

GATEWAY SECURES NEW GAS STORAGE AGREEMENT AND CALLS FOR URGENT ACTION TO UNDERPIN GAS SECURITY (Monday 29 January 2018)

The developers of the Gateway Gas Storage project are urging Government action on gas security as the project enters into a new agreement for lease with The Crown Estate. The agreement covers offshore rights in the East Irish Sea for the development of a 1.5 bcm salt cavern gas storage facility.

The Gateway gas storage project is supported by the Lundin Group and Stag Energy, who were instrumental in working with Government to create legislation suitable to support the development of Carbon Capture & Storage, Offshore LNG and Offshore Gas Storage (Energy Act 2008), and secured the first Offshore Gas Storage License in 2010 for the Gateway project.

Gateway was one of several industry and trade union signatories to an Open Letter sent to Ministers Greg Clark MP and Richard Harrington MP at the Department of Business, Energy & Industrial Strategy on 15 November 2017.

The letter called for an urgent inquiry into the risks to gas security of supply with particular reference to the need for the UK to maintain a minimum level of gas storage in order to mitigate gas and electricity price volatility. Given the UK's growing dependency on imported gas supplies, there is a need to ensure some level of price protection for industrial and residential consumers.

George Grant, Director of Gateway and Stag Energy commented:

"We are pleased to have agreed terms to extend Gateway's rights in the East Irish Sea. However, we remain concerned that successive Governments have brushed the issue of gas security under the carpet, particularly in light of Centrica's recent announcement of the closure of the Rough storage facility"

Cost-effective security of energy supplies must be at the heart of the Government's energy policy with gas/energy price security, i.e. the impact and frequency of short term price spikes, being the critical issue. Of the three sources of gas security (Domestic Production, Imports (Pipeline & LNG) and Storage) capacity from Domestic Production and Storage have declined dramatically in recent years.

The Minister has highlighted in his response to the letter of 15 November that there is a need for a “diverse and competitive range of supply sources” to protect against damaging spikes in both gas and electricity prices. Gas storage is an important element of the supply mix that provides insurance against international markets as domestic production declines. Global LNG demand rose by 10% in 2017 underlining the increasingly competitive nature of international gas markets.

As was explained in the letter of 15 November, gas as a source of heating and power will be the mainstay in the UK energy mix for the foreseeable future. Unless something is done to ensure that a minimum level of gas storage is maintained, there is a risk of further closures of UK storage facilities and rising exposure to the vagaries of the international gas market. Such a situation will increase the risks to gas and electricity price volatility, which in turn poses a serious threat to economic growth and employment.

We continue to maintain the Gateway project in a state of readiness to move forward, but fear that, without an appropriate regulatory framework, as is in place in many Continental markets, UK consumers are in danger of becoming irresponsibly exposed to the volatilities in international gas markets with little ability for the domestic market to provide insurance against international price rises.”

This press release is issued by Moffatt Associates on behalf of Gateway Storage. For further information please contact Clive Moffatt of Moffatt Associates on 07813571776.

NOTES TO EDITORS

Gateway invested heavily to complete the necessary environmental, engineering, design and planning work to prepare the facility for construction on the strength of the Government’s focus on energy security and in the knowledge that the UK will become increasingly dependent on natural gas, as old coal and nuclear closed. The construction of Gateway would lead to a significant investment in the North West of England and the creation of hundreds of jobs.

Peak gas demand in the UK is over six times the peak electricity demand and still accounts for approximately 80% of domestic heating. As coal power generation closes, gas will be almost exclusively responsible for balancing system volatility from an increasing amount of intermittent wind and solar generation:

Until 2005, the UK was a net gas exporter and had flexible Southern North Sea gas fields capable of meeting rapid changes in demand. Today the UK imports almost 60% of its annual gas demand (forecast to increase to ~80% by 2030 {NG Future Energy Scenarios 2017}) while domestic gas production no longer has the flexibility to respond to changes in demand. In 2010 the House of Commons Energy Select Committee concluded that the UK should urgently put in place a regulatory framework to support the construction of new gas storage capacity. Shortly afterwards the Ministry of Defence concluded that without more gas storage, the UK was unduly exposed to the risk of gas supply interruption.

In April 2017 Centrica announced the closure of the Rough gas storage facility which constitutes ~75% of the UK’s gas storage capacity. In July 2017 National Grid published the latest ‘Future Energy Scenarios’, which highlighted the possibility of gas supply shortages in the UK as early as 2021.

UK gas demand is met from domestic production (currently ~40%) and imports via ship (LNG) and pipeline. Gas storage is required to help manage short term demand volatility and longer term seasonal demand differentials. Thus gas storage

acts as a form of insurance against market and demand fluctuations. The appropriate level of gas storage is subject to debate and is related to a number of factors, but it is an important contributor to in providing security and price protection for consumers. France and Germany retain ~100days gas storage capacity while with the closer of Rough, the UK will be reduced to around five days of winter demand.