

**New report about Britain's gas market for Oil & Gas UK
by Pöyry Energy Consulting**

“The Future of UK Gas : a Phase Diagram”

In a new report commissioned by Oil & Gas UK, Pöyry Energy Consulting (formerly Ilex) looks back at the development of the gas market in Great Britain since it was liberalised in the mid-1990s and, more importantly, it looks forward at its possible evolution through to 2025. It identifies a wide range of potential outcomes in the supply-demand balance and in prices, with many uncertainties for investors and other market participants.

Following the recent publication of an Energy White Paper, this report provides a major contribution towards a fuller understanding of an evolving gas market in an increasingly international and interconnected context. Highlights of the report's conclusions are:

1. The UK's gas supply-demand balance looks healthy for the next 7-8 years, possibly for even longer, as a result of the various major investments in new supplies (amounting to c. £10 billion of overall expenditure) which have recently been completed or are currently under development.
2. However, the outlook for demand remains uncertain and much will depend on the investment in new electrical generating capacity which takes place during the next 10-15 years to replace the country's stock of ageing coal fired and nuclear power stations.
3. Wholesale prices will reflect this uncertainty. The report considers four future outlooks: “collapse”, “pipeline de-link”, “oil indexed” (as in continental Europe) and “LNG wars”. Currently, UK prices are in a state of collapse, as a result of a supply surplus, which is already adversely affecting prospects for and activity relating to the remaining, unexplored and undeveloped gas reserves in the UK continental shelf.
4. Prices are likely to remain low in the short to medium term, but Pöyry believes that in the longer term oil indexation may well re-assert itself, not overtly, but as the underlying price marker, unless, perhaps, the European Commission achieves its aims of fully liberalising the EU's gas markets.
5. A new pipeline to the UK, such as is being considered from Norway, would hold prices lower for longer, but the arrival of LNG supplies at Isle of Grain, Milford Haven, Tees-side and possibly elsewhere – except to the extent of any dedicated long term contracts – will provide a degree of flexibility in responding to price signals and demand which has been lacking in recent years. Coupled with the new pipelines now in operation, this will tend to dampen future price volatility.

The report also provides an interesting assessment of the history of the UK's gas market since liberalisation in the mid-1990s, in several phases, from an "over-supplied, liberal island" through "interconnection and increasing oil prices" to a "supply margin squeeze" in 2005-6.

It is now entering another phase "capacity excess" which will probably be followed by a fifth one characterised by "investment and demand", where potential future growth in demand will drive the need for future investment – the report looks ahead as far as 2025.

The report also concludes that phase three, "supply margin squeeze", in 2005-6 when high and volatile wholesale prices occurred, could and should have been foreseen.

Also, it should be noted that in any of Pöyry's "future worlds" prices may follow any one of the four outlooks for a time, before switching to another as market circumstances evolve. None of these outlooks is set in stone. Major disruptions of supply, such as technical failure or political intervention, are not considered, but the increasing resilience of the UK's gas supplies as a result of the diversity of international supply sources and routes is evident from the report.