

Gas Supply Security Policy

UK debate and EU regulation

Pierre Noël

EPRG, University of Cambridge

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Summary

- The UK is the only EU member state to have a ‘market-based’ gas supply security policy
- That policy seems to have delivered both short term and long term security
- However UK politicians seem to have lost faith – largely because of the rapid transition towards reliance on international markets
- Current Ofgem ‘SCR’ process has revealed the pressure to move to a regime of supplier obligations
- The new EU regulation on gas supply security might offer the UK government an excuse to move to a more continental-like policy

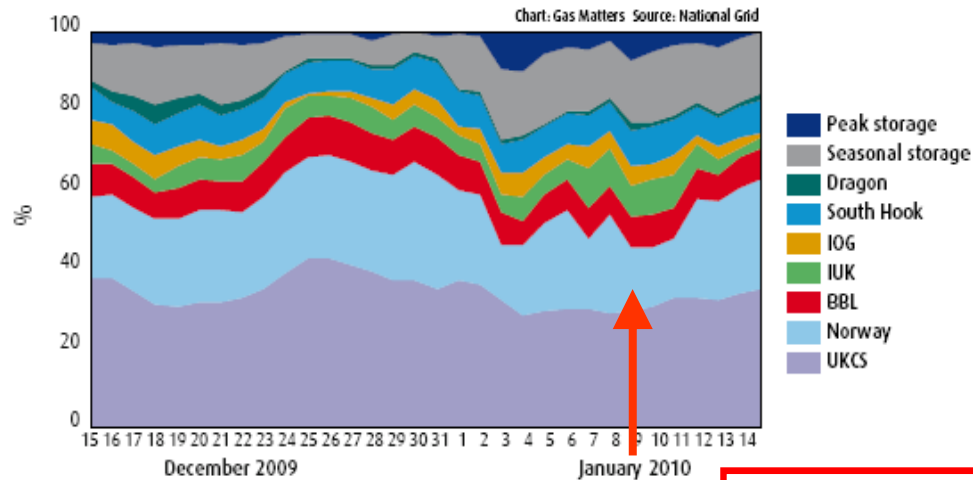
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4. The end of the UK exception?

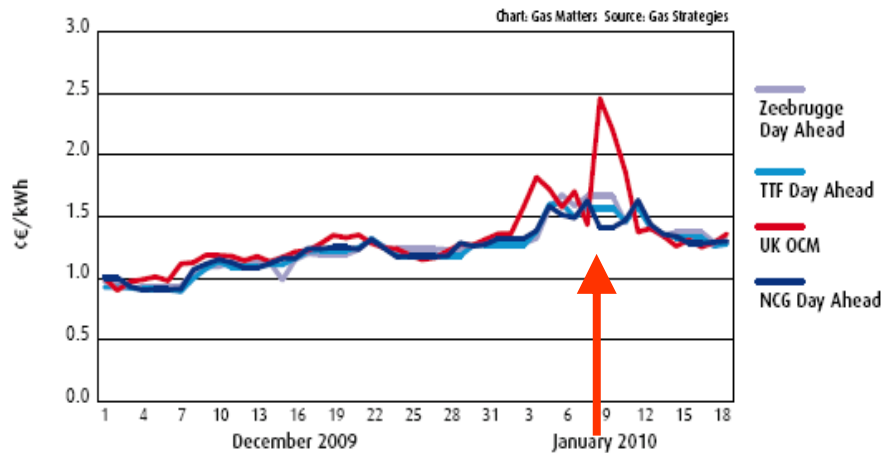
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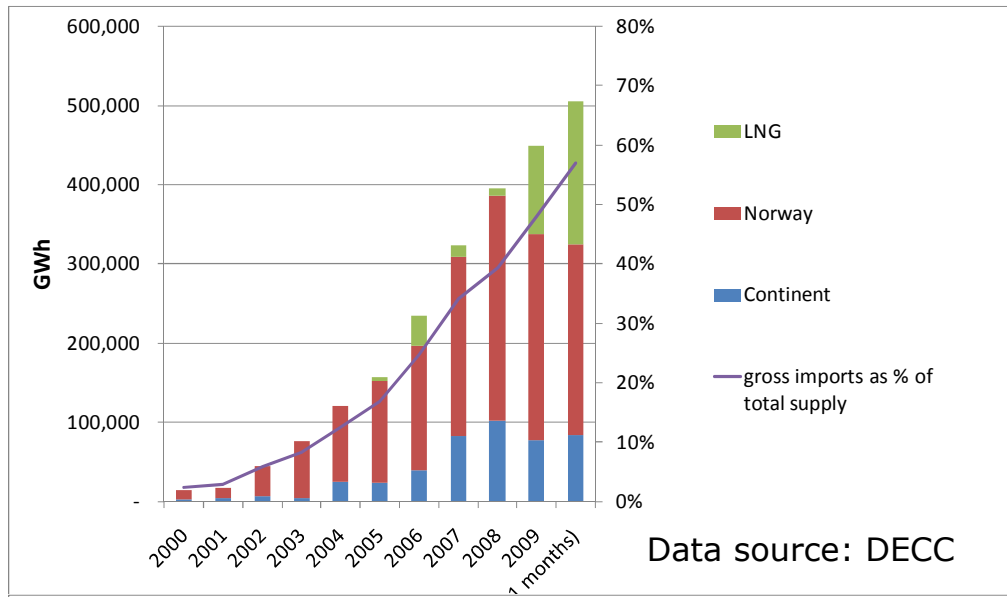
UK market very resilient



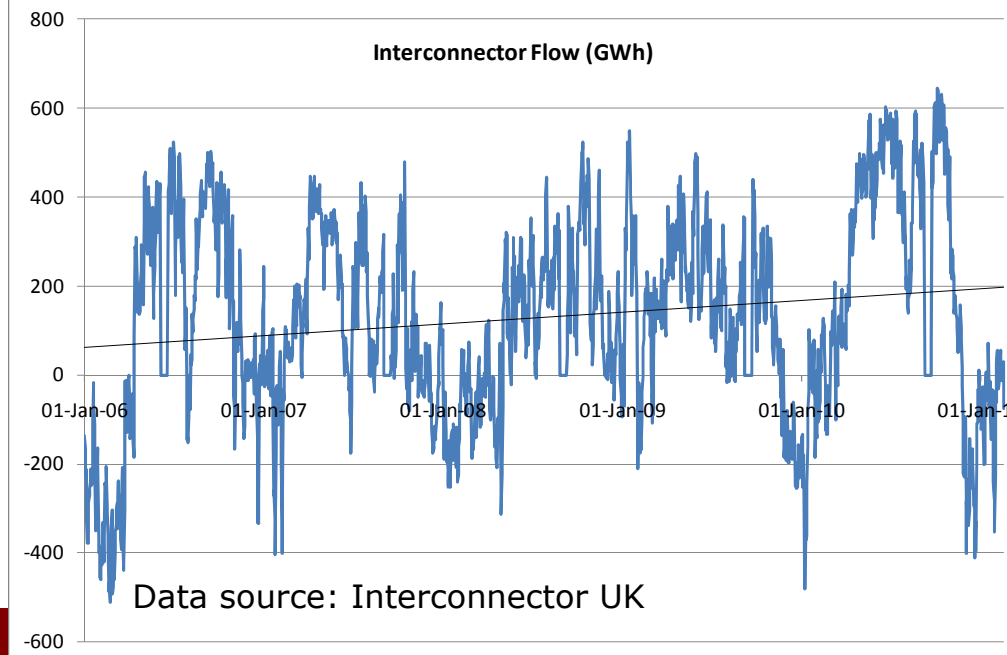
*Jan. 2010 cold spell & Norwegian outage
(2 charts from Gas Matters, February 2010)*



UK as EU Western gas corridor



- Huge import capacity added in past 5 years
 - UK imports are booming
 - Interconnector exports are growing – despite fall in UK production
 - When oil-indexed contracts out of the money, direct challenge from UK gas
- > Continental importers of oil-indexed gas in deep trouble



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The UK debate

- Price spikes of 2005-06 triggered a debate
 - “UK obsession with gas supply security” (NERA)
 - “Gas security: a fixture of the imagination” (P Davies, BP)
- Wicks report (2009)
 - An import-dependent UK needs a new policy
 - Storage mandate? Export ban? Special envoy??
 - Governance of network codes: industry must not be allowed to block new SoS arrangements
- Ofgem’s Project Discovery (2009)
 - There is no capacity problem to 2020
 - But UK security rests on somewhat thin LNG market
 - A long, cold winter might test the system

The UK debate (2)

- Poyry analysis for DECC (2010)
 - Capacity above peak demand in all scenarios (to 2025)
 - Very unlikely events lead to small volume of lost demand
 - Almost all policy options have negative net benefits
- DECC Policy Statement (2010) – based on Poyry
 - There is no (serious) problem to be solved
 - Current policies and arrangements are working
 - *Does it reflect the view of current ministers?*
- Ofgem v. Poyry – less difference than meets the eye?
 - UK security relies on ability to attract LNG
 - At what price? Is the market large and liquid enough?
 - **Not exactly reassuring for politicians**

The UK debate (3)

Two ways of looking at it

- If we allow the price to go up we will get gas
 - Price spikes are a solution
- We do not know how high we may have to pay, and high prices have economic (and political) implications
 - Price spikes are an energy security problem
- Hungarian memo after January 2009 crisis
 - “We addressed the crisis while ensuring that the price did not move”...
 - Hungary now has a large ‘strategic storage’ to shield the country from the gas market if need be
 - **Is it what UK politicians dream of?**

UK debate (4) – Ofgem's SCR (2011)

- Strengthen the **incentive-based** SoS policy
 - Compensation at administrative VOLL
 - More dynamic emergency cash-out prices
 - Auction interruptibility to large consumers
- But prepared to move to an **obligations-based** policy
 - Storage obligation
 - Obligation to contract long term
- **What Ofgem would like to do vs. what ministers may demand?**
- Process delayed -- Draft decision expected in the autumn

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Two standards

- Infrastructure standard (art. 6)
 - Enough infrastructure capacity to meet one-in-20-year peak demand when the capacity of the largest infrastructure is deducted (N-1)
 - Can be met (nationally or regionally) by:
 - pipeline or LNG capacity
 - storage withdrawal capacity
 - production capacity
 - fuel switching & interruptible contracts
 - Cross-border pipelines must be made bi-directional (art. 6-5)
- Supply standard (art. 8)
 - Gas companies must be able to supply the country's "Protected Customers" (residential) in case of :
 - 1-in-20 yr 7 day peak period
 - 1-in-20 yr 30 days peak period
 - 30 day disruption of largest infrastructure

Should the EU regulate SoS?

- Gas supply security is not a European public good
 - Poland cannot free ride on Germany's security
 - Insecurity in Sofia does not impact Ljubljana
- It is for the electorate to hold their government accountable for its gas security policy
- Cost of attaining a given level differs widely
 - Sensible level of insurance is country-specific
- Regulation forces member states to buy an arbitrary level of insurance

A political alternative to the Regulation

Make national governments politically responsible for their gas supply security policies

- Force MS to carry out rigorous assessments of their SoS, based on a common methodology
- Review their assessments independently
- Publish the assessments and the reviews on the Commission's website
- Organise public presentations in national parliaments

See: Noel & Findlater (2009); Noel (2010), available on www.eprg.cam.ac.uk

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Does the UK comply with EU regulation?

- Infrastructure standard
 - Yes – cf. Project Discovery and Poyry report
- Supply standard

8(1) -- “The Competent Authority shall require the natural gas undertakings (...) **to take measures to ensure gas supply to the protected customers of the Member State (...)**”

 - Large degree of member state discretion, between:
 - Why would companies not always be able to serve their customers – *at the market price?* (Provided the S.O. can cope with overall demand.)
 - We have a clear EU mandate for supplier obligations

The end of the GB exception?

- GB alone in Europe to have a market-based security of gas supply policy
- The government (and many politicians) clearly thinks it is no longer fit for purpose – *not comfortable relying on global LNG market*
- Ofgem's SCR process has revealed the tensions
- The UK government could use the EU regulation as a justification for introducing supplier obligations?
- Unless...

Unless...

BBC NEWS

LANCASHIRE

21 September 2011 Last updated at 20:22

Shale gas firm finds 'vast' gas resources in Lancashire

An energy firm which has been test drilling for controversial "shale gas" in Lancashire has said it has found vast gas resources underground.