



Proposed amendments to the Regulations of 20 December 2002 No 1724 relating to the stipulation of tariffs etc. for certain facilities

The ABI's Response to the Norwegian Government's consultation paper

The UK Insurance Industry

The UK insurance industry is the third largest in the world and the largest in Europe. It is a vital part of the UK economy, managing investments amounting to 26% of the UK's total net worth.

The ABI

The ABI is the voice of insurance, representing the general insurance, protection, investment and long-term savings industry. It was formed in 1985 to represent the whole of the industry and today has over 300 members, accounting for some 90% of premiums in the UK.

ABI Response

ABI members as institutional investors have a long record of investing in infrastructure assets because of their defensive characteristics and low volatility. Investment in infrastructure is made more attractive where there are policies that support a relatively safe long term assessment of the expected risk and returns. In recognition of the Norwegian Government's well-designed policies to support the Norwegian energy sector, ABI members invested significantly in Njord Gas Infrastructure AS (Njord Gas) bonds. ABI members hold 83.7% of the Njord Gas £165m 2027 bond issued in May 2011 and at present is rated A- by Standard and Poor's. Njord Gas owns an 8.036% interest in the Gassled pipeline network and related processing facilities and derives its income solely from its interest in the Gassled Network.

The proposals, published on 15 January 2013 by the Ministry of Petroleum and Energy (MPE), seek to dramatically reduce Gassled capital tariffs as they apply to new bookings. This has raised significant concern amongst our members. These proposals bring about regulatory uncertainty and will have a significant financial impact on our members, should they be approved.

On 21 January 2013, Standard & Poor's Ratings Services placed Njord Gas's bond issue rating on CreditWatch negative as a result of the impact that the tariff reductions will have on future revenues and debt serviceability. If these proposals are enacted;

- The tariff reductions will likely lead to a credit rating downgrade that will increase the capital our members are required to hold in respect of the Njord Gas bond,
- The additional risk of a rapid deterioration from a solid investment grade rating into a high yield rating in such a short time frame would, be a very negative precedent for the infrastructure investment industry, and
- There is also likely to be significant damage to investor confidence and a negative impact on the availability and price for any external future external finances sought.

Our members have also expressed additional concerns that:

- The proposed changes lack sufficient disclosure of externally verified analysis,
- The recent changes in equity ownership of the Gassled Network includes a Norwegian state owned company that now appears well placed to gain the most from the proposals,
- The proposals do not adequately address the issue of resource management that the MPE is seeking to achieve, and
- The approach adopted in addressing this issue is counter to the MPE's consensus-driven approach to regulation and the transparent and stable tariffs it has sought to achieve.

We would not expect that such a dramatic change to one vital and low cost component of a wider unified industry to be proposed by a country such as Norway that has a reputation for stable, sound and transparent petroleum policy.

We encourage the MPE to reconsider these proposals and we welcome any further opportunity to share our views with you.