THE TIMES | Pg Journal 42 | Pg Dossier 1/2 | Samedi 25 Septembre 2021

Gas storage policy comes back to bite government

A lack of gas reserves has left Britain unnecessarily exposed to a supply crisis, reports **Emily Gosden**

If Britain runs short of gas this winter, ministers won't be able to claim they weren't warned.

Over the past decade industrial groups and independent experts have argued repeatedly for more gas storage to prevent supply shocks. Those warnings have fallen on deaf ears, leaving Britain's storage capacity to dwindle to one of the lowest in Europe.

Now, as a global gas shortage sends prices to record highs, experts have warned that this could be the winter those decisions come back to bite.

"The UK's situation is more precarious than its European neighbours because of its very limited storage capacity," analysts at HSBC wrote.

"Europe's four biggest storage holders — Germany, Italy, the Netherlands and France — have gas storage capacity equivalent to 25 per cent to 37 per cent of annual consumption, while the UK's storage capacity is equivalent to just 2 per cent of its annual demand. This means that the UK relies more on pipeline and liquefied natural gas imports (in addition to its own indigenous production) than other European countries."

Britain became a net importer of gas in 2004 as North Sea production declined and it now relies on imports to meet more than half its demand. Several storage sites were built in the 2000s and early 2010s, but it became clear that the economics were challenging: there wasn't enough difference between the peaks and troughs of gas prices either between seasons or days to make a return on investment.

Centrica, which owns British Gas and operated Britain's biggest storage site at the Rough facility in the North Sea, was among the companies that lobbied the government to subsidise the construction of new sites. Yet despite a supply crunch in 2013 that resulted in Rough being almost depleted, the government rejected the pleas.

Sir Michael Fallon, the Conservative energy minister at the time, claimed that the decision would save consumers £750 million over ten years and that it was "increasingly easy to import additional supplies" if needed. "We don't need to waste bill payers' money on extra subsidies for investment that the market can deliver," he said.

No further projects have been built and in 2017 Centrica said that the ageing Rough site, which accounted for about 70 per cent of the UK's storage capacity, was beyond economic repair and would be shut for good.

Industrial gas users said the closure would "lead to higher and more volatile prices, especially during winter". The Gas Security Group, led by Clive Moffatt, lobbied officials for more storage, but to no avail, even after the "Beast from the East" sent gas prices to record highs in 2018. "The argument that they continued to repeat was that they felt there was plenty of diversity of gas supply and that LNG was available," Moffatt said. "We said those aren't reliable."

Sir Ed Davey, leader of the Liberal Democrats, who was energy secretary at the time of the 2013 decision, said he was surprised that the Tories had not changed tack in 2018 because "while our supplies remain diverse, significant things had changed since 2013, including Brexit. Not being in the EU club clearly makes us more vulnerable, as did Centrica's Rough decision in 2017 inter alia."

Kwasi Kwarteng, the business and energy secretary, insisted this week that storage was "not particularly relevant". He said that Britain had access to more diverse sources of gas than some of its European counterparts and the issue it faced was one of price, not security of supply. "No matter what storage you have, it doesn't affect the global price," he said.

However, Graham Freedman, an analyst at Wood Mackenzie, the consultancy, said: "The two are intrinsically linked. Like any other commodity, if you have a shortage of it, the price goes up. The UK is more exposed than virtually anywhere else because it is so short of storage. The NBP [UK benchmark price] is trading higher generally than the rest of Europe."

Chris O'Shea, the chief executive of Centrica, has been lobbying the government to revive Rough as a hydrogen storage site at a cost of £1.6 billion and has said that if that plan proceeded "in the interim it could be a solution for methane", which he said would be beneficial. "I think that for any supply chain you want more resilience," he said.

It is understood that reviving Rough to operate purely as a gas storage site for the next decade could cost £500 million, though it would be hard to get it up and running in time for next winter.

Freedman said that keeping Rough open in 2017 may not have been the cheapest option, given it was so old and far offshore, but that "the mistake has been in not supporting new developments", such as salt cavern storage onshore that would likely be cheaper.

Wood Mackenzie warned in 2018 that the lack of storage could jeopardise gas supply for power stations and risk blackouts. Freedman said this week: "As long as you're prepared to pay the price then the gas will come, but the issue is how much are you prepared to pay".

Moffatt was not so sure. "If we have a combination of factors: a cold winter, high Asian demand, some technical problems — all of that creates a situation where we are desperately short and have no fallback and are waiting weeks for LNG ships that get turned around and sent to Japan," he said. "Then a situation could arise where industry faces the prospect of having its gas supplies terminated."



Kwasi Kwartengy, right, with Chris O'Shea, the Centrica boss, centre, at the Rough site in the North Sea