

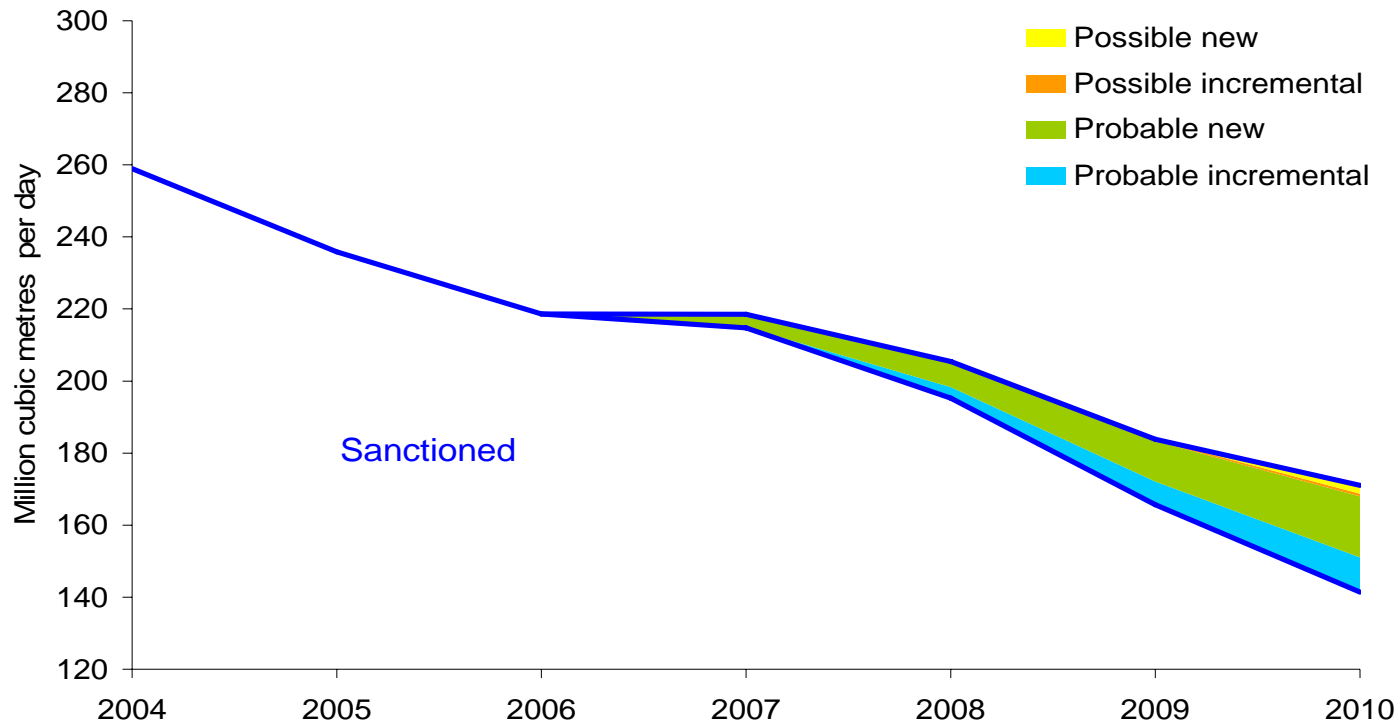
# **Gas Supplies – Winter 2006-7:**

## **UKCS Performance and Outlook**

**Mike Tholen,  
UK Offshore Operators Association**

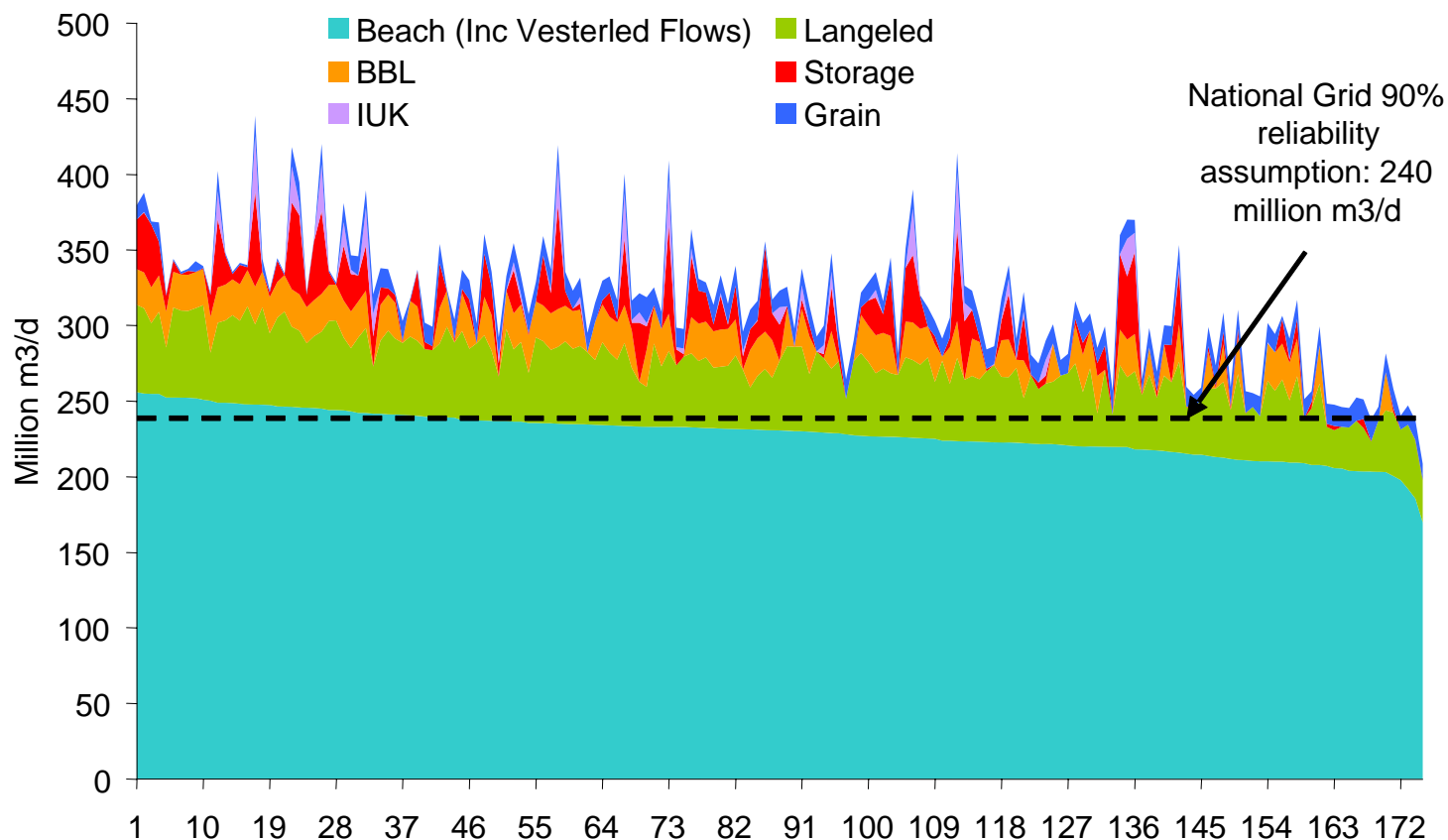
# How did UKCS gas do in winter of 2006-7?

# Annual UKCS Gas Production



- Annual production 9% lower in 2006 than '05
- Some element of demand-led drop (demand fell by 4.5%)
- For associated gas fields: poor reservoir performance, shutdowns, new project delays
- In 2007-08, slower decline expected

# Winter 2006-07 UK Gas Supply



- UKCS still a reliable producer, meeting 72% of gas demand during winter 2006-07 at a time when not all UKCS gas was called on first, i.e. the “merit order” of supply changed
- On the day of peak demand (8<sup>th</sup> February ‘07 at 439 million m<sup>3</sup>/d), UKCS satisfied 56% of demand
- UKCS production peaked on 21<sup>st</sup> March ‘07 at 256 million m<sup>3</sup>/d

# Where else did the gas come from?

- UKCS gas producers are price-takers: in winter 2006-07 some other sources were called upon first
- Import capacity increased significantly over the year:
  - Langeled (Noregian gas)
  - Bacton Inter-Connector 2<sup>nd</sup> phase upgrading
  - BBL (Dutch gas)
- Over winter 2006-07:
  - UKCS gas satisfied 72% of demand
  - Other gas came from: Langeled (14%), BBL (5%), Storage (4%), Grain LNG (3%), Interconnector (1%)

# Planned/Completed Gas Import Projects

<u>Name of Project</u>	<u>Target Date(s)</u>	<u>Capacity (bcm/year)</u>
Langeled Pipeline (Ormen Lange)	Late 2006 and 7 (see note a)	23
Bacton Interconnector Upgrading (note b)	Phase 1 complete Phase 2 complete Phase 3 late 2007	8 7 2
BBL Pipeline	Complete	14
Excelerate LNG (Tees-side)	Complete	4
Isle of Grain LNG  (Phase 3 under consideration)	Phase 1 complete Phase 2 late 2008 Phase 3 2010?	4 9 7
Tampen Pipeline (Statfjord – FLAGS)	End 2007	10
South Hook LNG (Milford Haven)	Phase 1 late 2007 Phase 2 2009-10	11 10
Dragon LNG (Milford Haven)	Phase 1 late 2007 Phase 2 2010-12	6 6
Canvey Island LNG (planning appeal?)	2010-11?	5
<b>TOTALS</b>		<b>87-126 (note c)</b>

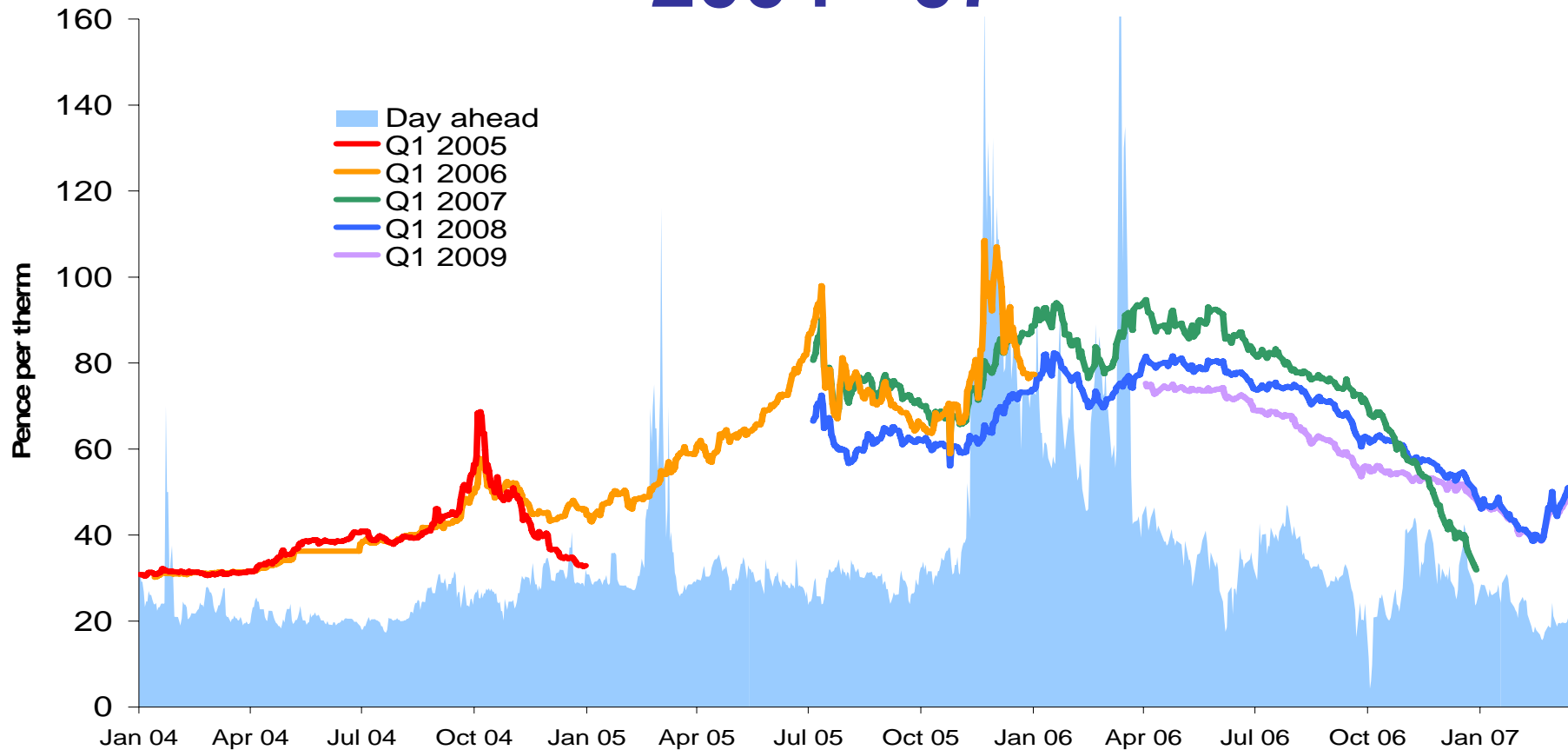
## Notes:

- (a) Southern leg of pipeline (from Sleipner) came onstream in October 2006; Ormen Lange field and remainder of pipeline are due in autumn 2007
- (b) Original import capacity of Interconnector = 8.5 bcm per year
- (c) Figure of 87 applies without Canvey Island and Phase 2 of LNG and Phase 3 of all projects

Current demand in the UK is ~100 bcm per year  
bcm = billion cubic metres

**What has been the impact  
of increased supplies on  
gas prices?**

# NBP Day-ahead and Forward (Q1) Prices 2004 - 07



Source: Heren Energy

- NBP day-ahead prices sitting at  $\leq$  than 20 pence/therm (quarter of the forward price for Q1 2007 a year earlier)
- Q1 2008 price has fallen significantly over the last year

12.051 European **SpotGasMarkets**

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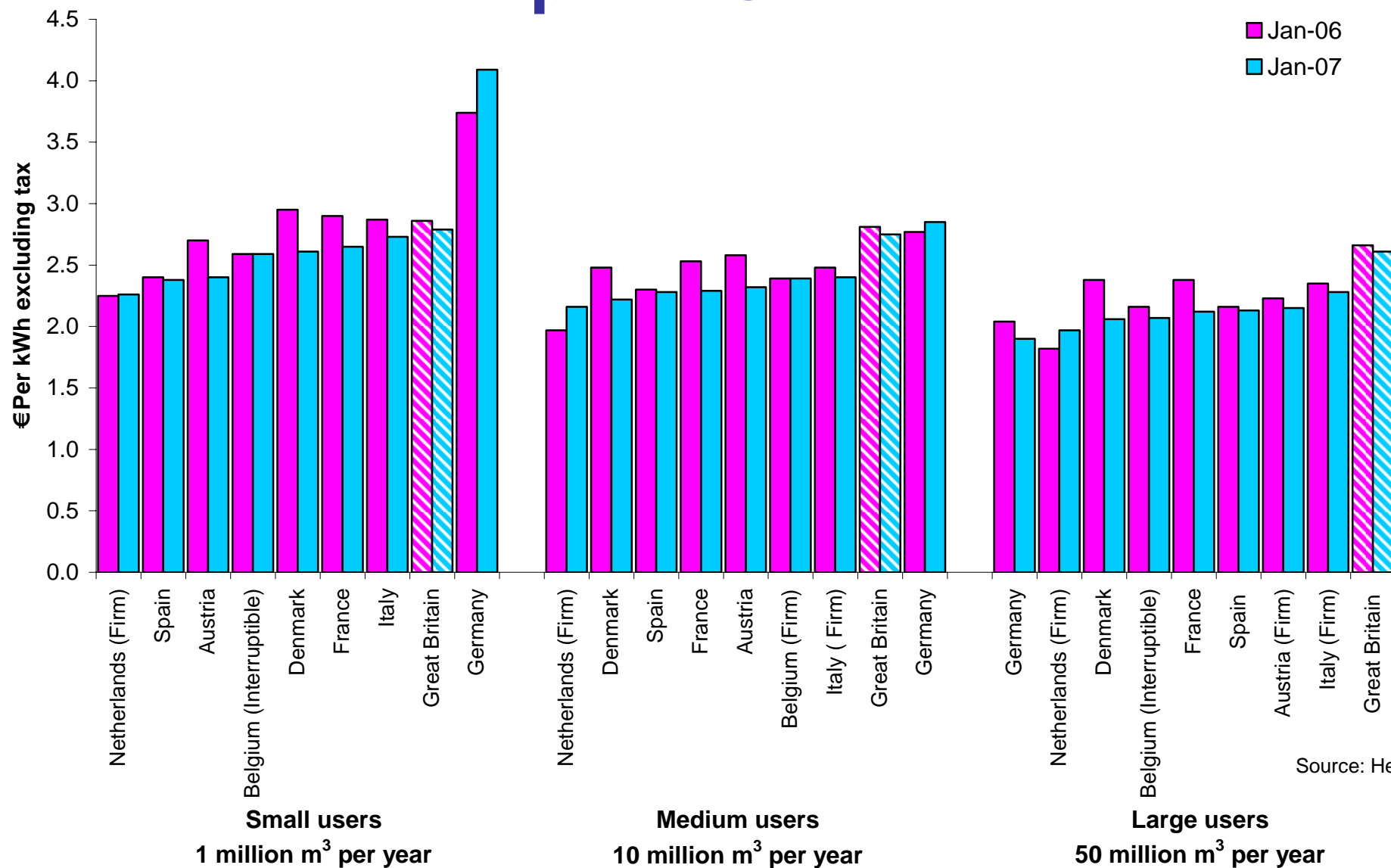
HEREN® Monthly Indices March 07			
ESGM PRICE ASSESSMENT 14 M			
Trading Date		NBP	
14/03/2006		Bid	Offer
Day-ahead		154.975	155.025
Weekend		142.000	143.000
WDNW		155.000	156.000
BOM		114.000*	116.000*
April '06		55.950	56.050
May '06		46.450	46.550
June '06		44.800	44.900
July '06		44.700	44.800
August '06		46.600	46.800
September '06		47.400	47.600
Q2 '06		49.200*	49.300*
Q3 '06		46.700*	46.800*
Q4 '06		74.850	74.750
Q1 '07		86.650	86.750
Q2 '07		48.875	49.075
Q3 '07		44.975	45.075
Q4 '07		64.850	64.750
Q1 '08		75.250	75.350
Q2 '08		46.300	46.400
Q3 '08		42.600	42.700
Q4 '08		57.950*	58.050*

continued on page 10

terminal and this flows to the SAGE

HEREN® Monthly Indices March 07			
ESGM PRICE ASSESSMENT 15 M			
Trading Date		NBP	
15/03/2007		Bid	Offer
Day-ahead		21.475	21.525
Weekend		21.550	21.650
WDNW		23.150	23.350
BOM		22.300	22.400
April '07		21.500	21.600
May '07		21.500	21.600
June '07		22.050	22.150
July '07		21.100	21.300
August '07		21.450	21.550
September '07		19.800	20.000
Q2 '07		21.700	21.800
Q3 '07		20.800	20.900
Q4 '07		42.500	42.600
Q1 '08		51.000	51.300
Q2 '08		32.800	32.900
Q3 '08		30.850	31.050
Q4 '08		42.500	42.600
Q1 '09		48.000	48.100
Q2 '09		33.500	34.100
Q3 '09		32.700	32.900
Q4 '09		42.075	42.175

# European Gas Prices



Source: Heren

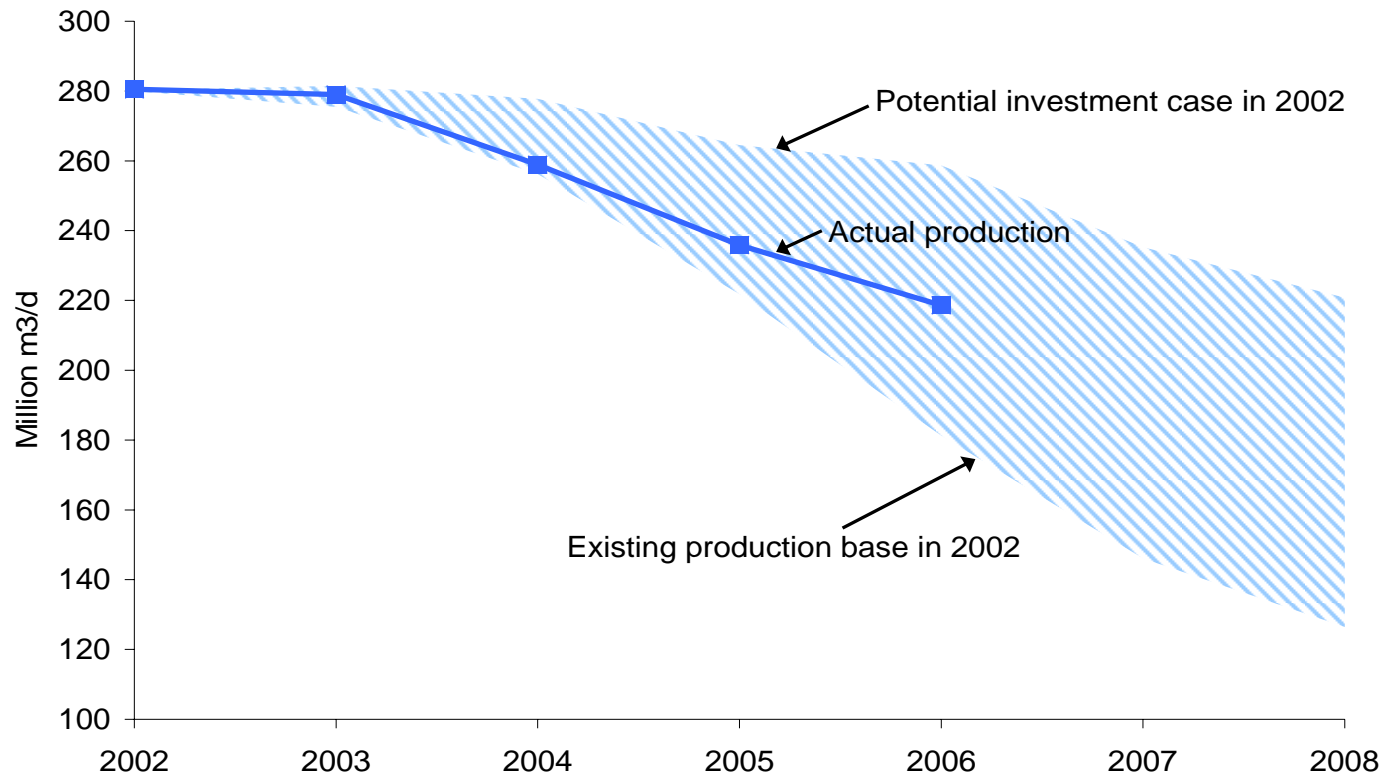
- Expect GB prices to fall further as lower prompt prices feed through to end users

# What's ahead for UKCS gas?

# What's ahead for UKCS Gas?

- Realised gas prices are moving closer to NBP because:
  - Volumes sold on long term contracts are falling
  - Imported gas prices are reflecting NBP prices more closely
- Given increased import capacity to come in 2007-12, prospects for gas prices in medium-term are different from perceptions of a year ago (see forthcoming study by Poyry, commissioned by UKOOA)
- Much interest in:
  - Investing in gas storage
  - Alternative uses of old fields, e.g. CCS

# UKCS Gas Production Forecasts



- Different views of 2007 gas production (peak in winter 06/07, recent decline, UKCS availability, new “merit order”)
- Not an exact science, but in 2006 production was within range forecast in 2002
- Uncertainty increases the further ahead you look
- Dependent on prices, UKCS gas could still satisfy 60% of annual UK demand in 2010