



31<sup>st</sup> March 2011

**Energy and Climate Change Select Committee**  
**“The UK’s Energy Supply; security or independence?”**

1. The Gas Forum was established in 1994, acting as a body that represents the views of Gas Shippers and Suppliers active in the GB Market. The Forum now counts among its membership virtually every significant GB gas shipper and gas supplier. Its members are Centrica, BP, Total, Shell, E.ON, npower, EDF Energy, BG Group, Scottish Power, Statoil, Corona Energy, ExxonMobil and GDFSuez.
2. The Gas Forum promotes policy developments that support the continued development of the competitive energy market in the UK, building on the trading arrangements that exist today, in order to allow gas to take its rightful place as a fuel of choice in a low carbon economy.
3. Outlined below are the Forum’s views on the questions that the Committee has asked in this inquiry. There are a number of areas where Forum members have not developed a specific position, but other parts of their individual business may respond to the Committee on those topics. If the Committee requires any further information the Forum would be happy to answer additional questions in writing or at any hearings.
4. *How resilient is the UK energy system to future changes in fossil fuel and uranium prices?*  
In terms of gas supplies, the GB’s competitive market means that Forum believes that gas can be attracted to the UK at market prices if the market is left to work. The GB market has a variety of infrastructure to take a wide range of gas supplies. One of the benefits of the competitive market is that the market responds to global signals, e.g. if global prices rise, so will the UK price, but this should in turn attract future investment, which will then have a downward pressure on prices.

5. Over recent years Forum members, as well as other market participants, have responded to the change in the structure of the market. Where the UK was previously self-sufficient in gas, we are now a net gas importer and therefore have needed new ways to deliver gas to the market. As well as the existing gas interconnector to Belgium, the market now has new LNG facilities and is increasing the amount of gas storage. New infrastructure between Norway and the UK has also been built and the range of supplies that the UK can facilitate has improved accordingly.
6. If prices do go up in markets which compete with the GB market for gas deliveries then our prices will raise as well. Recent events in Japan have seen prices for GB gas also increase as LNG cargos that could have landed in the UK may now go to Japan as their prices rise in line with increasing demand from their electricity generation sector. The Forum does not believe that the GB market can, or should, try to insulate itself from global pressure, but must facilitate the increasing levels of investment in facilities that will help ensure that the gas demand of UK plc can be met in an efficient and cost reflective manner, maintaining secure supplies.
7. *How sensitive is the UK's energy security to investment (or lack of investment) in energy infrastructure, including transmission, distribution and storage?*

Delivering secure gas supplies at internationally competitive prices can only be done by ensuring that efficient and timely investment in the gas supply chain is facilitated. The Forum believes that the GB market has an extremely good track record on delivering investments as required. The market participants have responded to the economic signals that the market creates and coming forward with a range of investments, all of which have made a contribution to meeting the future demands of the country. These investment decisions have been helped by the open, competitive market with a relatively stable regulatory regime. If the Government remains committed to open markets the Forum believe that companies will go on investing in the market.
8. There have been a few problems in developing infrastructure in a timely manner, such as the building of new compression equipment required to meet the full capacity of the LNG facilities in South Wales and some storage developments. The common factor with these projects has been the planning regime that has created project delays and Forum members have ongoing concerns about the changing nature of the planning regime. It is as yet too early to tell if the new regime will help or hinder progress, but the UK more generally does appear to have had numerous problems in getting timely permissions for major infrastructure in a variety of sectors. The Forum very much hopes that these problems will be resolved.
9. In terms of the investment decisions made by the monopolies (gas transmission and distribution owners), the Forum believes that new investment may be may need to facilitate the delivery the Government's EMR proposals. The Forum has suggested in its response to the DECC EMR consultation, that they should consider the impacts of the policy proposals on the gas market. In particular our members believe that increasing the

flexibility of gas fired power stations may require additional reinforcements to the gas networks. In order to affect timely delivery, the monopolies would need to agree with Ofgem that any required investments should proceed sooner rather than later.

10. More generally, the Forum would rather see Ofgem allowing the monopolies to build a degree of flexibility into their networks to ensure that the networks can more easily take delivery of the cheapest gas at any given time. There is always a balance between “gold plating”, at the expenses of the customers, and building flexibility that provides the market with more competition in delivering supplies. If the system has no flexibility then the options for delivery will be reduced.

11. *What impact could increased levels of electrification of the transport and heat sectors have on energy security?*

Electrification of the transport network will have very limited direct impacts on the gas market. What is more relevant is the way that the electricity market demand for gas could alter as a result of the move to lower carbon forms of generation, notably the changing role of gas from base load generation to more flexible output. The Gas Forum has responded to the Government’s consultation on the Electricity Market Reform and we are enclosing a copy of that paper for information.

12. *To what extent does the UK’s future energy security rely on the success of energy efficiency schemes?*

The Gas Forum members support the efficient use of energy in all sectors, including in our own delivery of energy to customers. We note the many initiatives the current and previous Governments have developed to promote energy efficiency and some, like the role of smart meters, will impact the operation of the gas market. Generally improved efficiency of energy use should slow the rate of growth in energy demand.

13. Given the widespread use of gas fired heating and cooking, which is very efficient, it seems likely gas demand will still increase, but possibly at a slower rate as usage becomes more efficient. We are aware that improving the insulation on houses often leads people to live in warmer homes, rather than always reduce energy consumption. The Forum members believe that developments, such as the time based tariffs which may be possible with smart meters, are unlikely to have a significant impact on the shape of demand as people will still want to heat their home when it is cold. However, our members believe that the UK gas market will adapt to changes in usage as they arise in the meantime we support the Government’s drives to encourage increased efficiency in energy use.

14. *What will be the impact on energy security of trying to meet the UK’s targets for greenhouse gas emissions reductions as well as increased penetration of renewables in the energy sector?*

The focus of Government policy, in terms of lowering the UK’s greenhouse gas emissions, is currently concentrating on decarbonisation of the electricity generation sector. As with other changes to the UK electricity market the

impact on the gas market is of a secondary order. As noted above, the Forum has included its response to the Electricity Market Reform document with this response.

15. There is also a role for bio gasses in helping to cut the UK's carbon emissions. The Forum members are committed to working with those who are developing bio gas that can be added to the gas network, reducing the carbon intensity of the gas delivered across the UK. As projects are developed changes will be need to be made to the Uniform Network Code that governs the way that gas is transported across the networks. The Forum members will work with other market participants to try and ensure that the market rules treat all forms of gas equitably and any central contractual issues are resolved. Gas is a relatively low carbon, clean fuel. It has a role to play in meeting the energy needs to the country while carbon emissions are reduced.
16. *What would be the implications for energy security of a second dash-for-gas?*  
As already noted, the Forum believes that gas will play an important role in meeting the UK's future energy needs. Gas is efficient, reliable, relatively green and secure. It will be part of a lower carbon future and investment in the sector must therefore be encouraged. The Forum believes that the UK gas market is well placed to respond if there is another dash for gas. However, the Government will need to make sure that it remains committed to competitive markets if it is not to undermine the future investments that the market will need.
17. *How exposed is the UK's energy security of supply to international events?*  
As an open, competitive market that competes for gas supplies from a number of regions of the world. The market is therefore impacted by the global market for gas, which is likely to increase if interconnectivity and greater reliance on imported LNG grows over time. However, the market impact will be in terms of the link with global gas prices as the deliveries of gas from other markets will be dependent on the prices in the relative markets. As noted above, recent events in Japan have increased global gas prices and UK gas prices have also risen in line.
18. The Government should not be overly worried about the global gas price link though as gas comes to the UK from a wide variety of sources, making gas deliveries, assuming the market prices respond, come to the UK. The Forum does recognise that not all Governments will have the same free market approach and it is therefore vital that the UK continues to promote competitive markets, notably in the EU, so that the UK can competitive on a level playing field with other nations to receive gas. The Forum members will also be working through a variety of EU bodies to encourage the European regulator to remove arrangements that create a barrier to cross border flows and artificial restraints to competition, thereby increasing the diversity of supplies that can come to the UK.
19. It is vital that the market is allowed to remain competitive though if the prices are to reflect the supply demand balance. If a Government tried to cap prices or place obligations on gas shippers or suppliers, for example to book gas

storage, these measures will distort the market and lead to unintended consequences. The Forum has recently responded to Ofgem's review of security in the gas market and have continued to urge the regulator and Government to balance the roles of the market and the need for intervention under different supply scenarios.

20. The UK does have gas storage that can also be used in ensure secure supplies. The market uses storage for seasonal and daily gas management. There are a number of new gas storage projects proposed in the UK. These investments are likely to be undermined if the Government were to start putting obligations on players to use the facilities. The economics behind such investments are based on the operator being able to use the facilities in a commercially flexible manner as demanded by the market. It is vital to the longer term health of the market that the economics of such investments are not undermined by increasing regulatory burdens and obligations.
21. *Is the UK's energy security policy sufficiently robust to be able to deal with uncertainties and risks inherent in all of the above areas? If not, how could this be improved?*  
The Forum believes that the competitive gas market is well placed to respond to global risks and wider uncertainty
22. *Are there any other issues relating to the security of the UK's energy supply that you think the Committee should be aware of?*  
The Forum members have had concerns about the potential for gas quality to stop gas flowing into the GB market via the existing interconnector. The pipeline was built when gas quality was not a significant issue and the UK was a net exporter of gas. Even if shippers book the right specification of gas on the continent there is no guarantee that the flows on the day (over which the shipper has not control) will mean that gas flows east or west, or is comingled. The shared nature of transportation means the gas a shipper "puts in" may not be the same gas they "take out". The competitive nature of the interconnector capacity holdings, where a shipper may only hold some capacity for relatively short periods of time also means the shipper cannot force the interconnector to invest in gas quality controls. We therefore believe that were Ofgem to require National Grid to provide a gas quality service at the entry point, where shippers could be charged when the service was used, this would enhance security of supply.
23. The Forum is aware of the work being undertaken in Europe on gas quality. It may be the case that the specification moves closer to the UK gas specifications and the issue will be reduced if not removed. However, it would be worthwhile Ofgem reviewing the case for such investment.
24. Planning permissions remain a major hurdle to the ongoing investments in the gas infrastructure. The difficulties seen by storage developers, National Grid and the energy industries more widely do make timely investments more difficult and more costly to deliver. As noted above, the Forum hopes that the planning regime will improve, but the Government must keep this under review if the UK is going to achieve its policy goals.

25. In looking at any changes to the regime to improve security of supply, all policy makers must be mindful of the impact of changes not only during an incident where security may be jeopardised, but also after any security issue has been resolved. For example, the use of market incentives are of little benefit if they put parties out of business. Take a gas emergency with market prices rising rapidly, a shipper with gas in storage, but the terminal that is cut off is the storage terminal. The shipper will have to go on buying high priced gas, hitting credit limits and ultimately possibly going out of business. When the terminal is restored, the market has reduced liquidity because the emergency arrangements simply put companies out of business. In security emergencies there is a balance between letting markets work and protecting the longer term health of the market.
26. Finally, the Forum believes that there may be some benefit in ensuring that all energy policies are developed in a more “joined up” way, i.e. where any electricity policy specifically take account of secondary impacts on the gas market.