



Britain's Energy security depends on reliable Gas supplies

Natural gas remains a vital part of Britain's energy mix. Over the next 10 years our use of gas is likely to increase and demand will increasingly be met by imports rather than from indigenous sources of supply. To enable the market to meet this challenge energy policy and regulatory frameworks must continue to foster a stable investment environment built on competitive wholesale market arrangements, both within GB and the rest of the Europe.

Facts

- Excluding transport, gas provides over 50%¹ of Britain's primary energy needs.
- It is used to heat two thirds² of our homes and businesses.
- It fuels around 50%¹ of our power generation and growing.
- Irish and North Sea gas currently satisfies over 80%³ of Britain's annual gas demand.
- Storage capacity can supply up to 20%⁴ of GB peak gas demand.
- The proximity of reliable and flexible North Sea supplies means that Britain today requires less storage capacity than France or Germany. Experience of the highest demand period on record in winter 09/10 demonstrates that the market is well equipped to respond efficiently to the wholesale market price signals, either through increased supplies or demand reduction. There has been a five fold increase in GB gas import capacity in the last 10 years creating c126% of UK annual demand. In theory - assuming a reliable upstream supply chain and sufficient transportation infrastructure - this capacity could deliver all of Britain's gas needs⁵.

Key Messages

- The current relatively 'light touch' regulatory regime for storage, liquid natural gas (LNG) terminals and interconnectors has successfully encouraged significant investment to meet GB gas demand. More storage capacity and other reliable flexible sources of gas supply will be required as Britain's imports increase over the next decade.
- Government and regulatory authorities should seek to foster a stable investment environment, one in which market participants can be confident that the competitive gas market will be allowed to work without undue interference. Fiscal policies should encourage production from UK Continental Shelf (UKCS) fields.

¹ Digest of UK Energy Statistics (DUKES) 2009. Chapter 5. In 2008 46% of generation was fuelled by gas – recent commissioning of CCGTs has increased this to around 50%.

² Heat and Energy Savings Strategy, DECC 2009.

³ National Grid, Transporting Britain's Energy 2009: Development of Energy Scenarios.

⁴ Based on total deliverability of existing GB storage facilities assuming a peak demand of 450 mcm.

⁵ Editors notes, DECC Press Release on Gateway storage project, 16 February 2010.

- Achieve this and the market will continue to deliver the extra North Sea investment, storage and import capacity to deliver secure and reliable gas supplies from anywhere in the world. More prescriptive regulation (e.g. introduction of storage licences and fewer third party access (TPA) exemptions) and frequent, poorly targeted interventions will increase regulatory uncertainty and dent investor confidence in GB.
- The interventions suggested in Ofgem Project Discovery including strategic storage and supplier obligations are particularly unhelpful in this regard.
- Regulatory policies should focus on removing physical, contractual or market impediments that might otherwise limit gas being brought to the GB market.
- Policies that encourage 'just-in-time' investment in vital infrastructure can easily become 'just-too-late' investment. Undue reliance on user commitments or other complex market mechanisms to 'signal' investment may delay investment decisions.
- Ofgem should focus on measures that support an efficient wholesale market (e.g. added flexibility in the system, TPA exemptions, transparency, tools to support demand side response etc) rather than concentrating on secondary issues (such as capacity auctions, substitution arrangements, flexibility capacity or unrealistic user commitments).
- The cost of strategic storage would be prohibitive and would undermine commercial investment in storage. Similarly obligations on suppliers to put in place particular contracts to meet their domestic customer gas demand will distort the wholesale market.
- Market rules should commercially incentivise shippers to avoid an emergency being declared in the first place, but once it is declared it should be clear that normal market arrangements cease to apply.
- There is a lack of 'joined-up' thinking in the gas emergency arrangements – Ofgem should establish an effective dialogue with the health and Safety Executive (HSE), Energy Executive Committee (E³C) and Department of Energy and Climate Change (DECC) on this issue, including consideration of how to best procure price sensitive gas from outside the UKCS during an emergency.
- Customers will cease to be offered interruptible status from October 2011 and this could increase the likelihood of traditionally firm customers being interrupted by gas transporters under high demand conditions when network capacity is being fully utilised.
- Any loss of required system flexibility arising from the sale of NTS pipelines for re-use for transportation of carbon dioxide should be replaced with system capacity elsewhere, so as not to restrict gas from being brought to market.