Energy Executives Forum 18 March 2005

A wide-ranging discussion took place on some very weighty high-level issues !

- It was commented that countries have in the past gone to war over energy resources. Henry Kissinger's recent observations were noted, that the geo-political future may be dominated by 'energy wars', as all of the major industrial blocks (US, Europe, Japan, China, India) vie for access to cheap energy, playing every card they possess (including selling weapons). Foreign policy will become synonymous with energy policy.

- Putin's Russia will use every power at its disposal to leverage its natural resources (and potentially those of the FSU) – recent Russian actions over Yukos parallel what has happened in Venezuela.

- High oil prices will not of themselves bring relief: demand has not significantly decreased, and the 'easy oil' is in the hands of Russia and Middle Eastern countries – not the International Oil Companies. West Africa will become a focus of attention.

- As regards gas price-signals, it was suggested that world LNG trade is not sufficient flexible to be relied upon for efficient allocation of resources.

- The future of Nuclear generation: some felt that markets are too crude to incentivise timely investments – the challenge is how to baseload new nuclear capacity economically and market price-signals don't work for such long-term investments.

- We are living off the past, and there is no incentive for unsubsidised new capacity.

- The US 'hydrogen economy' would need to be built on nuclear – or coal.

The UK gas market was discussed: it was generally agreed that:

- The investments in new UK import capacity will result in a (cyclical) supply bubble starting in a couple of years time;

- The benefits of tight supply conditions, and in particular the demand for swing, will accrue to the UKCS producers;

- High UK gas prices might be attracting gas (LNG) there at the expense of France and Italy;

- Current UK gas forward pricing is disconnected with the 'fundamentals', and competitive gas marketing practices will keep it that way – marketers will be benchmarked against the forward curve on the day they make the sale. By contrast, producers will be benchmarked against the spot price on the day of delivery into the market.

Nick Perry