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& PARTNERS

Energy Executives Forum 22 September 2005

The discussion returned to a weighty topic that had exercised the Forum in March – the potential for major geopolitical strife over future energy supplies. The significance of Germany's dealings with Russia was raised, and also the long-term plans of China and India for obtaining secure access to energy. The importance of export routes through challenging parts of the world was mentioned , with Pakistan being cited in this context.

To the extent 'cheap energy' is available, it is in Australia / Nigeria / Middle East. In the long run, it is not necessarily to be expected this will all be supplied to traditional imports: it is likely that industries such as Aluminium smelting will relocate to where the energy is.

Other subjects discussed:

- The German election, and its consequences for energy policy. It was noted that the new Network Regulator is showing signs of confronting the critical issues of stimulating gas trading, and effective separation of supply portfolios from system ownership / operatorship. Gas trading does seem to be on the increase in Germany. Some felt a degree of optimism that progress towards a more open market was possible in the medium timeframe.

- The long-term impact of Hurricane Katrina. Some felt that it might herald a boost for energy conservation in the USA. Another possible development might be to enhance security of energy supplies (gas, power) by diversification of the US energy economy, based increasingly on regional LNG import-centres.

  An alternative perspective was the view that extreme events such as Katrina should cause the authorities to suspend energy trading activities until normality was restored.

- Developments in the UK LNG market were discussed. It was suggested that, as LNG becomes an ever greater proportion of total UK gas supply, the UKCS will fulfil the role of strategic storage / source of supply flexibility, rather than baseload supply. The Interconnector also represents effective access to large-scale gas storage for the UK market, exporting in summer almost exactly the same quantities that are imported in winter (in 2004-05). At the same time, it was noted that there has been something of an upsurge in UKCS E&P activity.

- Environmental issues were raised. It was commented that the Greens have a problem reconciling their dislike of nuclear power and their other environmental goals. It was felt that lifestyle issues, including enthusiasm for travel, will constantly work against efforts to improve energy efficiency – which were achieving perhaps only 50% of what could be done.

- Finally, prospects for new power plant development were raised. The UK has a 6 GW capacity gap looming – which would not be bridged by wind power. What will be built, and by whom ? Although several regulatory consents exist for new CCGT plant, these are effectively just options. Could nuclear plant be built by anything other than a nationalised company ? Will they be acceptable at all in the UK ? (notwithstanding that there is no debate on this issue in France !)

Nick Perry