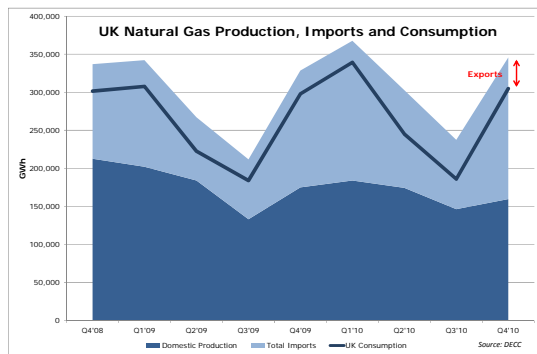


Black Cat Energy Services News and Analysis

Q2 2011 Issue

UK: Gas Supply and Demand

In 2010 50% of UK gas consumption was met by imported natural gas, but reliance on imported gas is not a new thing for the UK, indeed the first contractual supplies of natural gas in the UK was imported from Algeria. From 1977 and throughout the 1980's some 30% of UK gas consumption was supplied from Norway via the Frigg field.

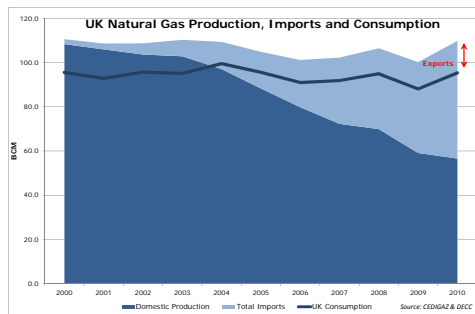


DECC figures show that at times over the last two years the UK relied on imports for more than half its gas.

It is interesting to note that even when the UK was highly dependent on imported gas it still exported gas, although this was largely to

Ireland (see page 2), which is dependent on transit through the UK for the majority of its own gas supply.

Looking at the supply / demand position from 2000, we see UK domestic gas production steadily falling. By 2010 domestic production is sufficient to meet just half of the UK's gas requirement, the rest being supplied from a range of countries, either via pipelines from Europe or as LNG from further afield.



What does the future look like? One might expect that a rational government would seek ways to promote and support its domestic production. So the sudden hike in the supplementary charge on corporation tax from 20% to 32% was a big shock to the UK oil and gas industry. UK Oil and Gas reports that this increase results in a tax rate on UK oil and gas production of between 62% and 81%. Already companies have announced the cancellation of projects (Statoil) or have delayed the resumption of production following maintenance (Centrica). Now, regardless of any tax imposed on UK domestic gas production, production rates will continue to fall, but unless the Government reverses its tax rise the rate of decline in UK domestic gas production must only accelerate. Compared with many countries the UK has little gas storage, and so a greater reliance on imports exposes the UK to possible supply interruptions and price hikes. On Page 2 we look at current sources of imported gas.



Welcome to the latest edition of our newsletter, our update on issues in the oil and gas industry.

If you have any questions about the matters raised in this issue please do not hesitate to contact us.

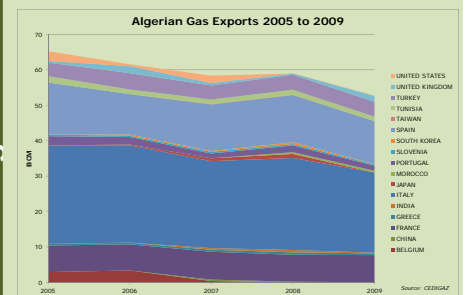
Ray

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Algerian natural gas export infrastructure consists of 3 pipelines with a maximum throughput rate of 45 BCM/Y and 19 liquification plants with a total capacity of around 31 BCM/Y.

Over the last 5 years Algeria has used these facilities to export natural gas to 17 countries. Despite this, annual natural gas exports declined from a total of 65 BCM (2005) to 53 BCM (2009).

Algerian Gas Exports



The decline in exports appears to be due to an increase in domestic gas consumption (2005: 23.7 BCM, 2009: 28.8 BCM).

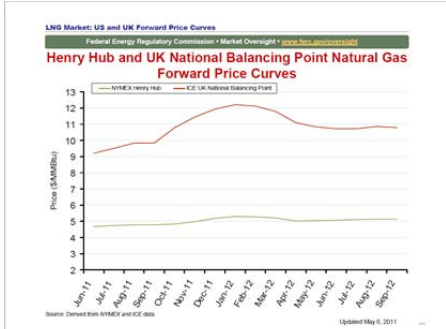
Over 25 years oil and gas experience

Background in commercial negotiations & economic evaluation

Worked extensively in the UK, Europe and North Africa on upstream, midstream and downstream gas development projects

USA & UK Gas Prices

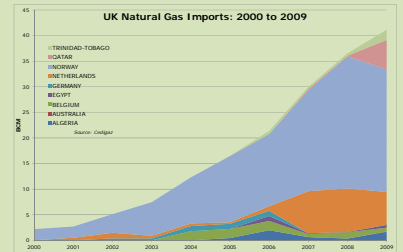
Gas in Europe is traditionally sold under long term contracts where the price is determined by reference to oil product prices. Even in the UK, where market liberalisation resulted in a switch to traded gas markets, the price of gas frequently reflects the price in continental Europe. The chart below (published by the US FERC in May 2011) shows a large disconnection between the price of gas in the USA and that in the UK.



Given the potential for arbitrage, why the difference? Possible explanations include: lack of export capacity in USA, cost/availability of shipping, lack of import capacity in Europe (including the UK), and market control by incumbents. More on this in later reports.

UK: Natural Gas Imports

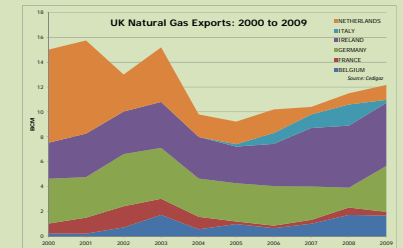
We saw on page 1 that the UK now imports 50% of its gas requirement. The chart on the right shows that imports have grown from under 2.5 BCM/year in 2000 to just over 40 BCM in 2009.



The majority of this import comes from Norway, with imports from the Netherlands and Qatar providing sizable contributions. In 2009, the UK is recorded as having imported gas from nine different countries, including some that have no known natural gas production! The UK even imported some gas from Australia, but the quantity is so small that it doesn't show up in the chart. In our next report we hope to look at UK imports split between pipeline and LNG.

UK: Natural Gas Exports

At the same time as importing record levels of gas the UK has continued to export. In 2009 the UK exported to six countries, with the Republic of Ireland and Germany accounting for most of the gas exported.



The position of the Republic of Ireland as a major customer for gas from the UK is determined by geography. Other countries are likely to be customers by virtue of trading operations run from the UK.

What we do

Black Cat Energy Services has

Engaged in

- Algeria, Denmark, Egypt, Indonesia, Netherlands, Pakistan, Russia, West Africa and UK

Projects involving

- bid rounds, contract audits, country studies, data rooms, field commercialisation & supply / demand analysis

Negotiated and advised regarding

- allocation agreements
- farm-in/out agreements
- gas sales agreements
- joint operating agreements
- lifting/balancing agreements
- transportation and processing agreements
- unitisation agreements
- vicinity working / crossing agreements



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