

Updated Securing Britain's Gas Supply

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Security of supply in gas depends not only on having enough gas to meet demand, but on having the necessary pipeline network to ensure the gas reaches consumers.

► Where does Britain's gas come from?

Britain's own supplies of gas are declining and we are increasingly dependent on imported sources of gas to meet demand in the winter. As well as gas from the North and Irish seas more gas is being imported from Europe through increased pipeline links and from around the world through shipments of Liquefied Natural Gas (LNG).

Over £10 billion is being invested in helping Britain make this transition from an exporter to an importer of gas. More import and gas storage projects are expected to come on stream over the next few years, details of which are set out in this factsheet.

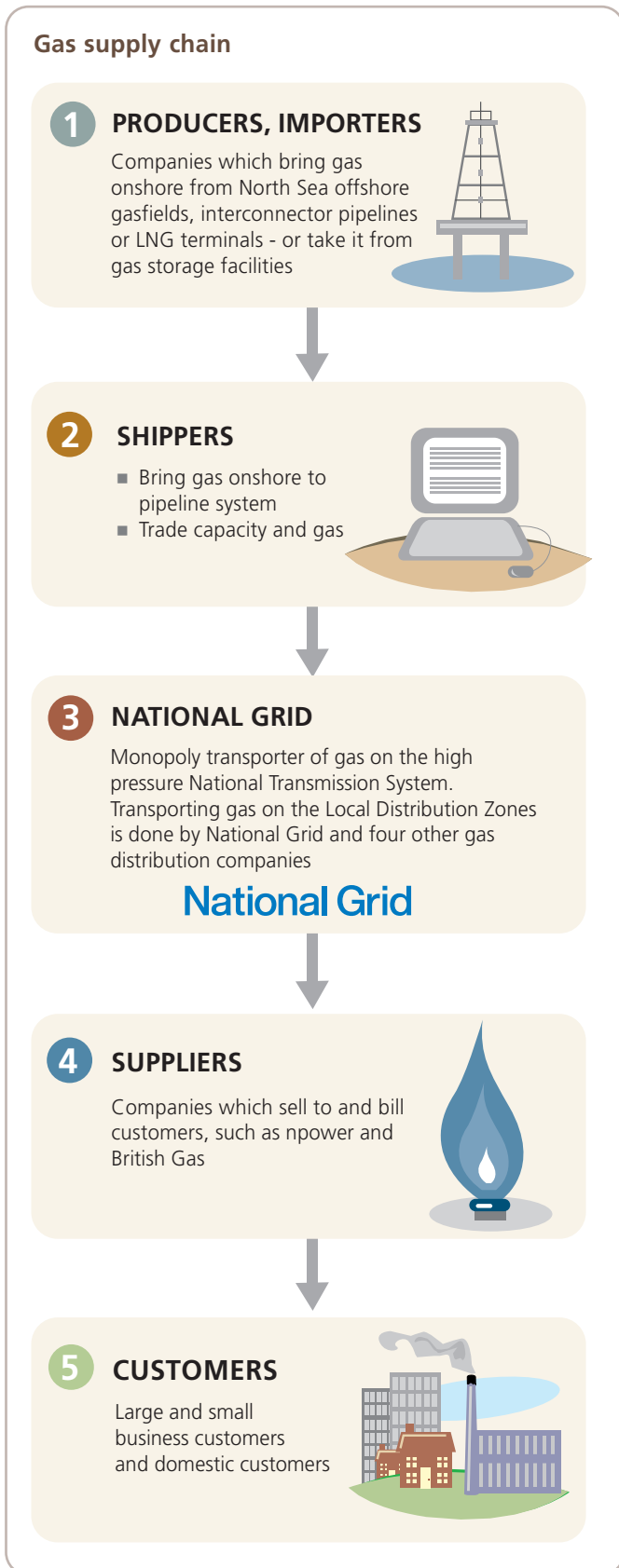
► How does the gas market work?

Since market reforms in 1996, wholesale gas has been traded like any other commodity. Suppliers buy gas from shippers - companies who contract with offshore producers to bring gas onshore - in order to meet the needs of homes and businesses.

As well as taking more gas from offshore gas fields, interconnector pipelines and Liquefied Natural Gas (LNG), shippers can draw on gas held in large gas storage facilities. For example, Rough Gas Storage, located under the North Sea, can meet around 10 per cent of Britain's gas needs in winter when demand is greatest.

To ensure they can provide suppliers with the gas they need, shippers buy capacity on the high-pressure gas pipeline system, owned and run by National Grid. They can book this capacity through a series of auctions which allow them to buy capacity for up to 15 years in advance.

The market also allows large businesses to take commercial decisions to sell their gas back to shippers or to turn down their gas use in the event of high prices. This is known as a demand-side response.



► Is Britain becoming more dependent on gas?

Gas consumption has grown by around 70 per cent since 1992 in Britain. A major part of this growth has been the increasing use of gas to generate electricity. Annual gas demand currently stands around 100 billion cubic meters (bcm) a year. National Grid forecasts that gas consumption is set to rise by 2 per cent a year until 2015.

► Liquefied Natural Gas (LNG)

LNG is a process where gas is cooled into a liquid and transported safely by ship.

LNG terminals allow Britain to import gas from many different areas of the world, including the Middle East, Central Asia, Africa and South America. This way Britain is not dependent on one area of the world for its gas.

Completed:

- **National Grid Isle of Grain.** Annual capacity 5 bcm, opened 2005, plans for expansion to 14 bcm by 2008/2009 and a further expansion to 21 bcm by 2010/11.
- **Gasport LNG facility, Teeside.** Annual capacity of 4 bcm. Excelerate Energy has developed a facility allowing LNG to be converted to gas while it is still aboard a ship at sea and then piped onshore.

Under development:

- **Petroplus (Dragon) Milford Haven.** Annual capacity up to 6 bcm by 2007/2008, planning permission granted for a further 6 bcm by 2010.
- **Qatar Petroleum/Exxon Mobil (South Hook) Milford Haven,** annual capacity up to 10.5 bcm from 2007/2008. Planning permission given for phase two means another 10.5 bcm from 2008/2009.

Other proposed projects:

- **Calor Gas and Japan LNG at Canvey Island**
- **Canatxx at Anglesey**
- **Gateway Storage Company Ltd, Irish sea Gateway project, LNG and gas storage development, and**
- **ConocoPhillips – Teeside LNG**

► Import pipelines

The interconnectors and other pipelines give Britain access to gas from Norwegian and Dutch gas fields and the European gas market. This reinforces the need to make sure that the European gas market becomes more competitive.

Completed:

- The import capacity of the Belgian Interconnector was upgraded to 17 bcm in December 2005, and to 25 bcm in October 2006. A further upgrade will increase annual import capacity to 27 bcm by October 2007.

► Gas storage

Recently completed:

- **Star Energy** - storage facility at Humbly Grove, Hampshire. Fully operational since November 2005 with capacity 315 mcm.

Under development:

- **Statoil/ Scottish and Southern Energy** - two storage projects at Aldbrough, both with a capacity of 420 mcm. First project will come on stream from 2007/08.
- **Hole House phase two** - work to expand existing capacity by 15 mcm by the end of 2006 and by another 15 mcm by end of 2007.
- **E.On** - storage facility at Byley, Cheshire, operating from 2008 and achieving full capacity of 165 mcm by 2010.
- **Ineos Enterprises** - storage facility at Stublach in Cheshire. Proposed capacity of 550 mcm by 2011/12
- **Portland Gas Ltd** - storage facility on the Isle of Portland. Proposed capacity of up to 1 bcm by 2010/11.
- **E.On** - Whitehill Gas storage, 420 mcm by 2010

- The capacity of the BBL Interconnector from Holland to Britain was increased from 11bcm to 15 bcm early in 2007.
- The Langede pipeline links the Ormen Lange gas field directly to Britain. This pipeline became operational in October 2006. The capacity of this pipeline is 25 bcm.

Other planned projects:

- **Canatxx** - storage facility at Fleetwood, Lancashire, capacity of over 1 bcm. Proposed completion by 2010
- **Star Energy** - storage facility at Welton, Lincolnshire with capacity 435 mcm by 2010/11.
- **Warwick Energy** - storage facility at Caythorpe, Yorkshire, 210 mcm from 2008/09.
- **Wingas** - storage facility at Saltfleetby in Lincolnshire. Proposed capacity of 700 mcm by 2008/09.

In its 10 year statement, National Grid also lists a number of other projects which are at the pre-planning or concept stage, including:

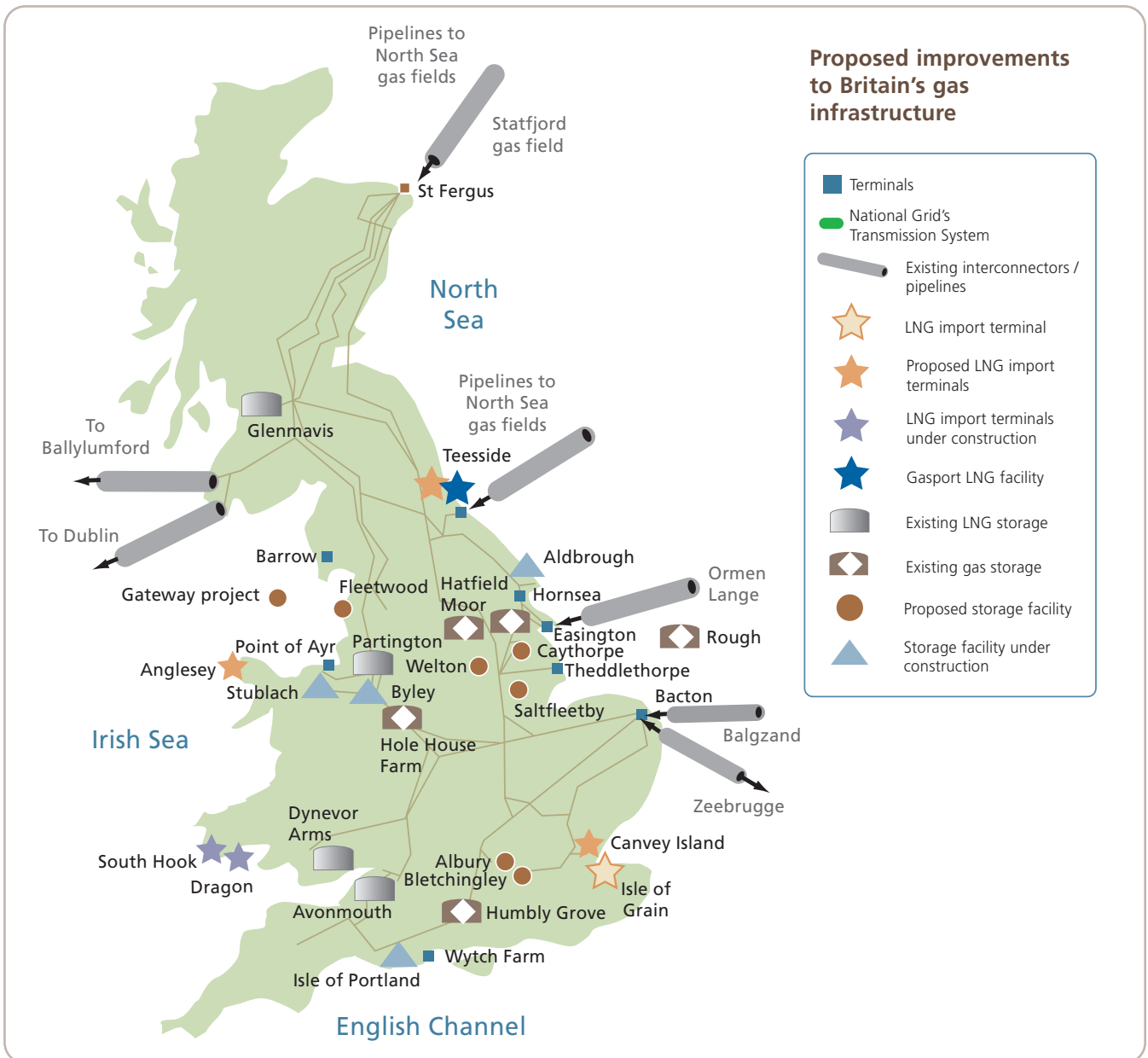
- **Star Energy**
 - storage facility at Albury in Surrey. Proposed capacity of 715 mcm by 2010/11.
 - storage facility at Gainsborough. Proposed capacity of 220 mcm by 2010/11.
 - storage facility at Bletchingley in Surrey. Proposed capacity of 900 mcm by 2010/11.

► How does Ofgem work to ensure security of supply?

Security of supply is at the heart of everything Ofgem does. Every major policy is assessed to see what impact it will have on security of supply.

Ofgem also:

- ensures sufficient investment in the networks through price controls
- monitors the gas market for signs of anti-competitive behaviour
- ensures companies meet their licence conditions, eg companies like National Grid have conditions which require them to operate the gas system in an economic, efficient and co-ordinated manner.



For further information please contact:

Mark Wiltsher, Head of Media Relations

020 7901 7006

email mark.wiltsher@ofgem.gov.uk

Chris Lock, Communications Officer

020 7901 7225

email chris.lock@ofgem.gov.uk

Julia Collings, Communications Officer

020 7901 7217

email julia.collings@ofgem.gov.uk