

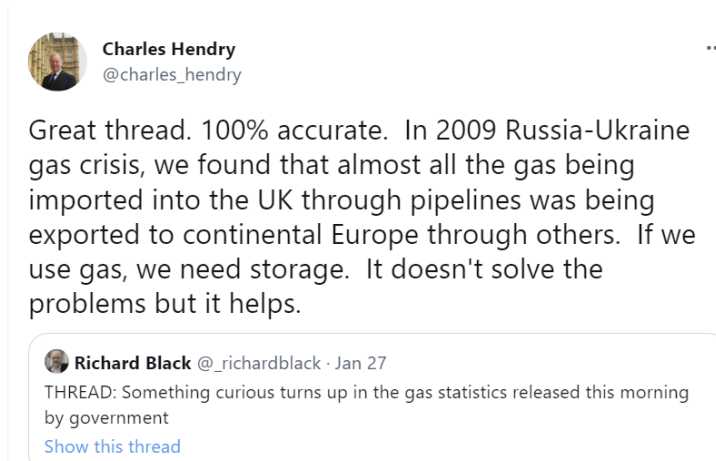
JB Response dated 31 Jan 22

This is a response to the Richard Black thread of January 27th

https://twitter.com/_richardblack/status/1486721898234875910?s=20&t=VKQ8wE6T9fg2nGfM8lOong



The surprising thing is a lot of respondents to the thread said this “Expanded my knowledge, thanks” and we have this from a former Energy Minister



Biography

Charles Hendry was Minister of State for Energy at the Department for Energy & Climate Change from May 2010 to September 2012. He was elected Conservative MP for Wealden on 7 June 2001.

My view is that the thread is very poor analysis and fundamentally wrong in a number of important aspects. The fact it is taken seriously by Former Energy Ministers is perhaps an explanation as to why we are up a creek without a paddle. It is not helpful to have such misinformation which was repeated in the Mail on Sunday on 30th January 2022.

A more accurate position is set out below:

- It is agreed that the UKCS gas price is an international price and more UKCS production would not be priced lower than this. This is not controversial and explains why Norwegian electricity is now very expensive (so the Norwegian Govt is subsidising sales to Norwegian consumers, so it is not charged at the price paid by Germany etc). It also explains why UK renewable electricity is very expensive, it is sold at an international gas traded marginal price giving windfall profits to the ROC earning renewable producers on windy days like 30th January 2022
- The “argument” I have made for 10 years is that by producing more gas we get tax (normal corporation tax or windfall) that we don’t get from importing US Shale LNG. This is clearly true. We should use that tax to fund insulation to reduce gas demand and save GHG. On the radio on 30th Jan 22 Ed Davey was saying use UKCS gas windfall taxes to help the fuel poor, I would consider that but priority is to fund insulation to reduce consumption and reduce GHG. And I definitely would have a majority equity in a new state gas company like Equinor (Norway owns 67%) because we need to pick up the pace urgently to develop more gas (and windfall taxes will obviously send investors away)
- The points about exports and security supply are incorrect. Over the year we import around 50% of the gas consumed in UK, but with 2 important factors that were not mentioned in the thread:
 - **we produce at a generally flat rate over the year**, importing much more gas in winter because our gas fields are past the plateau period. Whilst we produce a higher % of our total demand in summer (when central heating is off), we are no longer material net exporters by day or month. Those days have long gone, see graphs from BEIS Energy Trends below
 - **The figures showing UK exports ignore the use of UK as a transit for Norwegian gas and LNG**. This is not sold at the UK NBP but pays a fee to pass through the UK system and is not the export of UKCS gas as the thread was making it out to be. This is not like exporting potatoes during the Irish potato famine

The 3 graphs below from Dec 21 Energy Trends show that UK production never exceeds UK demand and the exports are transit flows. **The thread is fundamentally misleading and should be corrected**

- Arguing that indigenous production offers **no benefit** to security of supply as gas will flow to the place where it is worth the most is a fundamental misunderstanding both of international gas markets and the UK Gas Emergency Regime.
 - China burns 4 billion tonnes a year of coal, total world LNG production is only 17.5% of that. China is connecting 20 million domestic customers to its network each year because of air quality. If President Xi has contracted 100 cargoes of Qatar or US LNG and it is heading to China, **no amount of money can divert that LNG to UK without President Xi’s consent**, as doing so in a cold winter in China would be close to a declaration of war
 - Similarly, in a UK Network Gas Emergency (link below), **the law says that priority of all gas in the system is to domestic gas consumers and the Priority Customers such as hospitals and prisons**. Factories and Power Generators could be shut off. This is precisely what gas Security of Supply is about and is where you end up after 10 cold days in a windless February if Russia goes to war with Ukraine
 - Ireland gets gas from UK but only for domestic and Priority Customers. So, if you bring US shale LNG to Milford Haven and you want to sell it to generate electricity in Belgium, you may fail if there is Network Gas Emergency. Once it enters the UK system it is available for domestic and NHS/prisons

and not to generate electricity in Belgium. So, there are huge security of supply benefits from both UKCS production and gas storage

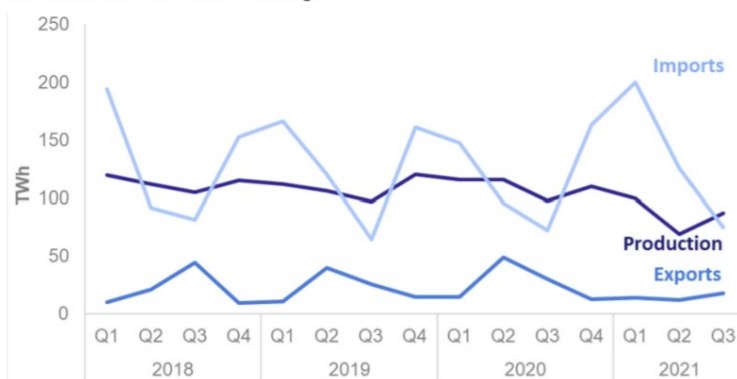
- **Trade in a Gas Network Emergency is limited and the ‘utterly normal corporate behaviour’ described in the thread does not apply.** To trade in the UK or transit the UK grid you have accepted the Gas Network Emergency rules. If you don’t want your gas to be diverted for UK domestic customers, then don’t land it in UK which may happen and is another benefit from UKCS production. **The thread does not discuss the Gas Network Emergency rules which are critical to gas Security of Supply**
- Countries with little indigenous production like Germany and Italy have a lot of gas storage and this is in part because of security of supply reasons. If they could rely on trade as the twitter thread argues, they wouldn’t need security of supply related. But they can’t and so they have invested in strategic storage as we must do

For gas security of supply when it matters most (eg cold few days in mid winter), it is best to have a lot of indigenous gas with high deliverability as per the UKCS in the 1990’s. If you don’t have that, you need high levels of gas storage with gas stored in summer for use in February, as per Germany/Italy. LNG storage helps but you may not get LNG if China has bought it on long term contracts and needs it. UK closed the Rough storage facility and so we clearly need more gas storage but we also need to bring forward additional gas production (UKCS and onshore) both to fund the transition (as per Ed Davey yesterday and my insulation point) and to increase security of supply.

The CCC forecast 200 – 400 TWh/annum of natural gas consumption in 2050 and we need a long term strategy that is better than importing it with all the production taxes going to overseas countries. **Tax it, fund the transition.** We also need >£10 billion of H2 storage, so start now with storing fossil gas and then transition to H2.

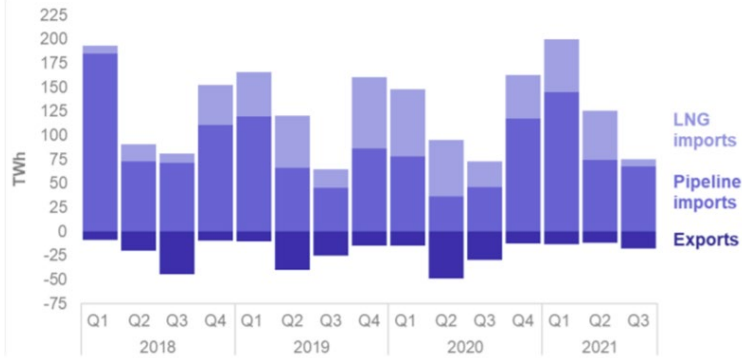
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1043279/Energy_Trends_December_2021.pdf

Chart 4.1 Production and trade of natural gas



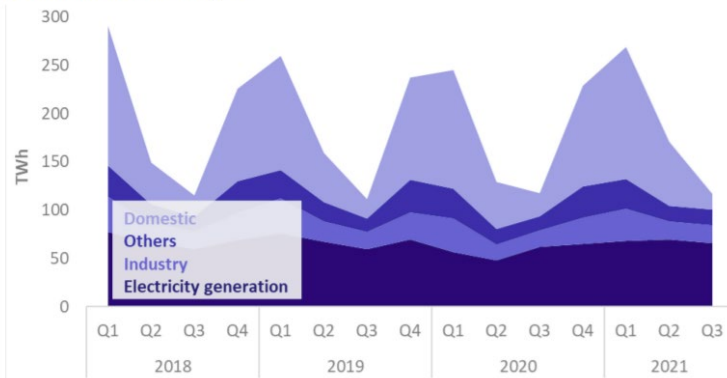
Min monthly UKCS production is based on around 80 TWh/day

Chart 4.2 Trade in natural gas



Gas Exports are a fraction of Imports from Pipeline/LNG – UK is a transit country

Chart 4.3 Demand for natural gas



UK Minimum Demand is around 110 TWh/day which is more than UK minimum production

<https://www.nationalgrid.com/uk/gas-transmission/document/136281/download>

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31st January 2022