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The Ministry of Petroleum and Energy
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Proposed reduction of the tariffs for transportation and processing of gas on the Norwegian continental shelf

Introduction

We refer to the Green Paper issued by the Ministry of Petroleum and Energy (the "Ministry") on 15 January 2013 (the "Consultation Paper"), requesting comments on proposed amendments to the Regulations of 20 December 2002 No 1724 relating to the stipulation of tariffs etc. for certain facilities (the "Tariff Regulations"). The Consultation Paper proposes a 90% reduction in the k-element (capital return) for all future capacity bookings in Gassled, the Norwegian gas export infrastructure.

The Public Sector Pension Investment Board ("PSP Investments"), through Infragas Norge AS ("Infragas"), owns a 5.006% interest in Gassled. Our investment in Gassled was made after a lengthy and meticulous due diligence process that included several conversations with Ministry officials, including on the topic of the applicable regulatory regime and tariff stability.

The perceived stability, predictability and transparency of Norway's regulatory framework were key considerations in PSP Investments' decision to invest in Gassled. However, the Ministry's failure to share crucial information in discussions held during the due diligence process, the unwillingness of the Ministry to engage in discussions and the lack of advanced consultations, in sharp departure from the established practice of the Ministry, demonstrate that the regulatory framework is anything but stable, predictable and transparent.

PSP Investments was surprised and upset by the Ministry's conduct and the proposal to reduce the k-element tariff on all future bookings by 90%. The proposed changes would have a significant negative impact on the contributors and beneficiaries of the pension plans whose funds we manage. The proposal, if implemented, will lead to a significant reduction of the value of our Gassled investment and a reduction in actual and future returns to a level which would be considered unreasonably low by most infrastructure investors. It would also create an unappealing investment framework driving PSP Investments away from future Norwegian infrastructure needs. We therefore strongly request that the Ministry reconsider the tariff reduction and engage in meaningful dialogue with stakeholders before a decision is made.

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As the owner of Infragas, we endorse its response to the Consultation Paper and share the views expressed in its submission, including on subjects that are not addressed in PSP Investments' response.

PSP Investments

PSP Investments is one of Canada's largest pension investment managers with $68 billion (NOK 378 billion) of assets under management as at September 30, 2012. Its highly-skilled and dedicated team of professionals manages a diversified global portfolio including public equities, private equity, bonds and other fixed-income securities, real estate, infrastructure and renewable resources. PSP Investments is a Crown Corporation established to manage employer and employee net contributions since April 1, 2000, to the pension funds of the federal Public Service, the Canadian Forces and the Royal Canadian Mounted Police, and since March 1, 2007, of the Reserve Force. Those pension plans have more than 800,000 members, including more than 430,000 contributors and approximately 370,000 beneficiaries.

Annual net contributions to the Pension Plans are approximately $5 billion (NOK 28 billion) and forecast net contributions are expected to remain positive for at least the next 15 years. PSP Investments' head office is located in Ottawa, Ontario, and its principal business office is in Montréal, Québec.

PSP Investments - Infrastructure

PSP Investments' Infrastructure portfolio is focused on four main sectors: transportation, utilities, power and energy. To ensure alignment with PSP Investments' objectives and long-term outlook, the Infrastructure group favors direct ownership investments and, accordingly, only a small portion is invested in externally managed funds. The Infrastructure portfolio was established in June 2006. The group has a 13% target allocation of the total PSP fund and to date, has invested more than $5.0 billion (NOK 28 billion) globally.

Investment in Gassled

In December 2011, PSP Investments, through Infragas, acquired a 5.006% stake in the Gassled joint venture and associated interests of 3.25411% in Dunkerque terminal and 2.45310% in Zeepipe terminal (referred to as "Gassled") from A/S Norske Shell ("Shell"), a wholly-owned indirect subsidiary of the Royal Dutch Shell plc, for a consideration of NOK 3,925 million.

Our investment in Gassled was supported by what we believed were attractive characteristics:

- Economic and political stability;
- Visibility on future revenue;
- Possibility for additional capital investments;
- Stable regulatory framework;
- Solid counterparties; and
- Stable European gas demand and proximity to this market.

Norway and the regulatory framework

As a prudent and long-term investor, PSP Investments regards Norway as a country with a consensus-driven culture, a favorable business environment, and a demonstrated openness to foreign investments. Political stability and good governance are key descriptors of the Norwegian business environment, and the World Bank has ranked Norway among the top performers in the ease of doing business.

It is within this context that PSP Investments undertook its rigorous assessments of Gassled and its regulatory framework. Our conclusions in this respect were confirmed by Standard & Poor's, which wrote in its August 2011 report (pages 2-3) assigning Njord Gas Infrastructure a rating of A- that "*...the ratings are supported by the following credit strengths...a transparent, predictable and stable regulatory system exists for tariff review, with a consensus-driven culture.*" They were also shared by other new Gassled investors who undertook similar investments in 2011-2012.

Investment process

PSP Investments made its investment in Gassled following a meticulous due diligence process which strengthened our assessment that the regulatory regime would be stable and that we could expect a reasonable future return on our investment. This assessment was made following close dialogue with Ministry officials, Gassco and the industry stakeholders.

Several meetings were held with Norwegian government officials prior to finalizing our investment in Gassled during which the Ministry's intentions on tariff modification were specifically questioned. At no time did government officials give any indication that significant tariff reductions were contemplated or that they planned to deviate from the Ministry's habitual inclusive and consensus-driven decision making. However, only a few weeks after PSP Investments' acquisition of Shell's participation in Gassled, reports that the Ministry was considering tariff changes started circulating. Several subsequent attempts made by Infragas to enter into meaningful discussions with the Ministry on this matter were unsuccessful and, when discussions were finally held with Ministry officials, we were told that changes being contemplated would have little or no effect on Gassled owners.

In addition, since the publication of the Consultation Paper, the Ministry and Gassco have denied several information requests necessary to our complete assessment of the proposed changes. We therefore question the Ministry's behavior during the due diligence process and the approval phase. A key element in PSP Investments' decision to invest in Norwegian gas infrastructure was the past stability and predictability of the regulatory regime and the Ministry's reputation for involving industry stakeholders in discussions on if, how and when possible changes should be implemented. The Ministry's actions since our investment in Gassled have contradicted and seriously undermined the much coveted reputation of the Ministry and its regulatory regime.

As a reputable international investor, PSP Investments interacts frequently with a number of regulators across the world regarding various economic activities. The behavior of the Ministry leading up to the proposal to reduce the k-element will certainly affect its international reputation as a prudent and reasonable regulator. If similar conduct had been observed prior to or during our due diligence process, PSP Investments would have declined to proceed with an investment in Gassled.

Timing of the proposed change

In 2011-2012, several upstream oil and gas production companies sold their interests in the Norwegian gas infrastructure organized in Gassled. They did so to release capital to reinvest in exploration and production activities with potentially higher returns. The new proposal will lead to a transfer of value to the upstream companies, in particular to Statoil, at the expense of the new Gassled owners. Therefore, in addition to the essence of the proposal, we question the timing of the proposed tariff reduction which occurs immediately after the first time in the history of Gassled where a significant proportion of Gassled owners are not also shippers who could at least partly offset the reduction in tariffs earned with reductions in tariffs paid.

Impact of the proposal on PSP Investments

The proposal, if implemented, will lead to a significant reduction of PSP Investments' return from Infragas to a level which would be considered unreasonably low by most infrastructure investors as well as a significant reduction of the value of its investment in Gassled. This will be translated into losses for contributors and beneficiaries of the underlying pension plans.

Under the proposed conditions, PSP Investments' willingness to commit additional capital in the Gassled joint venture at this point in time is significantly reduced given the current regulatory uncertainty. Our desire to support any future Gassled reinvestment proposals will be subject to the outcome of the Consultation Process.

Conclusion

PSP Investments strongly requests that the Ministry reconsider the proposed tariffs reductions and engage in meaningful dialogue with the Gassled owners and their respective management team before any unilateral decision is made.

Yours sincerely,

Public Sector Pension Investment Board

By: ______________________

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