	Terminal Maximum	Date of Maximum
Bacton (no IC)	83	72	76	78	12 Dec
Barrow	29	19	29	30	20 Nov
Point of Ayr	2	1	4	5	20 Jan
Easington	17	17	19	20	5 Dec
St Fergus	146	123	120	131	30 Jan
Teesside	28	31	32	34	7 Dec
Theddlethorpe	23	27	29	30	17 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

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

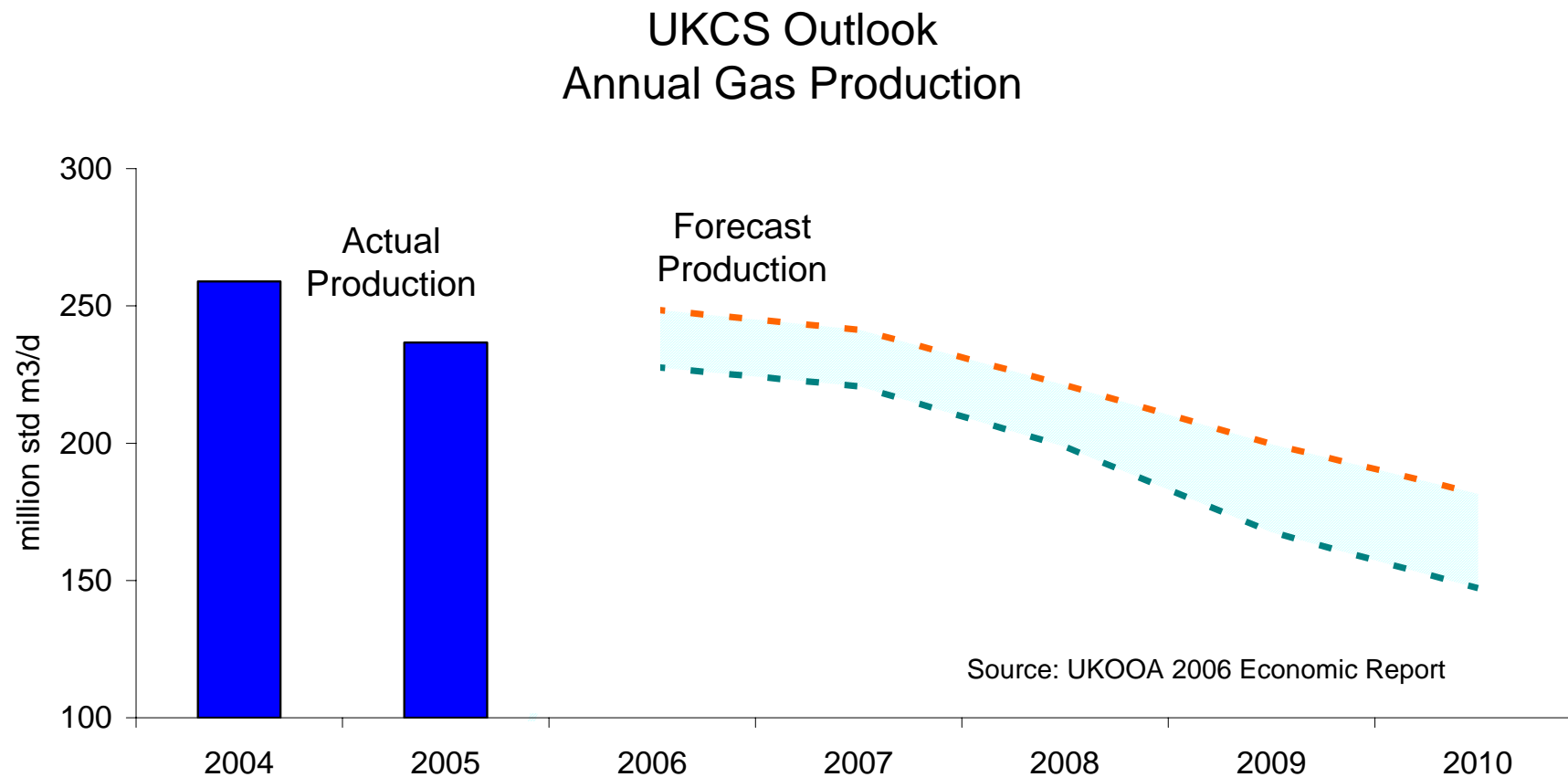
Outlook for 2006/7

What will UKCS production deliver in winter 2006/7

UKOOA – <i>Simple Estimate</i> 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

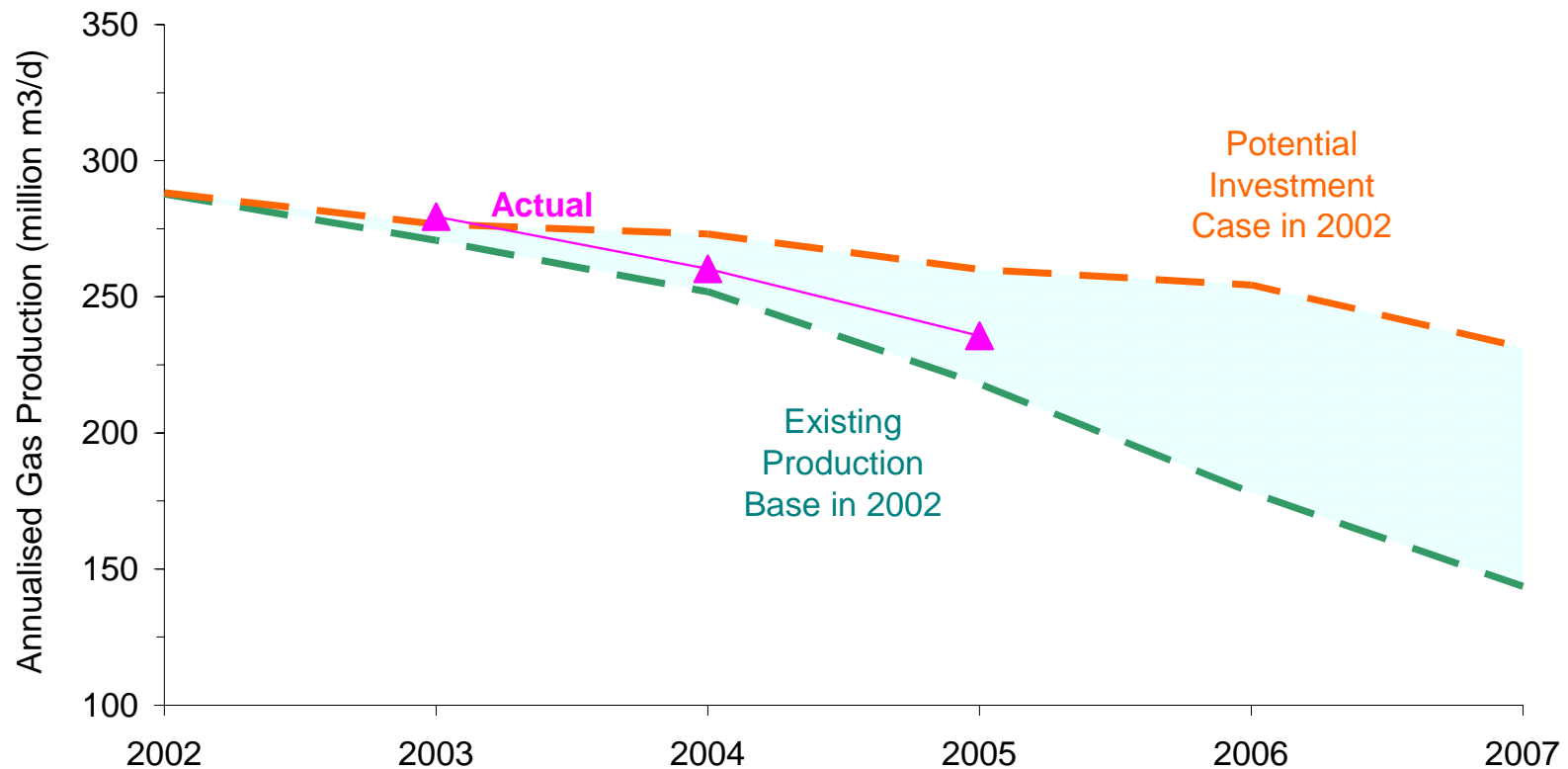
Forecasting UKCS production is not an exact science, even in short term



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

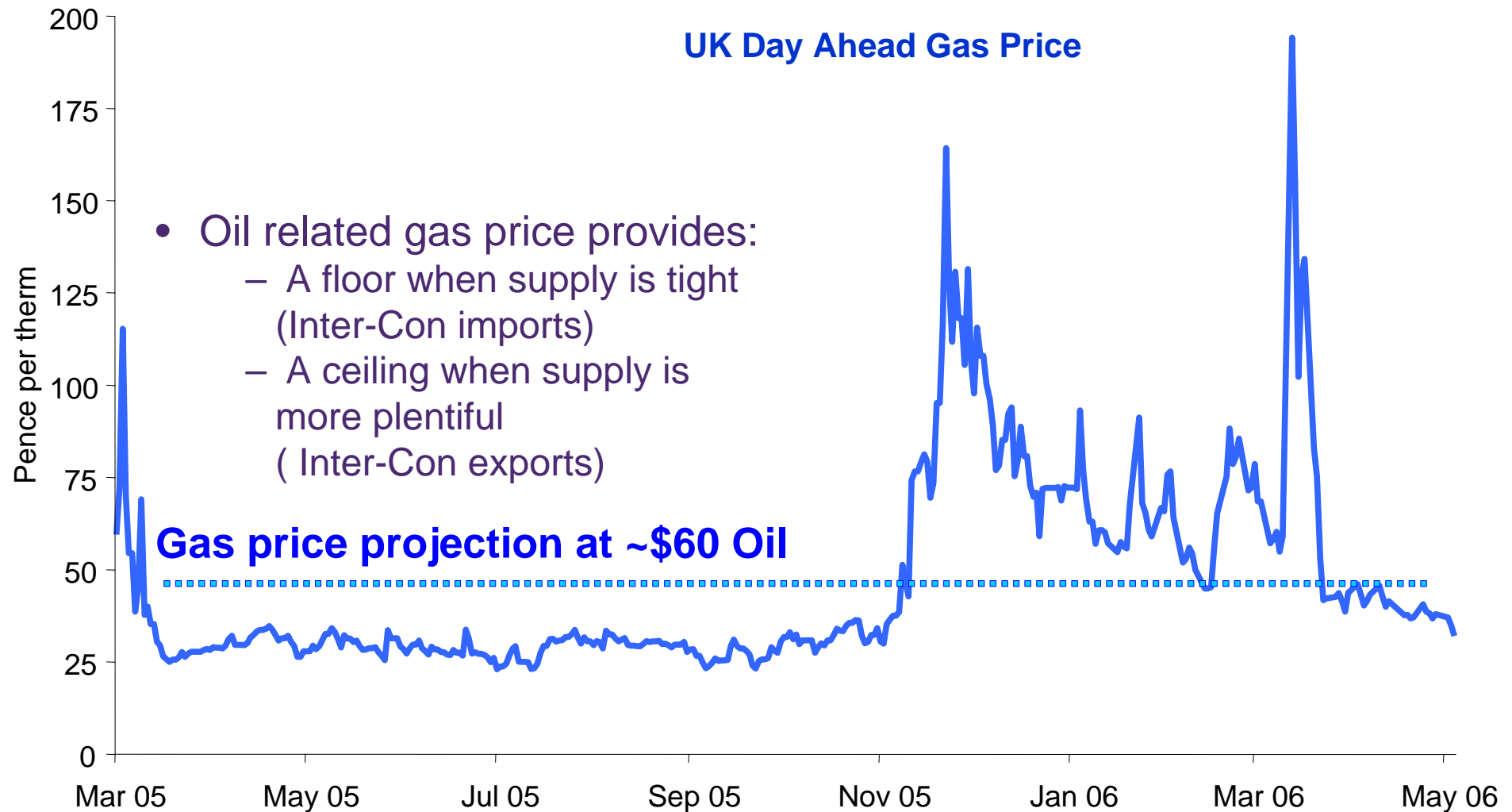
Uncertainty increases the further ahead you look

UKCS performance against 2002 Gas Production Forecast

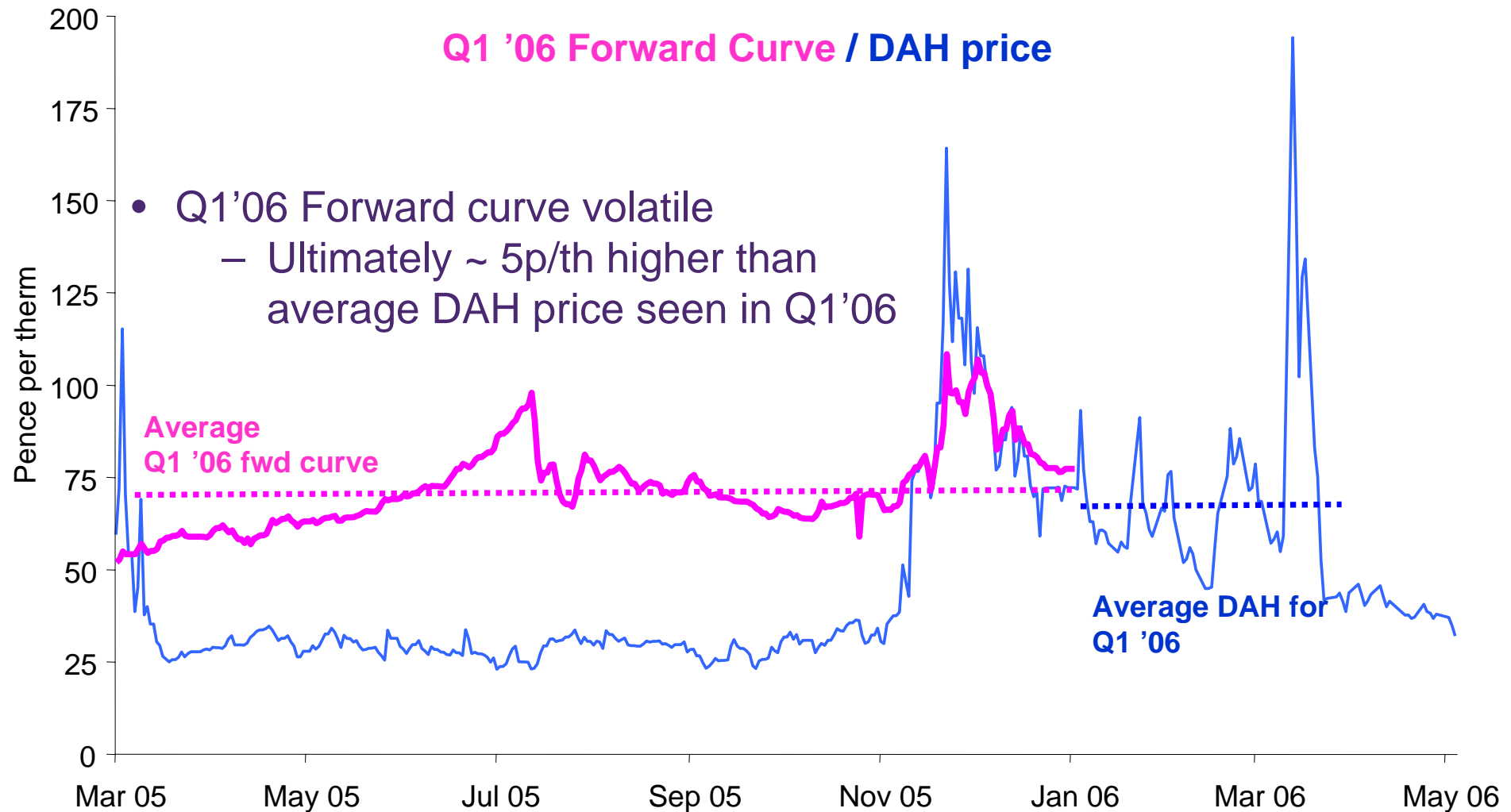


- All forecasts contain a range of uncertainties
 - needs to be recognised in overall framework of Security of Supply

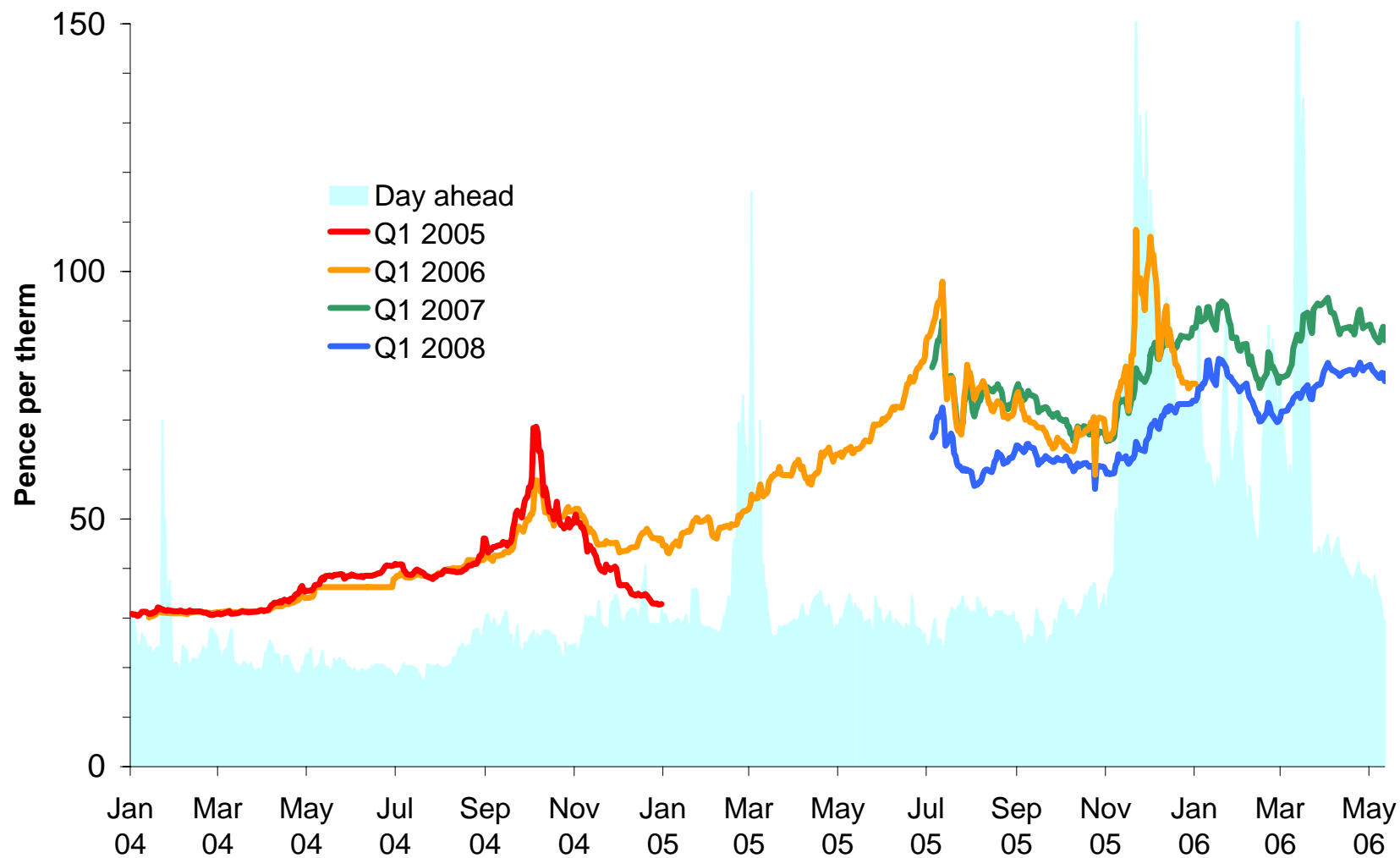
Oil price continues to influence UK Day Ahead Gas Price



Q1 2006 price may offer an insight into winter



Forward Curve implies worse in 2007, easing in 2008



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 ?