PRESS RELEASE

AEGIS London

'Risky' gas remains a safe bet for European supplies says National Grid representative

26 April 2010, PRAGUE – Governments and Industry should be mindful not to portray gas as a 'risky' energy source as such a characterisation is at odds with the reality of future demand for gas and its value as a green fossil fuel. This was the message from Andrew Malins, UK Gas Operations Manager with National Grid, to the AEGIS London Energy conference in Prague earlier this month.

Mr. Malins cautioned that the perception of gas as a fuel source prone to supply and distribution disruption was potentially discouraging producers, power generators and businesses from using gas when it had a valuable role to play in the energy mix and in meeting Government climate change commitments.

Major infrastructure projects to bring gas supplies to Europe from Russia and the Middle East, and the rapid growth in the EU's capability to handle liquid natural gas (LNG), meant that security of supply remains strong.

"Demand for gas in mature markets like Europe has 'stabilised' in the domestic and industrial / commercial sectors but continues to show growth in the power generation sector which is moving away from dirty power generation – and the further you get from the EU, the greater the rise in demand from the emerging economies of India and China.

"If you look at supplies, indigenous EU production is forecast to reduce over the next 10 years. For the UK, it drops to less than 20% of gas used; for Europe it is 50%. Norway as a producer is expected to plateau and may perhaps decline slowly, although it is still sitting on significant, and as yet underdeveloped reserves. Russia is currently showing limited growth but significantly sits on huge reserves."

Europe's new gas supplies will come through major pipelines and LNG. Mr. Malins said: "Gas is coming from Russia, North Africa and Scandinavia. There are three significant infrastructure projects ongoing from Russia / Eastern Europe – Nord Stream, South Stream and Nabucco. There are also proposed new links coming up from North Africa although it's questionable whether the economics will be sufficient to drive investment here.

"LNG is the other significant area of growth. Operationally there are a number of new plants coming on line around the UK and Europe. Huge re-gasification production is now available, so there are few constraints in terms of landing LNG. The impact for the UK, along with Spain and France, is that it will become a major LNG importer and that has a significant impact on the way our gas system needs to work.

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“The three main LNG terminals in the UK – the Isle of Grain, South Hook and Dragon – are leading to big increases in LNG use as these plants come on stream. It’s a good story: we’re moving from a world of ‘safe’ indigenous UK-produced gas to the point where we can accept that supply diversity and long supply chains are features of our future gas usage.”

Mr. Malins also highlighted the technological advances that have allowed gas to be extracted directly from shale rock in the US. These new supplies are having a significant effect on gas demand globally. He said: “Shale seems to be ‘a game changer’: there has been an eightfold increase in shale gas production in the US since 2000. Because the US is now using so much shale gas it has created a surplus of LNG on the international market.

“Shale gas is extracted directly from the source bedrock. Traditionally, most gas we have has leached out of the bedrock into reservoirs, and that is where we extract it from. Technology developed in the US has created the ability to extract the gas from shale by driving sand and water into the bedrock. This method of extraction has very high production costs and specialist technologies are needed.

“These technologies are starting to be exported into Europe where significant shale resources do exist. Their development won’t be as quick in Europe and the challenge of getting to the gas – the environmental impact, the impact on populations – means quite a bit of political commitment will be needed, although clever drilling technology is helping. It’s going to be one of these slow burn things but I think this is one of the new exciting things that Europe can look at as it sees its indigenous sources decline”

The AEGIS London 2010 European Energy Conference took place on 14-15 April at the InterContinental Hotel, Prague, Czech Republic. Attendees included brokers, risk managers and energy industry representatives from across Europe.

The conference was opened by the President and CEO of AEGIS, Alan Maguire.

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Notes to Editors

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