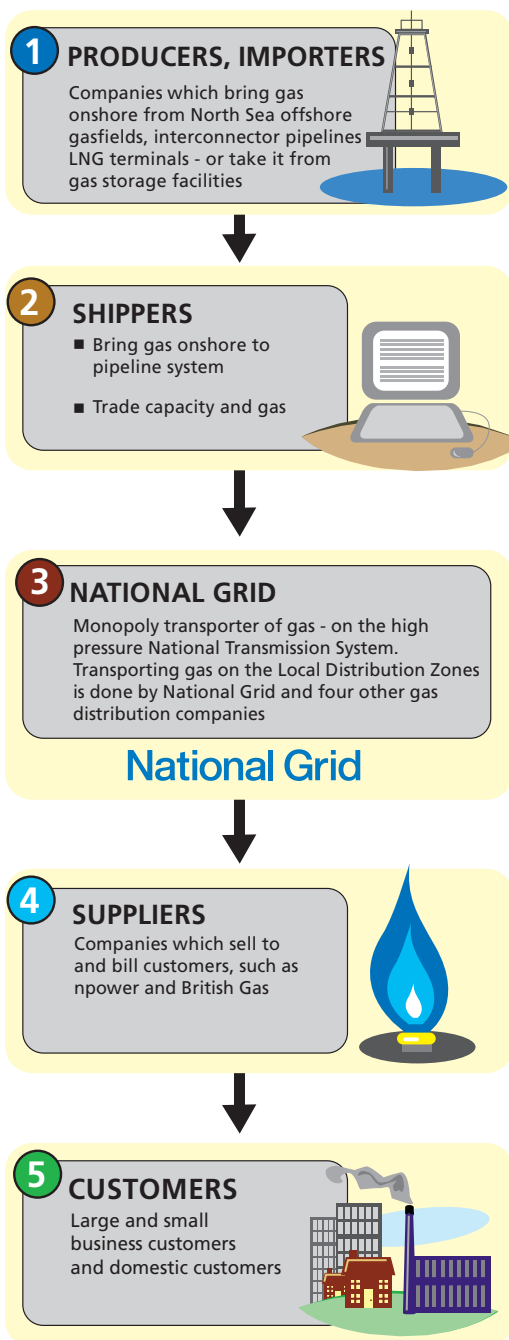


Update Securing Britain's gas supply

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 the existing interconnector 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 66 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 at 100 billion cubic meters (bcm) a year. National Grid forecasts that total gas consumption is set to rise by a further 11 per cent between now and 2011.

Liquefied Natural Gas (LNG)

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

At the moment Britain has the following import terminals:

- **National Grid Isle of Grain.** Capacity 4.5 bcm, opened 2005, plans for expansion to 13 bcm by 2008/2009 and a possible further expansion to 20 bcm by 2010/11.

At the moment the following import terminals are under construction:

- **Petroplus (Dragon) Milford Haven.** 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,** capacity up to 10.5 bcm from 2007/2008. Planning permission given for Phase Two means another 10.5 bcm from 2008/2009.
- **Gasport LNG facility, Teesside.** Excelebrate Energy is developing a facility that would allow LNG to be converted to gas while it is still aboard a ship at sea and then piped onshore. Capacity of 4 bcm by December 2006.

Additional LNG terminals have been proposed with applications for planning permission:

- Calor Gas and Japan LNG at Canvey Island
- Canatxx at Anglesey
- Star Energy, Irish sea Gateway project, LNG and gas storage development, and
- ConocoPhillips - Teesside LNG

Interconnector pipelines

- **The Belgian Interconnector's** import capacity was upgraded to 16.5 bcm in December 2005, and to 23.5 bcm in October 2006.
- **BBL Interconnector** from Holland to Britain, providing capacity of 10 bcm by December 2006 and a total of 15 bcm by Winter 2007-2008.
- **Langeled** pipeline will link the Ormen Lange gas field directly to Britain. While the pipeline became operational in October 2006 it will not be connected to the Ormen Lange gas field until 2007 giving it a maximum capacity of 25 bcm from 2007/2008.

National Grid estimates that all imports from Norway could deliver up to 48 mcm a day this winter. However, the new Langeled pipeline does have a capacity to deliver up to 70 mcm a day if there is more Norwegian gas available.

Gas storage

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** - storage facility at Aldbrough, full capacity 840 mcm by 2011/12, with over half coming online from 2007/2008.
- **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.

Other planned projects:

- **Canatxx** - storage facility at Fleetwood, Lancashire, capacity 1660 mcm. Proposed completion by 2009/2010 but currently subject of public inquiry.
- **E.On** - storage facility at Byley, Cheshire, operating from 2008 and achieving full capacity of 165 mcm by 2010.
- **Star Energy** - storage facility at Welton, Lincolnshire, with capacity 435 mcm by 2008/2009.
- **Warwick Energy** - storage facility at Caythorpe, Yorkshire, 277 mcm from 2007/2008.

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

- **Star Energy**
 - storage facility at Albury in Surrey. Proposed capacity of 715 mcm by 2010
 - storage facility at Bletchingley in Surrey. Proposed capacity of 876 mcm by 2009
- **Ineos Enterprises**
 - storage facility at Stublach in Cheshire. Proposed capacity of 550 mcm by 2009

- **Wingas**

- storage facility at Saltfleetby in Lincolnshire. Proposed capacity of 600 mcm by 2009, and

- **Egdon Resources**

- storage facility on the Isle of Portland. Proposed capacity of 300 mcm by 2008

How reliable are gas imports?

Diversity of supply is a very important factor in ensuring security of supply. LNG terminals will allow Britain to import gas from many different areas of the world, including the Middle East, Central Asia, Africa and South America. Therefore Britain would not just be dependent on one country or area of the world for its gas.

The interconnectors and other pipelines will also 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.

Since last winter there have been improvements in transparency in Europe with more information about French gas storage being made available to the market. The European Commission has also made greater transparency a key aim of its investigation into the gas market in Europe.

Ofgem is continuing to work with the Commission and energy companies to achieve greater transparency and liberalisation in continental gas markets.

Proposed improvements to Britain's gas infrastructure

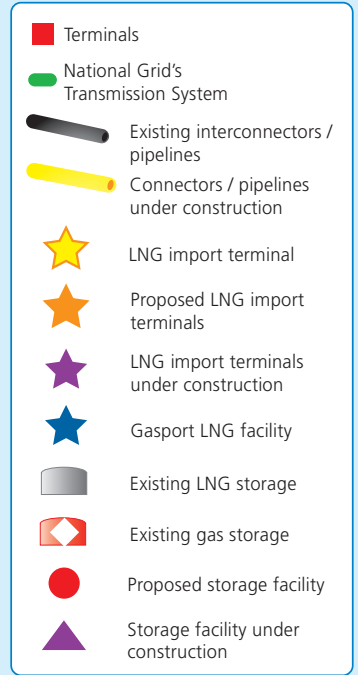


How does Ofgem work to ensure security of supply?

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.



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