

## **Bloomberg Article 24<sup>th</sup> August 2009**

### **U.K. Gas Plunges on Excess LNG, Supplies From North Sea, Norway**

Aug. 24 (Bloomberg) -- U.K. spot and forward natural gas contracts plunged on lower than normal demand and excess flows of liquefied gas and supplies from the North Sea and Norway.

Same-day gas dropped as much as 46 percent to 12 pence a therm as of 11:45 a.m. London time, according to broker ICAP Plc. That's the lowest since October 2006 and equal to \$1.98 a million British thermal units. A therm is 100,000 Btus. Gas for the rest of the working week dropped 5.5 pence to 17.5 pence.

"The main issue that we will come back to is what is the marginal cost of gas from the North Sea, which has typically been pitched around the 15 to 20 pence a therm level," said Craig Lowrey, a consultant at J.C. Rathbone Associates Ltd., in an e-mail. In October 2006, when U.K. gas dropped below 10 pence, prices quickly rebounded, he said. "Going below and staying below 15 pence a therm for an extended period is key."

U.S. natural gas extended its losing streak. Gas for September at Henry Hub in Louisiana has fallen 33 percent since Aug. 5 to \$2.772 a million Btus. With British and U.S. prices declining, the countries may vie for spare cargoes of liquefied natural gas, which tend to be shipped to the highest-priced market.

The U.K. September contract fell 1.85 pence, or 8.7 percent to 19.5 pence a therm.

U.K. gas demand in the 24 hours through 6 a.m. tomorrow is forecast at 172 million cubic meters. That's 11 million less than the last working day of last week and 38 million below normal for this time of year, according to National Grid Plc data. The nation's pipelines will contain 343 million cubic meters of gas at that time. That's 19 million more than at the start of today.

### **Three-Year Low**

Winter gas for the six months starting October declined 2 pence, or 5 percent, to 37.2 pence a therm, according to broker Spectron Group Ltd. That's the lowest for at least three years, according to broker data.

The winter contract could fall further as the recession continues to hurt demand, Lowrey said. European buyers obliged to take gas under multiyear contacts with Russia and Norway may also take less from the U.K.

"There's still the issue of what is going to happen to all the gas that should have been consumed under take-or-pay agreements and hasn't," he said. "This will have to go market at some point and could lead to a further drop off in price."