



BG Group

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2nd March 2005

Dear Julian,

Modification 727: Publication of Near Real Time Data at UK sub-terminals

BG Gas Services Limited (BG) welcomes the opportunity to comment on this Modification. BG does not support the implementation of the Modification.

- The proposer of the Modification has failed to demonstrate that there will be a positive effect from the release of near real time sub-terminal flow information.
- The Modification does not consider the disruptive impact release of sub-terminal information may have on the operation of the UK gas market.
- The Modification does not allow for the effect of the voluntary agreement reached as part of the DTI information initiative to be assessed.

Background

The provision of offshore information to the wider market has been under consideration for a significant period of time. Following the DTI consultation of 2001-2, a joint working group comprised of Ofgem, Transco, DTI and UKOOA was formed to examine the provision of offshore information to the market. Its conclusions formed the basis of the three phase information initiative as described in Transco's draft modification report. As part of the third phase of the initiative, it was agreed that information would be provided to the wider market, but due to concerns about commercial confidentiality and data liability issues, the parties agreed that the information would be published on an aggregate basis. The first two phases of the DTI initiative have been successfully completed, with the final phase, allowing release of information to the wider market expected to be completed by 1st July 2005.

Information and markets

BG recognises the important role information has in the operation of markets. However, markets do not require all participants to have equal information to function efficiently. It is not uncommon or unusual for different market participants to have different levels of information. This can arise for a variety of reasons; parties may be involved in a market in various roles and to varying degrees which naturally provides different insights into the operation of that market. At a fundamental level, every market participant has access to unique information regarding its own commercial position. A competitive market does not require participants to have identical information, as it is through the operation of the market and interaction of supply and demand that information is aggregated and released into the market through the operation of the price mechanism. For example, a participant that has information that leads it to believe the market is undervaluing a commodity would "buy" which would increase the market price until a new equilibrium price is reached which incorporates that participants view of the market.

Near real-time sub terminal data and the operation of the UK gas market

In the specific case of the UK gas market, publication of sub-terminal specific flow data would seriously prejudice the commercial interests of individual market participants. As the market currently operates the contractual holdings of various shippers at various entry points are widely known or can be quickly deduced from trading activity in locational gas or capacity. Real time disaggregated information would effectively give the wider market information on the position of shippers with known physical flows at a sub-terminal. For example, in the case of a sub-terminal “trip”, the market would know that a shipper was short and that shipper would be in the position of being a “distressed buyer” of gas. In the long term, the consequence of potential exposure as a distressed buyer will be an increase in the commercial risks associated with physically supplying gas to the UK market.

It has been suggested that such concerns can be addressed through contract re-negotiation. This not only ignores the costs and complexity of contractual re-negotiations it also to some extent misses the point that residual physical performance risk will always exist in a commodity market. If gas which is planned to be delivered to the system is not delivered then some market participant that was expecting that gas to be delivered will be “more short” than they intended and will be a distressed buyer.

Claimed benefits of Modification 727

The crux of the Proposer’s argument appears to be that “Failure to publish this information would continue to undermine and skew the wholesale trading markets leading to potentially higher gas prices.” It is also at least implied in their writings that price rises have occurred in recent years at least partly because of lack of public access to information.

BG concerns with the energywatch analysis:

- It is not clear that information asymmetries have resulted in higher gas prices in recent years. In fact it would be strange for information asymmetries to be the cause of higher gas prices as over recent years it can be argued that Transco and shippers have more information regarding the operation of the gas market and associated power market than they did in times of lower gas prices. It seems more plausible that changes in the fundamentals of supply and demand have resulted in higher gas prices.
- It is not clear that this Modification removes information asymmetries. The wider market currently does not have access to any disaggregated supply information below the NTS and LDZ level. It would seem that arguments for real time release of disaggregated physical input information would apply equally to release of disaggregated physical output information.
- The Modification does not explain how the publication of near real time data at sub-terminals would result in an increase in competition in production and supply which would in turn result in a price reduction of 0.5%. Certainly it is not clear why in the long run production would become more competitive when the consequence of this modification is to increase the risks of parties exposed to the performance of physical assets.
- The proposer asserts that the Modification would result in narrower bid-offer spreads. It is not clear to BG that current spreads do not accurately reflect the costs of the risks that market participants seek to hedge. Moreover, as we have stated above, the Modification would not reduce the risk of physical asset non-performance, instead it increase the risks of parties exposed to the performance of physical assets. If anything this increase in risk would result in wider not narrower spreads.
- It is not clear how the release of real time information would result in better co-ordination of planned outages. Producers already try to co-ordinate their maintenance with Transco and

market price signals encourage producers to conduct outages at the time of lowest expected prices. In any event it would seem to be potentially detrimental to the operation of a market if competing suppliers into that market started to co-ordinate their production levels. Finally, it would seem that on a practical level if the aim is to improve co-ordination of planned outages, then information on forecast flows would be required not information on real time flows.

Consequences of Modification 727

Notwithstanding the above arguments, there are further consequences of introducing the Modification which need to be considered.

- Transco has expressed concerns that the future supply of data from upstream parties may be prejudiced if bilateral confidentiality agreements signed by Transco will not be respected in the future.
- There is a risk that the offshore community's confidence in Transco, Ofgem and DTI would be significantly diminished by implementing a modification which effectively ignores the agreement reached under the DTI information initiative before the voluntary agreement has been fully implemented, let alone its impact assessed.
- Finally, we recognise and share widespread concerns about the costs and potentially complex technical issues surrounding the release of real time disaggregated information and the liability issues that may result from implementation of this Modification.

Conclusion

It is not clear to BG that the levels of information available to the wider market on offshore production have been in any way detrimental to the operation of the UK gas market. However, BG recognises that there have been concerns expressed over information and that is why it supported the voluntary agreement between Ofgem, DTI, Transco and the offshore community. It is in BG's view a considered compromise which balances the desire of some to release more information to the market on the aggregate physical position of the system with the need to protect the confidentiality of individual market participants' commercial positions. Given the lack of any clear benefits from the implementation of the Modification it would seem prudent to allow the implementation of the voluntary agreement to be completed and its effects assessed before any radical changes to the regime are implemented.

Yours sincerely,

Stephen Jones
Regulation Manager