Winter Outlook Consultation 2007-2008: summary of responses from Gaz de France

Q1. We welcome views on our assessment of UKCS supplies and in particular our view that for most of the winter most UKCS supplies were operating at maximum flow conditions with the exception of certain high swing supplies.

Not all UKCS supplies were operating at maximum flow conditions throughout the winter. Some dry gas fields did not produce at maximum flow and, in some cases, produced very little last winter, due to low wholesale prices. We can therefore assume that low prices last winter, as a result of exceptionally mild weather conditions, have triggered a lower UKCS flow rate than would normally have been the case.

Q2. We welcome views on our assessment that increased Norwegian supplies to the UK were a consequence of lower supplies to the Continent
Q3. We welcome views of whether Norwegian supplies to the UK and the Continent would have been higher if demand for the UK and Continent had been higher.
Q4. We welcome views on whether Norwegian supplies to the UK would have been as high if Continental demand had been higher.

Supplies of Norwegian gas into France would have been greater had the winter been colder, therefore colder winter temperatures could have reduced the flows available to the UK market. It is our understanding that new infrastructure in the North Sea has made it easier to redirect Norwegian flows to the UK market when continental demand is low. Norwegian gas production was, it appears, higher than the previous year as an increase in Norwegian oil production led to an increase in associated gas production.

Swing in the French market is high and winter temperatures have a strong impact on winter demand. This influences the level of imports. Norway is Gaz de France's biggest source of natural gas imports. Winter 2006/2007 was the warmest in **France** since 1950, whereas the previous winter, 2005/2006 was the 10th coldest since 1950. Natural gas demand in France was 12.5% lower over the twelve month period to end March 2007, compared to the twelve previous months. As a result, net imports of natural gas were down 8.4% over the same period and were down 15.8% for non-LNG imports.

However, although overall imports into France were significantly lower, the share of Norwegian gas was higher than in 2005/06 due to new contracts between some players on the French market and Norwegian suppliers. In total, there was an increase of 1.4 bcm of Norwegian imports in the 2006/07 winter compared to the 2005/06 winter. Colder weather conditions during winter would no doubt have resulted in a higher increase.

In France, storage capacity has increased from 10.5 Bcm to 11.7 Bcm as extensions at Manosque, Cere la Ronde, St Illiers, Chemery, came into operation this winter.

In our opinion Norwegian producers sought to maximise deliveries of associated gas last winter and were only constrained by production or transmission capacity or by the level of demand in end markets.

Q6. We welcome views on our suggestion that IUK operated as a marginal source of supply more akin to a storage facility.

Q20. What assumptions should be made for levels of imported gas through IUK for winter 2007/8, and specifically:

Q20a. Should we assume that the IUK will operate as a marginal source of supply when UKCS and other imports can not meet UK demand?

Q20b. Should we assume that the availability of gas through IUK will increase as the certainty regarding the availability of Continental storage to meet the remainder of the winter improves?

The completion of the Interconnector's expansion for the winter of 2006/07 increased the supply potential to the United Kingdom by 7 Bcm/year. Although, it appears that may still be constraints affecting Belgian transit capacity and these may last until 2009 at the earliest. Hence, some of the previous winter's issues regarding European bottlenecks appear to remain unchanged.

As far as the share of French gas managed by Gaz de France is concerned, availability of gas from France which could be exported to the UK via the IUK in winter is largely a consequence of the management of gas in storage. This, in turn, depends on our forecasts of gas supply commitments throughout the winter and our forecasts for the availability of gas.

We fill our storage capacity in the summer months to the maximum level. During the winter months we aim to ensure that we have sufficient gas from storage and imports to meet our commitments to customers over the whole winter period. Under French legislation, this includes a legally binding obligation for all gas suppliers to supply customers under 1 in 50 winter conditions both for peak demand and volume.

We construct a “storage alert curve”, i.e. a minimal level of gas to be held in storage, for the winter period on the basis of forecasts for gas imports and supply commitments. If the weather is mild at the beginning of winter it becomes possible to release gas for sale to the market. This gas could arrive in the UK via the IUK, depending on prices in the UK market. As a rule, it is only from about the middle of winter onwards that the residual uncertainty is sufficiently low to allow gas to be released from storage for sale to the market. However, if the weather is colder than normal at the beginning of winter, it may be necessary for us to buy additional short term gas during this period in order to maintain gas in storage above the minimum alert levels.

Q7. How sensitive to gas price are LNG deliveries?
Q8. How developed is a global gas market for LNG?

Gaz de France has no firm LNG capacity in UK LNG terminals this winter, but will have from winter 2008/09 onwards. Gaz de France could therefore only supply LNG to the UK market as a secondary capacity user during winter 2007/2008.

Whether we could make LNG available for the UK market depends, firstly, on the level of demand from customers to whom we have a contractual commitment to supply, which, in turn, depends mainly on winter temperatures, and secondly on the supply side of our portfolio. If the levels of supply and demand allow us to free up some LNG deliveries in our portfolio, we would seek to sell these to the market where the prices are the most attractive.

If the coming winter is colder than average in France, we do not expect our LNG portfolio to allow us to divert deliveries for the following reasons:

- Despite improvements, deliveries of LNG from the Skikda plant in Algeria will not have fully recovered following an incident.

- Delays in the start-up of the Snohvit LNG plant in Norway in which Gaz de France has an interest and a share of the gas. Full capacity will probably not be available before the second half of this winter.
- Existing contractual commitments for deliveries to customers outside Europe.

If winter 2006-2007 is warmer than average in France, however, this may have a sufficient impact on our supply and demand balance for gas to make it possible for some LNG cargoes to be diverted from continental terminals to the UK, assuming that secondary capacity were to be made available and that prices in the UK market were sufficiently attractive compared to other opportunities.

Q15. What assumptions should be made over the maximum UKCS supply availability for 2007/8, and specifically:

Q15a. What assumptions should be made over the maximum UKCS supply availability from existing fields?

Q15b. What assumption should be made over the commissioning of new UKCS developments?

We expect to maintain gas production levels for the coming winter. GDF Britain has announced the commissioning of the Kelvin field for next winter. It was hoped that the Rita field would also be commissioned before next winter. However, it has been delayed and first gas deliveries are unlikely to arrive before the end of 2007/08 winter. The Minke field will also be commissioned, but, although the field is located on the UK continental shelf, it is connected to infrastructure which delivers gas to the Netherlands.

Q24. We would welcome views on our 2007/8 Initial View, and specifically:

Q24a. Whether it is plausible that the supply availability could be so much higher than for last winter?

Q24b. If the supply position does improve as suggested, what will become the order of supplies at lower levels of demand?

Critically this winter, new infrastructure will give access to new sources of gas, which, under normal or mild weather conditions should lead to increased supplies into the UK. However, it is important to remember that, as indigenous supplies decline, the UK is increasingly dependent on the supply and demand conditions for gas in competing markets. Widespread cold weather this winter or supply problems from an important supply source affecting competing markets, would be likely to affect supplies of gas into the UK as there are very few contracted volumes through the new infrastructure. The extent of the impact on UK supplies will depend on the extent of the impact of weather conditions on demand across Europe (and beyond, as far as LNG supplies are concerned) or of any supply side issues on supply. It is worth noting that it appears that the balance between supply and demand on the Dutch market may worsen this winter compared to last winter and this could have an impact on other European markets.