National Grid's Preliminary Consultation re Winter 2007-8

Introduction and General Comments

Oil & Gas UK (formerly UKOOA) has pleasure in responding to National Grid's preliminary consultation document, dated March 2007, regarding gas and electricity supplies for next winter, 2007-8.

Our members have, of course, recently provided production data as part of NG's annual TBE process, but this information has yet to be incorporated in the outlook. It will be the best that is available with respect to future gas production from the UK's continental shelf (UKCS). However, as we noted in our response to last year's consultation, there is a mis-match of timing with regard to the TBE process and the normal planning / budgeting cycle within the oil and gas sector. This is most likely to have implications for the commissioning of new projects.

As has been widely noted, last winter was very mild and the completion of two major new pipelines, from Norway and The Netherlands, in the final quarter of 2006 resulted in extremely rapid change in the gas market. This meant that not all fields in the UKCS were called upon to supply gas at maximum capability during the winter, imported supplies via the new pipelines superseding some of those from the UKCS and the Inter-Connector; indeed, the I-C behaved much like short term storage for most of the winter.

NG is continuing to use 90% availability for UKCS supplies which, as we have noted on previous occasions, is prudent for planning purposes. But we also believe that, in any sensitivity analysis, it would be wise to consider other possibilities, especially in difficult winter circumstances. We have suggested 85% before and we would propose that again.

Detailed Points and Questions

We have only answered a limited number of questions where we believe that it would be pertinent for us to comment. Many of the questions lie outside our sphere of knowledge.

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

To the best of our knowledge and in broad terms, this assessment is correct.

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.

It is, of course, impossible to answer any of these three questions with certainty. Nonetheless, reduced demand in mainland Europe during the very mild winter almost certainly allowed some Norwegian volumes to flow into GB which would, in a more normal winter, have flowed to the continent. However, in turn, this clearly affected flows through the Inter-Connector, given the low prices at the NBP. In a more normal winter, therefore, while it would be plausible to assume more gas flowing from Norway to the continent, it would be equally plausible to assume that more gas would flow through the I-C into GB. Even in the winter of 2005-6 which was difficult both in GB and mainland Europe, substantial volumes of gas were imported through the I-C, although not always meeting some expectations.

Q15: What assumptions should be made over the maximum 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?**

Q16: Should we plan for lower production of UKCS gas on the basis that high swing fields may not flow and consequently consider such fields as comparable to storage facilities?

As mentioned above, the best available data are those arising from NG's annual TBE process which are now in NG's possession. We shall look forward to their inclusion in the second consultation about the winter outlook.

We have mentioned before the matter of the commissioning of new projects (ref. UKOOA's response on 9th June 2006 to the winter outlook consultation, 2006-7). In it we stated: "There is however, one further point worth noting. TBE data are gathered in the spring of each year. Most operators' planning cycles mean that the internal work is done in quarters 2 and 3 in order to arrive at approved plans and budgets for the following calendar year. This means that TBE data originate 8-10 months before NG gathers them and they will be another 6-9 months older by the time that winter weather arrives. In other words, the data under-pinning the forecasts are some 16-18 months old at the outset of the winter in question

(assuming that October and November are normal autumn months). This potentially has consequences for the commissioning of new projects particularly. The timings of these may well have varied during the intervening months. This probably merits further examination."

Given the resource and cost pressures within the industry at present, this matter will not have diminished since we wrote those words last year.

Reduced production from high swing fields is, presumably, a function of demand, the availability of other gas and its price. Much depends on the circumstances for which NG is planning; if it is to meet the 1 in 50 and 1 in 20 requirements, it is likely that all sources of supply will be called upon. However, if it is to meet a "normal" winter – what ever that might mean – it would be difficult to make any such prediction. Clearly, in a very mild winter such as the most recent one, there was plenty of gas from a wide range of sources. A repeat of such winter weather is likely to produce a similar result.

Because the extent to which certain supplies will flow is dependent on demand and the attendant price, Oil & Gas UK would find it very difficult, if not impossible, to attempt to answer, for example, questions 20a and 24b.

Oil & Gas UK **14th May 2007**