



To: Transco  
UK gas producers  
Other interested parties

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*Bringing choice and value  
to customers*

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### **Access to offshore information**

#### **Extending the derogation to Paragraph 5 of Amended Standard Condition 4E of Transco's Gas Transporters Licence**

In a letter to industry dated 15 April 2004, Ofgem granted - with effect from that date - a temporary informal derogation to paragraph 5 of amended standard condition 4E of Transco's gas transporters (GT) licence<sup>1</sup>. This derogation allowed Transco to conclude agreements with offshore producers for the voluntary provision of information relating to offshore gas production. The derogation is due to expire on 31 October 2004. If the derogation expires it could risk the continued flow of information under this voluntary agreement from the offshore industry to Transco and the publication of some of this information by Transco to the wider market.

Ofgem intends to consult shortly on options for an enduring onshore regulatory framework that relates to the release of any offshore information provided to Transco under the current voluntary agreement. There are clearly a wide range of views on what the enduring framework should be and about how much information should be provided to the market. Ofgem had hoped to be able to consult on this issue earlier in the year but has diverted resources to other priorities, such as our ongoing probe into movements in wholesale gas prices. We are not, therefore, in a position to consult upon and implement the enduring arrangements before the existing derogation expires.

Given this, the purpose of this letter is to extend the application of the derogation from 31 October 2004 to 30 April 2005. The letter also sets out briefly how Ofgem intends to consult upon and resolve this issue in the coming months.

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<sup>1</sup> The licence condition was introduced as part of Transco's System Operation incentives licence amendments in 2002. The licence requires it to comply with requirements in its network code to publish information relating to the operation of its system or any market relating to its system. Such information may potentially include offshore information passed to it.

## Background

The Department of Trade and Industry (DTI) has been facilitating discussions with the UK Offshore Operators Association (UKOOA) and Transco to improve the flow of information (albeit on a voluntary rather than statutory basis) from the offshore gas producers to Transco and for some of this information to be released to the market. Under the voluntary scheme, offshore gas producers agreed to increased flows of information to Transco, provided that this data was protected by a confidentiality agreement with Transco. Ofgem identified a concern that the proposed confidentiality agreement could lead to Transco being in breach of its GT licence. This breach could occur if the network code were modified requiring the release of detailed offshore information which was subject to the provisions of the confidentiality agreement. In such a situation, the confidentiality agreement may prevent Transco from releasing this information, and hence put it in possible breach of its GT licence.

Having identified this concern, on 15 April 2004, Ofgem granted a temporary informal derogation (the derogation) to paragraph 5 of amended standard condition 4E of Transco's GT licence lasting for 6 months (until 31 October) and related to specific to field information collected by Transco. The derogation was only granted on an informal basis, as there is no statutory basis or basis in the licence to enable the grant of any formal derogation or direction.

Ofgem also stated in the letter of the 15 April that it would monitor the effectiveness of the voluntary agreement to ensure that Transco's system operations and the market are actually benefiting from it.

On 1 October 2004, Transco began publishing on its website the first offshore information to the market. This provides information on maximum supply deliverability, for the forthcoming 12 month period. The data is provided on an aggregated north/south basis<sup>2</sup>. Transco has also begun publishing after the day information on sub-terminal flows (previously only made available to Transco registered shippers) and further information is planned for 2005<sup>3</sup>. However, the confidentiality agreement negotiated between Transco and UKOOA includes a "recall or destroy" provision. If invoked at the producers' request, this would require Transco to return or destroy the offshore information, 15 days prior to the end of the derogation period (i.e. 15 October 2004), where Ofgem has not granted an extension to the derogation or amended standard condition 4E of Transco's gas transporters licence.

In issuing the original derogation, Ofgem had expected to begin consulting on possible options for a long term solution regarding paragraph 5 of amended standard condition 4E of Transco's GT licence. While Ofgem is close to publishing its consultation document on options for a long term solution this matter will not be settled immediately and so it is necessary to extend the temporary informal derogation.

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<sup>2</sup> The Northern aggregate zone comprises St Fergus, Barrow, Teesside, Burton Point, Partington and Glen Mavis, the southern zone comprises Easington (including Rough), Theddlethorpe, Bacton, Isle of Grain, Dynevor, Avonmouth and Hornsea

<sup>3</sup> Under Transco's current timetable for publication, information on forecast flows and physical flows into the NTS will be available in Q1 and Q3 2005 respectively.

## **Extension of the temporary derogation**

In light of the above, Ofgem hereby extends the application of the derogation contained in its letter of 15 April from 31 October 2004 to 30 April 2005<sup>4</sup>. As stated in the letter of 15 April 2004, the derogation from Transco's obligations under paragraph 5 of standard condition 4E of its GT licence is only in respect of specific to field information collated by Transco for the purposes of producing its long term planning and forecasts, which are published in its Ten Year Statement.

Ofgem reiterates that the temporary derogation can only be granted on an informal basis as there is no statutory basis or basis in the licence to enable the grant of any formal derogation or direction. Ofgem considers that the grant of the temporary informal derogation is without prejudice to any decision taken following the conclusion of our consultation. Depending on timing and results of our consultation and the nature of the final decision, the temporary informal derogation may be withdrawn and/or replaced by the enduring regulatory framework before 30 April 2005.

In granting the derogation, Ofgem expects the continued participation of upstream producers in the voluntary disclosure of phase two information. Ofgem will continue to monitor the effectiveness of the voluntary agreement to ensure that Transco's system operations and the market are actually benefiting from it.

## **Way forward**

Ofgem's consultation on possible options to address the issue of offshore information release will be published shortly with a view to final proposals and implementation early next year.

If you have any questions regarding this letter do not hesitate to contact me or Kevin James (Head of Security of Supply, Wholesale Markets, 020-7901-7181).

Yours sincerely



**Steve Smith**  
**Managing Director, Markets**

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<sup>4</sup> This letter should be read together with the letter of 15 April 2004.