

EPP hearings on Security of Gas Supply Brussels, February 3rd 2010.

Professor Ian Fells, Fells Associates

In November 2009 the Meteorological Office in the UK forecast a mild winter. By early January we were enjoying the coldest weather for 30 years, with temperatures down to -25C. Gas demand for heating and electricity generation was up 28% above normal (there was almost no contribution from wind power, less than 0.2% of electricity supply).

Supply became very tight. In the first week in January, 4 gas balancing alarms (GBAs) were issued by the national grid; only one such alarm had been issued in the previous 30 years. Supplies to over 100 companies on interruptible tariffs were cut off, next in line for cuts were gas-fired power stations.

Gas storage in the UK is a matter for concern, with only 4% of annual demand in place compared with 20% in France and Germany.

Gas supplies to the UK from the Troll and Orman Lange fields in Norway, via the Langeled pipeline, were cut by 75%.

Additional supplies from Europe were provided through the submarine line from Balgzand, in the Netherlands, to Bacton in the UK. This line is managed by both Dutch and UK regulators in such a way as to preserve competition and maintain subsidiarity. This could be an example for EU wide regulation of gas flows. Cross border trade is the problem for regulation.

- Tariffs must be set which will allow the regulated business to attract capital for investment.
- They must encourage efficient operation by the companies and efficient use of the network.
- A supply surcharge above the tariff may be necessary.

The Third Energy Package of the EU has been set up to remove regulatory gaps in the EU energy markets via the Agency for Co-operation between Energy Regulators (ACER). This is a far reaching body which can resolve cross-border conflicts by bringing together the relevant National Regulatory Authorities (NRAs) via the Board of Regulators of ACER, and make decisions. These will include arrangements for third party access.

The independence of the regulator has been emphasised. In the UK, after privatisation of gas in 1987 and electricity in 1989 the posts of gas regulator and electricity regulator were merged under the Office of Gas and Electricity markets

(OFGEM). The European regulator would provide a common indicator to define a serious gas supply disruption, known as an N-1 and oblige member states to collaborate closely in a crisis.

The EU is a major gas consumer, 60% of which is imported largely from the East, some from Norway and some from the Middle East, using Liquid Natural Gas (LNG) carriers.

Gas provide 25% of EU electricity, coal provides 20% and nuclear 30%.

Demand for gas will rise steadily through the next decade. It is anticipated that a shortfall of 360GW of electricity generating capacity will develop in the EU over the next decade. This is because ageing and polluting plant will be retired and growth in the economy will require more generating capacity. This will largely be provided by gas-burning power stations which can be built relatively quickly and at lower capital cost than the competing technologies of coal and renewables. New nuclear will make little contribution over the next 10 years. In the UK, for example, a new 840 MW gas-fired power station was opened in Southampton in January and 14GW of new gas fired plant is said to be in the pipeline.

The EU will become more and more dependent on gas for heating and electricity through the next decade. Efficient, co-operative regulation, with security of supply at the forefront of planning will be vital.