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GAS PRIVATISATION - COMMON CARRIER PROVISIONS OF THE OIL AND GAS ENTERPRISE ACT, 1982

At Tuesday's E(A) discussion on gas privatisation, Patrick Jenkin pressed the case for greater use of the common carrier provisions of the Oil and Gas Enterprise Act to promote competition in the supply of gas to end consumers. The discussion indicated that there is still some confusion as regards the scope of this aspect of the Act.

Until the Oil and Gas Enterprise Act came into force, BGC had the monopoly to supply all classes of consumer in the UK. The Act effectively removed this monopoly for medium and large business consumers. To facilitate competitive gas supplies to such businesses, the Act not only removed BGC's monopoly, but also gave private sector producers access to BGC's distribution network for a tariff - ie the concept of common carrier pipelines. So far, no private sector producer has used this facility, although Shell/Esso has had exploratory discussions in one case. Various factors account for this:

- Operationally, it is difficult to match demand and supply, especially in the case of supplies from offshore gas fields. The smaller the gas field, the easier it is to market the gas to a limited number of large customers. On the other hand, the smaller the field, the more prone it is to operational shutdowns and disruptions, either planned or often unforeseen. BGC is able to maintain supply continuity efficiently and flexibly by having a large portfolio of supply contracts, a highly flexible distribution network, some storage capability, and further flexibility in the form of interruptible industrial customers.

- Even for onshore gas fields, use of the common carrier provisions is not necessarily straightforward. Disparities of gas pressure and quality may pose difficult operational and contractual problems.

- BGC are not required to publish and adhere to set tariff scales for carrying third party gas. To be fair, the setting of equitable tariff scales would be extremely complex because of the different variables relating to duration of supply, flexibility, pressure and quality. Thus, in any negotiation with prospective third party carriers, BGC have the dual advantage of being able to discourage competitive supply deals by quoting high tariffs, whilst offering prices for straightforward gas purchase which remove the incentive to compete.

- In any case, most gas producers realistically regard BGC as their prime customer. Even in the unusual circumstances where a direct supply deal via BGC's distribution network would be commercially and operationally achievable, producers are reluctant to antagonise BGC by challenging their monopoly.

One of the more significant features of the proposed gas legislation is the intention to offer public gas supply licences in areas not so far served by BGC. This could present very interesting business opportunities for small onshore gas fields. It may well succeed where the Oil and Gas Enterprise Act had failed in providing the stimulus of competition around the fringes of BGC's business.

In any event, it must be assumed that BGC will retain its monopoly over the great majority of the UK gas market; hence the critical importance of the regulatory régime for the privatised British Gas.

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