

**ERGEG's Public Consultation:
Existing Transparency Requirements for Natural Gas,
ref. E10-GWG-68-03**

Reply by Oil & Gas UK

Introduction

Oil & Gas UK is the leading trade association representing the offshore oil and gas exploration and production industry in the United Kingdom. It has more than 100 members. In 2009, production from its continental shelf satisfied 68% and 94% of the UK's demand for gas and oil, respectively, or approximately two thirds of overall, primary energy demand.

The industry supports some 450,000 jobs throughout the economy, many of these highly skilled and well paid, and 100,000 of them engaged in the export of goods and services. For several decades, the industry has consistently been the largest industrial investor in the UK, with some £283 billion of capital expenditure and £276 billion of corporation taxes paid (both figures in 2009 money values) since gas production began in the late 1960s.

Further information is available at www.oilandgasuk.co.uk

Questions posed by ERGEG

Oil & Gas UK welcomes the opportunity to contribute to this debate, via ERGEG's public consultation. Given the nature of our industry's activities, exploration and production, we have only addressed the last two of ERGEG's seven questions for stakeholders:

- **Is there an area along the gas value chain (production, transmission, LNG, storage, distribution, wholesale market) where, in your view, additional transparency requirements are needed? Please specify what you miss, in your answer.**
- **Do you think that further transparency is required for the production (upstream) sector? If your answer is yes, please specify what is missing in your view and what specific, additional transparency requirements you would want to see. If your answer is no, please explain why.**

General Comments

We fully support the creation of a single market in gas (and electricity) across the EU, to the maximum extent that can be reasonably achieved. We believe that open, liquid markets are fundamental to security of supply while providing consumers with competitive prices; security of supply at competitive prices should be the ultimate goal for everyone involved in the energy markets.

It is clear that, in order to function properly, markets require good and timely information which can be relied upon, hence the importance of this debate about transparency. However, it is also evident that there are very widely varying standards of disclosure of information across the EU, so probably the first and foremost requirement should be to achieve consistency among the Member States by bringing all MSs up to the high standards prevailing in those with the most developed markets.

Because of differing circumstances across the EU, there are likely to be considerable variations in the effects which this initiative will have on market participants. It would be easy to assume that all forms of transparency are automatically beneficial, but care should be taken to ensure that any proposals are supported by sound evidence and have benefits which outweigh their costs. The Commission has forecast a need to spend extremely large sums of money on electricity and gas infrastructure in the coming years; this initiative should take account of the inevitable differences between those who undertake major investments which, by their nature, take many years to mature and involve lengthy payback periods and those whose time horizons are much shorter, but who nonetheless provide valuable services to the market.

The third package of liberalising measures is currently being implemented; the transparency provisions of Regulation 715/2009 are also being adopted. In some MSs, we understand that the second package has not yet been fully implemented. All of this suggests that there is much still to be achieved under existing requirements.

Gas and Electricity

On many occasions, it has been asserted that gas and electricity should be treated the same as far as information disclosure is concerned. On the face of it, this may seem logical, but we believe that it is flawed. There are fundamental differences between the two.

- Electricity travels at or very close to the speed of light; gas travels slowly (about 50km/hr in a high pressure transmission pipeline).
- Of necessity, therefore, electricity has to be balanced instantaneously; gas does not.
- Gas can be stored, whether in separate storage or as linepack; electricity cannot.
- Most sources of electricity are close to their market and any interruptions of supply are noticeable by the market almost immediately. Gas production can be a long distance ('000s of kms) away from its market, whether the gas is delivered by pipeline or as liquefied natural gas (LNG). Even on the UK's continental shelf, gas can take one or two days from an offshore well-head to reach land and enter the transmission system; it then requires several hours more to reach the customer.
- Gas production systems are often characterised by large pipelines which are fed by gas from various different sources via a gathering system and it is the large pipeline which delivers gas into a transmission system. It is not unusual for there to be substitution arrangements between producers within a gathering system, so that a reduction of flow from one source of supply can be compensated for by another within the same system.

Most MSs operate a daily balancing regime for gas and shippers are required to ensure that their inputs to and offtakes from a transmission system are balanced over a 24 hour period. The inherent flexibility of gas allows this to happen in an orderly manner, even if there are variations of flow from one or more sources of supply during the course of a day. Electricity does not have this flexibility.

Internal v External Sources; Security of Supply

The main external sources of gas for the EU are Norway, Russia and Algeria. Norway is an EEA country, of course, bound by the EU's market rules, but that still leaves two major non-EU/EEA sources plus increasing volumes of LNG coming from a wide variety of countries in

Africa, the Middle East and the Americas. There is also the prospect of a major new pipeline to central Europe from the south-east bringing gas from countries in the Caspian region and/or the Middle East.

Dependence on Russian and Algerian gas is sometimes cited as a concern for security of supply, but the increasing competition in the EU's supplies, arising from their diversity, makes them more secure, as well as sharpening price incentives and delivering better value.

Therefore, it would be strange, to say the least, if the EU were to regulate its own (and EEA) production with regard to the disclosure of information in a manner which cannot be applied to non-EU/EEA sources of gas. Norway, the Netherlands and the United Kingdom are the largest producers of gas in the EEA and EU. In the Netherlands and the UK, production is declining and it is forecast that Norway is at or close to its likely peak. Therefore, imports from elsewhere will probably increase in future.

It is official policy to exploit indigenous resources to the maximum extent that is economically possible; clearly, this makes sense as far as investment, jobs, tax revenues, development of technology and security of supply are concerned. But we believe that it would be a profound mistake for EU regulation to discriminate against internal supplies and in favour of external supplies. There should be a common regime.

Proposed Solution

We would therefore like to propose a regime which can be applied equally to all sources of supply to the EU, regardless of where the gas originates.

- **Information about gas flows should be measured by TSOs at system entry points and made public in real, or close to real, time.**
- **This can be applied to the EU's own production, imports by pipeline or as LNG, flows across national boundaries and withdrawals from storage.**
- **Smaller entry points (say, those of < 10 mcm/d of flow capability) should be omitted on the *de minimis* principle.**
- **The current arrangements operating in Great Britain set the standard and provide a model for other TSOs.**
- **Bringing all of the EU's markets up to this high standard should be the first and foremost objective.**
- **Regulation EC 715/2009 provides the means for doing this.**
- **The Commission and regulators should also ensure that the provisions of the Third Package are properly implemented in a timely manner throughout the EU (as well as any outstanding requirements of earlier packages).**

Oil & Gas UK remains available to discuss the contents of this reply, should ERGEG so wish. Please do not hesitate to contact us. We are copying this to the British government's Department for Energy & Climate Change for information.

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