

MONDAY 30 NOVEMBER 2009

Present

Bradshaw, L
Dykes, L
Freeman, L (Chairman)
James of Blackheath, L
Powell of Bayswater, L
Walpole, L

Witnesses: **Lord Hunt of Kings Heath**, a Member of the House of Lords, Minister of State, Department of Energy and Climate Change, **Mr Tim Abraham**, Director, European Energy, Department of Energy and Climate Change, and **Ms Gill Campbell**, Assistant Director, European Energy Security, Department of Energy and Climate Change, examined.

Q1 Chairman: Minister, thank you very much indeed for coming, the public session is open. If there is a vote, we will adjourn for 10 minutes, and subject to your other pressing duties, we will see whether we can continue in that eventuality. I am sure you are familiar with the names of my colleagues, and I am sure you can read their nameplates. Without more ado, would you like to introduce your two officials? For the record, we will stick to the questions we have circulated in advance.

Lord Hunt of Kings Heath: Yes, can I introduce Mr Tim Abraham, Head of Energy, and Gill Campbell, who is the Deputy, thank you.

Q2 Chairman: Do you wish to say anything to begin with?

Lord Hunt of Kings Heath: Would it be helpful if I made a few remarks, My Lord Chairman? Thank you for the opportunity of appearing before you to discuss the draft regulation. Of course, it is in the context of the Russia/Ukraine crisis of last January, when the EU lost 30 per cent of its entire gas imports for two weeks. Although the UK consumers

were not directly affected by the crisis, as a very minimal amount of gas in the UK comes from Russia, nonetheless, there was an impact on the UK, in the sense that there was an increased level of export through the interconnector, in response to higher prices in the Continent, with more rapid withdrawal from storage than would normally be the case. A number of Member States were severely affected; three Member States formally declared states of emergency, with virtual total industry shutdown in some instances; and a further six Member States implemented some kind of emergency measure. My Lord Chairman, some of the worst affected States had little or no emergency planning in place, and the wider Community States such as Croatia, Serbia, Bosnia-Herzegovina and Moldova were very badly affected as well. On the whole, the market worked well to get gas to flow where it was needed, provided there was physical infrastructure there to transport it. But it highlighted the lack of reverse flow capabilities within the EU, and lack of agreement and co-ordination with neighbours in the event of emergencies. Valuable time was lost in putting such arrangements into place, and for industry itself to arrange for temporary reverse capability where it was possible in the time. For these reasons, we do see it as important to work closely with the EU on measures to improve EU's energy security for the future. We welcome the funding agreed through the European Energy Recovery Package. We also encourage prompt implementation of the third package of energy market liberalisation. We are very hopeful that this would increase cross-border energy links, increase transparency, and generally improve the functioning of EU markets, which we think is the single biggest help in terms of security of supply. But even with these improvements, we recognise that more is needed to improve the preparation of Member States to a possible gas emergency, and we do welcome the timely publication of this draft regulation in July, and its overall aim of enhancing resilience to future supply shocks, through co-ordinated and improved preventative and emergency planning. However, as I have already indicated in my letter to the Committee, we do have concerns on

provisions in the regulation that relates to the role of the Commission itself, we think this needs much greater clarification and reformulating if we are going to be in a position to support the extension of Commission powers. We are particularly concerned that the current text is open-ended in scope and definition, and although, of course, we recognise that security supply is a shared competence, we have to satisfy ourselves whether and the degree to which there is a case for the extension of Commission powers. I should say, My Lord Chairman, negotiations are still at an early stage, we have just today received a revised text from the Presidency, and clearly, we are not able to come to a final view, although clearly, the deliberations of this Committee, I am sure, will be very helpful to us in that regard.

Q3 Lord Walpole: I would say that I have had an interest in gas most of my life, having had an uncle who was chairman of the Gas Council when they were looking for North Sea gas, and I live a few miles away from Bacton, so I know an awful lot about pipes, or have learnt an awful lot about pipes. To what extent do you think this new EU legislation in the form of a regulation is required for the security of the gas supply, and why is the current directive insufficient?

Lord Hunt of Kings Heath: Well, thank you. Certainly we think it is important that we do have a framework in which Member States can properly co-ordinate their responses in relation to disruptions in gas supply. If one looks at Continental Europe and Europe in general, most Member States receive gas supplies via their neighbours' networks, and therefore co-operation is absolutely essential if the impact on gas consumers is to be kept to a minimum. The current directive, I think, should be seen as a useful first step, but it took a very light touch approach. We also have to recognise that since 2004, we have had the accession of ten states, and therefore the circumstances are very different. What the experience of last winter showed is that the response of Member States to the 2004 directive was very mixed. In some cases, Member States had not even drawn up emergency plans, and

I think, my Lords, that from this experience of a light touch approach, very patchy response, some Member States without an emergency plan at all, clearly something needed to be done to improve the position. Certainly we believe that there is a need for a co-ordinated approach to supply disruptions, particularly those involving third countries, because it is important to eliminate the possibility of the threat of one or two Member States stepping out of line, concluding separate bilateral deals, undermining solidarity, which I think is very important. Now amending the current directive would require lengthy transposition periods, and it would be difficult to achieve consistency between Member States as we have seen with the current directive. So the argument is that a regulation would set out clear standards, would achieve more of a level playing field amongst Member States, and a consistency of approach. Above all, a regulation is much quicker to implement, given the need for urgency to enhance resilience, increase security of supply and to ensure that the market is allowed unfettered to cope with serious disruptions. So my Lords, we start with a general sympathy towards the idea of a regulation as being the most appropriate way to go forward in relation to the current experience, but as I have said already, we are concerned about the wording of the current regulation which we think is far too open-ended, and we do think at the very minimum a lot of clarity needs to be provided. We have not had time to study in great detail the revised text, but I think over the next few weeks, we will want to look at that very carefully.

Q4 Lord Walpole: Thank you. I was wondering whether you consider that the proposal constitutes an adequate regulatory framework to ensure the security of gas supplies, and does the proposal provide the right toolbox to prevent an energy crisis and to manage emergencies?

Lord Hunt of Kings Heath: I think that really goes to the heart of what is being proposed. Overall, yes, we think that the regulation provides an appropriate framework for dealing with disruption to supply, we particularly welcome the emphasis on co-ordinated approach to emergency and preventative planning. I think it is very important to stress that we see the

main focus and the philosophy behind the regulation as being on the market being allowed to deal with supply disruptions for as long as possible. So we do see this as being consistent with the third package of internal market reform which the United Kingdom has been very, very pro-active in supporting. It is also, I believe, relevant to local disruptions as well as disruptions that impact on a number of Member States, and overall, it should lead to better co-ordination, it should ensure that Member States do have emergency plans, but, there is a big but, we could not support it as it currently stands, because of the open-ended powers it gives to the Commission.

Q5 Lord Walpole: The thing is, I was wondering -- both those questions are very pipe orientated; we do get gas by boat as well, and I think that is one of the important advantages that we have, and presumably most of the Mediterranean countries do, but do the same regulations -- they must apply to that as well, must they not?

Lord Hunt of Kings Heath: Yes, if you look at the UK position, as the supply of gas from the UK continental shelf gradually declines, clearly we have been looking to ensure security of supply, and most of our imported gas at the moment comes from Norway and the Netherlands, but we have been very keen to encourage diversity of supply; liquefied natural gas offers many opportunities, there has been a big expansion in our import facilities, and the Government will continue to support that rich diversity of supply. Of course, other countries are not so fortunate in that sense. I think it is worth making the point that although the UK CS is declining, the fact is that there is still a huge reservoir that will be available over many years to come. I think that the scenario planning for 2020 shows that whilst there is a steady decline in production from the North Sea, nonetheless -- we think that the demand for gas will reduce by 2020, because of the other changes being made in the energy sector, so even at 2020, the North Sea will provide about 50 per cent of our gas needs. I am not sure if one

could call that a cushion, but it certainly is a very important strategic supply for us, and will continue to go on for many years to come.

Q6 Lord Dykes: In the Explanatory Memorandum, you sounded quite encouraging about being able to reach political agreement by the end of this year. Can you bring us up to date on how the negotiations are going, without saying anything strictly confidential, of course, but anything that will help us?

Lord Hunt of Kings Heath: I fear that the Explanatory Memorandum was rather optimistic, and I am afraid it is going to take a number of months before we think agreement is reached.

Q7 Lord Dykes: You think agreement is possible to reach anyway, or do you see some important hurdles?

Lord Hunt of Kings Heath: There clearly are some important hurdles, not least being the concerns that the UK Government has about the open-ended powers given to the Commission. We understand that two other Member States, Germany and the Netherlands, also have concerns at the moment, but assuming that over the months ahead, we are able to clarify and satisfy ourselves that the terms will be satisfactory to the UK Government, and we will have to be absolutely certain of that, the kind of timing that we are working to is the revised text will get an early consideration at a meeting of Energy Council Ministers on 7 December. The European Parliament is considering the text in parallel, but my advice is that the European Parliament process is, of course, somewhat lengthy, and that realistically, a plenary vote is not expected until early March, just before the spring Energy Council. So it may well be that we are looking to June Energy Council before the Council itself can make a decision, so I fear that we are talking about another six months. I think it would be fair to say that nonetheless, one can point to lessons that have been learnt last winter, which were already put in place this winter, in case we have a repeat of the Russia/Ukraine crisis.

Q8 Lord Dykes: Would you anticipate possibly a few more countries coming in like Germany, Netherlands and Britain?

Lord Hunt of Kings Heath: I think clearly we are testing the water at the moment, and officials are talking to officials in those governments, to see if we can reach a common view on this, and we will continue to do that.

Q9 Lord Dykes: Is there a bit of a north/south divide on this one?

Lord Hunt of Kings Heath: I am not sure. Would you say north/south?

Ms Campbell: I do not think so. My Lord Chairman, I think people have been seeing what comes out, and where the other Member States are. As Lord Hunt said, yes, one or two have come out, so I think it will be really only in the next few weeks that we will see the strength of that opinion really. People have not seemed to have been looking so much at the powers --

Q10 Lord Dykes: It is reasonable for HMG to assert the text of the regulation should be pretty precise actually, because it is a strong instrument, is it not?

Lord Hunt of Kings Heath: It is, and it allows little discretion. The advantage, of course, of a directive is that it would have allowed discretion, but it will take an awfully long time to put into practice. I think that one of the conclusions of last winter is that Europe does need to have the ability to take co-ordinated action, so that is why our preference is a regulation, but one which is acceptable to us.

Q11 Lord Powell of Bayswater: Still pursuing this same broad point on the powers of the Commission, as you described them, the open-ended powers, they are quite extensive, and this issue of declaring a Community emergency for the whole of the EU: what is a Community emergency? What should be the criterion for deciding it? It seems to me a rather broad concept. You could have a crisis in a couple of countries and not in 25, and yet

the Commission could decide it is a Community emergency. It is rather like a wartime power. It would worry me.

Lord Hunt of Kings Heath: Well, the Government shares your concerns on this, because, of course, declaring a Community emergency then gives the Commission powers to direct. Although it is not clear yet, the potential for that direction --of course, there would have to be justification for any direction they give. Nonetheless, I think an open-ended power in that regard would be of considerable worry to the Government. The current draft sets what we would regard as a very low threshold for declaring an emergency at the request of one Member State, or when the Community loses more than 10 per cent of its daily gas imports, or where more than one competent authority has declared a national emergency. We think that we need to know much more about the actual circumstances in which the Commission would actually wish to declare an emergency. We would like to see much more stringent criteria as to the conditions that have to be met, and we would also like to have much more reassurance about the proportionality of the way in which the Commission would use those powers. At the moment, we think the thresholds are too low, and that they give too much power to the Commission.

Q12 Lord Powell of Bayswater: So are you going to be coming forward with some very specific suggestions on this, perhaps some revised text of your own to try and clear with other Member States?

Ms Campbell: I think as I said, this has only come out this morning in fact; on some areas, we have already given some suggested text, but certainly not at the moment on the competence, we wanted to see what was coming out. It is clear that we need to actually really go away with a wet towel on our heads and see how this could be so developed to make it acceptable. I mean, it is still the question, at the end of the day, of the Community actually having that ultimate power, so we really need to work very hard and with other people to see if we can so

constrain that that it would make it acceptable, bearing in mind that we are all in it together, and we see a lot of perhaps potential advantage of being able to get other Member States also toeing the line, but inevitably, you have to look at how such powers would impact on the UK.

I am sorry if that is not a more helpful reply.

Lord Hunt of Kings Heath: I think there is a dilemma here, because clearly the experience of last winter shows that some Member States were hoarding unnecessarily, that there were unilateral decisions made by States which had an impact on neighbouring States, and one can see there that there is a case for the Commission to be able to take some intervention in the interests of Member States as a whole. As you will well understand, the risk is that in giving the Commission the ability to do that, they then would also give the Commission powers which might impact in a damaging way on the United Kingdom, and that really, I think, is the tension that we need to work through.

Q13 Lord Powell of Bayswater: I think it certainly exists. What Ms Campbell said about working with like-minded countries is quite important; if you are going to get some decent amendments to this, you are going to have to try to build up a little group of countries who will work with you, are you not?

Lord Hunt of Kings Heath: Yes, from my previous role in DEFRA, I am aware of the work that needs to be done, and we will do everything we can to see if we can develop a constituency of support in this area. I think again, if I can say that a lot of the issues that occurred last winter showed up the issues particularly in Eastern Europe, the lack of emergency planning, some of the infrastructure problems that they have. What we do not want to happen is in the necessary action that needs to be taken to encourage those States to improve their infrastructure and their planning, their co-ordination, we do not then want the UK ending up with a situation where the Commission has unnecessary powers which could relate to our own gas circumstances.

Q14 Lord Powell of Bayswater: Just again moving on from that to the next point, you talk about this range of powers; which of the particular ones, apart from the ability to declare a Community emergency, would you think are unjustified, or would worry you?

Lord Hunt of Kings Heath: I think clearly the other area of particular concern is the area of planning, both the preparatory planning and the planning in relation to an emergency; again, particularly over the powers the Commission would have to actually require changes to those preventative and emergency plans. We want to again clarify what exactly those powers would be, and what impact it might have on the United Kingdom. For instance, would it lead to a requirement that we develop greater storage capacity in the UK? Well, there are arguments about storage capacity in the UK, but we think that is a matter that should be decided by the Government in its own arrangements, rather than being dictated to by the Commission.

Q15 Lord Powell of Bayswater: To make the point a bit broader, the Lisbon Treaty was supposed to strengthen subsidiarity, but this seems to me to run absolutely directly in the face of subsidiarity. This is drawing significant additional powers into the Commission, into the centre. Ought we not to be opposing it on those grounds as well?

Lord Hunt of Kings Heath: I think that clearly, we are considering the appropriateness of those powers in relation to the test of both subsidiarity and proportionality. We do not think at the moment, from the advice I have received, that the principles are clearly breached by the powers that are contained in the regulation. Clearly, we do see that there is a role for the Commission in the area of co-ordination, and in encouraging action where that is necessary, so I do not think, with respect, it is a black and white case. What I do think your question suggests is that we need to be very, very careful before we agree to this regulation. At the very least, we must be clear about the circumstances in which it could be used, and we must

have reassurances that the criteria that need to be met before the Commission use those powers are stringent.

Q16 Lord Powell of Bayswater: Obviously there has to be a role for the Commission, I absolutely agree with that. I would like to have heard you say, that we could not agree to the regulation in its present form without changes to it.

Lord Hunt of Kings Heath: I think that I have made it clear that we do not find the wording of the regulation acceptable as it stands, and that we will argue very hard to get changes made to it. I hope that goes as far as you would wish.

Q17 Lord Dykes: I do not think it has been taken out of the text yet anyway, but there is a proposal, is there not, to reinforce the powers of the Gas Co-ordination Group; does this fill you with great excitement, and do you feel it has a specific and tangible role?

Lord Hunt of Kings Heath: We talk of little else but the Gas Co-ordination Group in the Department. Indeed, my colleague is an assiduous attendee on behalf of the United Kingdom Government, and I will ask her to say something in a moment. I think to be fair, the Gas Co-ordination Group does provide a useful role. It is probably the only forum where Member States and industry can get together to exchange views candidly. There is no doubt that in last year's crisis, it was very helpful in allowing exchange of information and views, and also feedback to the Commission, and it is involved in scenario planning. So we do welcome the proposals to reinforce the group. However, I should just enter a caveat, there are some Member States who think that the Gas Co-ordination Group should be given powers. We are utterly opposed to that. We think it is useful as a co-ordinating group, but it should not usurp the role of Member States or the Commission.

Q18 Lord Dykes: Would it be too weak if it did not have any powers given to it at the margin?

Lord Hunt of Kings Heath: No, I do not think so, because the point about this group is it is there to allow for a frank exchange of views, for useful contingency scenario planning to be undertaken, and for giving feedback from Member States and the companies into the Commission. That seems to me to be a useful role. I would have thought that giving it executive power of any sort would actually undermine it, it would change the whole dynamic of what has proved to be a useful group at the moment.

Q19 Lord Dykes: Is that because it is more the technicians rather than anybody making political decisions?

Lord Hunt of Kings Heath: Yes, it ought not to be a group for making political decisions. Perhaps I could ask my colleague to comment on this.

Ms Campbell: Yes, I have been sitting on that now for about 18 months or so, and I have seen that grow, in the sense of the trust. It is Commission chaired, senior level; it is an exchange of views, as Lord Hunt has said, and from time to time, we will have taskforce groups, we will do scenario planning, our own people here, our own industry have been involved and indeed will be very shortly in exchanging how we do our emergency planning and simulations. The umbrella industry groups sit on that, and it was through those groups that the Commission were able to react so quickly back in January for standby monitors. So it is a forum in which we can have confidence that between the Commission, the Member States and industry, that we will know the circumstances in which standby monitors might then be deployed and they are on standby, they are ready to react if they have to. We had almost daily updates during the actual crisis. On paper, you may think that that whole role has been sort of extended quite a lot. Obviously by the nature of the regulation, which requires detailed emergency and preventative planning, and talking to your neighbour, to make sure that an action does not

impact negatively, then inbuilt into that is a sort of peer review, and I see that as actually quite helpful. I think on balance you will find that most Member States in fact think it should remain that kind of advisory group, although as Lord Hunt said, there are some members who think there should be a lot more. It has been very useful, during the summer, for having a kind of tour de table, to find out how well prepared people were, when we thought in May/June the bill was not going to be paid, and invectives to ensure that we all had plans in place, more storage. So we are pretty confident now, the Commission is, all Member States are, that storages indeed are much higher, or certainly at a higher level than they were last winter. It is through this kind of quite close relationship -- and also people like Ukraine are invited in from time to time to do a presentation, or say where they think something is coming up, Russia, Norway, people like that. Indeed, the wider Community States during that crisis were invited, so they could share information: Croatia and Bosnia-Herzegovina, places like that. So yes, something to watch to make sure that the wording does not stray into that area of political decisions. But the new draft, actually what I did just quickly see was they have accepted that the Commission, in co-ordination with the Member States and the other people, will decide on the composition of the group, so I think that is quite a helpful move already. I have not looked at the rest in detail. That was just what I noticed, rather than the Commission dictating who should be on that.

Q20 Lord Bradshaw: Can we turn to the N-1 indicator? Can you say first of all, is it a reasonable way of defining the minimum safeguard capacities for the infrastructure in a crisis; how will the UK achieve the benchmark, will it achieve it and how; and what are the repercussions if another State fails to meet this benchmark?

Lord Hunt of Kings Heath: Well, the indicators should not cause a problem for the UK. From calculations that National Grid has done in conjunction with the Department, we believe that we meet it comfortably using a range of scenarios, and this is also likely for the future.

National Grid calculations show that even under the worst case high demand scenarios, such as a one in 20 winter scenario, covering a peak period on a very cold day, a very cold 7-day spell, and a very cold 60-day spell, the system has capacity to meet all three scenarios. There are some issues that we have about the way the formula is calculated, and my understanding is that the Commission accepts that it needs some revision to adequately and appropriately reflect reverse flows and transit obligations. The N-1 rule is a useful rough guide to Member States' resilience, and clearly events of last January, particularly those eastern and central Member States who have a high dependency for gas from a single or main source, and who also have a high proportion of gas as their primary energy mix, the clear lesson there is they need to diversify and use different routes, including LNG as we discussed in a previous question. For instance, Greece relied wholly on its one LNG terminal for supplies during the January, and although some emergency measures were implemented, it did not see the need to declare a state of emergency. Finland, I am advised, who are 100 per cent dependent on one source, a pipeline, for its gas, have alternative demand side measures and fuel switching arrangements which allow it to cope with a severe gas disruption. The regulation provides for a Member State to use such demand side measures, and/or alternative regional arrangements to ensure that there is not an excessive burden on some Member States to meet this rule. Now on your second question, I mean, what is the impact, what happens if Member States are not going to meet it? I think we regard the benchmark as a useful tool in measuring the degree of vulnerability of a Member State. If it fails to achieve it, we would expect the Commission to be active in prompting the Member State to take action to ensure that they are able to meet the circumstances. So we think it is a useful tool, I do not think the United Kingdom is going to have a problem with it, and it is useful in terms of the Commission being able to chivvy Member States in improving their security of supply.

Q21 Lord Bradshaw: The proposals we have described in the last question will generate some cost; who is going to bear the costs of those? Is it the Member States in terms of connecting themselves up to other sources? Will the EU give any financial support to any of these measures to support the network?

Lord Hunt of Kings Heath: Well, I should say that since the UK is in, we regard, a healthy position, there should be no direct costs to the UK. As far as projects are concerned, clearly a large expenditure will need to be invested in infrastructure in Europe over the next few years. There are a number of potential sources of EU finance, most notably the trans-European Networks for Energy programme, which is worth around €2 billion per annum, and that is available to provide limited early stage financing for such projects. Member States may also be able to apply for money from the Structural and Cohesion Funds, and earlier this year, Heads of Government agreed a €4 billion package of money for energy and broadband infrastructure as part of the EU's economic recovery plan. Of this, €2.4 billion were allocated to gas and electricity interconnection projects as part of the EU's economic recovery plan. Some of these projects will improve connection in Central and Eastern Europe. The European Investment Bank and the European Bank of Reconstruction and Development will offer loans for energy infrastructure projects. So clearly, there is going to need to be considerable energy infrastructure investment in the future, much of that will fall on governments, but as I have indicated, there are mechanisms whereby European finance can be made available. I mean, if the Committee would like, we do have details of the priority projects that the Commission wishes to take forward, and I would be happy to send more information on that.

Q22 Lord Bradshaw: That is a fairly optimistic message there, thank you.

Lord Hunt of Kings Heath: Well, I think the events of last winter, if nothing else, should have concentrated minds on the importance of energy, and the need for continuous investment

in the infrastructure. I mean, the UK position is, I believe, a healthy one, because we have seen considerable investment in import facilities in the last year or two. We need not perhaps go into electricity generation, but again, we are seeing massive investment in that, so I think in the UK, we are in a healthy position.

Q23 Lord James of Blackheath: At the time the Explanatory Memorandum was submitted by your Department, you were still considering the appropriateness of the legal basis which you set out. What is the Government's final judgment on this, and what changes do you see the Treaty of Lisbon introducing that could affect the proposals?

Lord Hunt of Kings Heath: The emerging view is that the new energy article under Lisbon, article 194, Treaty on the Functioning of the European Union, may be the most appropriate legal basis for the draft regulation. As you know, My Lord Chairman, article 194 of the new Treaty on the Functioning of the EU is a new article included under Lisbon, establishing for the first time an explicit legal basis for energy policy. The article underpins the twin approach the regulation seeks to achieve, namely security of gas supply for the EU, with the emphasis on the proper functioning of the internal market, for so long as it is possible to achieve that outcome. The Government does not dissent from that view, and we will support that approach.

Q24 Lord James of Blackheath: Do you think that the proposals should have included anything specifically on gas storage, and given the wording that you just used, particularly in the context of contingency planning?

Lord Hunt of Kings Heath: No, we think that storage is one of a range of tools that is best managed, certainly in the UK, on a commercial basis, in response to demand. In the UK, gas storage is used more as a balancing tool for the market, with some gas being held back for UK safety monitoring arrangements, and to help ensure supplies to protected consumers. I also

think that whilst we do see a role in relation to the Commission, and we have discussed the N-1 rule as a way of monitoring and then prompting the EU to encourage Member States to take further action, but it should surely then be up to individual Member States to decide the action they need to take. Certainly from the UK position, we would not want the Commission coming to us and saying that we needed to change our storage facility, that ought to be a matter that we are entirely competent to take ourselves.

Q25 Lord James of Blackheath: Well yes, but do you think that there is any possibility that the United Kingdom should be considering some independent contingency planning on storage separately from the rest of Europe?

Lord Hunt of Kings Heath: Well, clearly we have debated in the Chamber on a number of occasions the issue of gas storage.

Q26 Lord James of Blackheath: And probably will again?

Lord Hunt of Kings Heath: We may well do again. The position on storage is this: we have about 4.34 billion cubic metres of gas storage capacity at the moment. This equals to some 16 days of demand. There are a considerable number of projects in the pipeline at the moment, 19 projects in the pipeline, and we can expect to see some of those projects coming to fruition in the next few years, but it is worth bearing in mind that the biggest storage that we have is the North Sea itself, it is a massive strategic storage.

Q27 Lord James of Blackheath: If properly utilised, Minister.

Lord Hunt of Kings Heath: Indeed. The Secretary of State is in Aberdeen today to re-affirm the Government's recognition of the importance of the North Sea.

Q28 Lord James of Blackheath: I hope he took some good geologists with him.

Lord Hunt of Kings Heath: Well, I think the best estimate we have is that so far, since the opening up of the North Sea, about 40 billion barrels of oil equivalent have been taken out, there is another 20 billion barrels there to be taken. There were changes to the tax regime made in the last year or two to encourage further exploration, particularly of the difficult to exploit fields.

Q29 Lord James of Blackheath: Minister, given the scope for foreign policy catastrophes which could intervene in supply, do you think 16 days of reserve is sufficient?

Lord Hunt of Kings Heath: We are certainly encouraging more storage facilities. We think it is a market based decision. We have the North Sea as strategic storage. The increase in import facilities has also given us a considerable amount of flexibility as well, so if you are asking me, am I satisfied with the current position in the UK, I am.

Q30 Lord James of Blackheath: If you look back in the recent annals of history, would you consider that each of the crises that have arisen were resolvable within a 16-day timespan?

Lord Hunt of Kings Heath: I think the issue of last winter showed the resilience of the UK gas position. The fact is the market did respond, we ended up exporting gas to the Continent, but that was because we were in a position to do so. The best way to deal with issues of gas security in Europe is to continue with the liberalisation through the third package, and that will encourage a fully functioning market, incentives will be in the appropriate place, it will encourage diversity of supply, and the UK position is very much in the forerunner of that.

Q31 Lord James of Blackheath: That is very much to say that solutions will be market led, I think, in which case, what do you see as being the long-term benefits of the proposals which have been covered by article 95, as far as industry and consumers are concerned?

Lord Hunt of Kings Heath: Well, clearly for both industry and consumers, certainty of supply is absolutely essential, and I think if one looks to the experience of those Member States that were forced to declare emergency, and the difficulties they found themselves in, what better illustration of the problems that you can have if you are not enabled to have security of supply. Now the extent to which this regulation encourages a more co-ordinated approach across Europe, it encourages the preparation of plans which can be put into action, it encourages investment in the infrastructure, it encourages diversification of supply, then I think that one can show that provided we can meet the concerns that I have expressed to you this afternoon, then it could be a useful aid towards energy policy in Europe, which clearly will have benefits both for individual consumers and for industry as a whole.

Chairman: Lord Powell has a supplementary on this point.

Q32 Lord Powell of Bayswater: It was not really on this point, but it occurred to me while listening to you talking about liberalisation, Minister, whether in a sense it would be better not to agree to this regulation until we have liberalisation in the bag.

Lord Hunt of Kings Heath: I think to be fair, the regulation has been couched in a way in which it is supportive of the liberalisation of the market within Europe. The philosophy is very much to encourage the market to operate as fully as possible before intervention, and that is something that we would very much want to encourage. I think it is worth saying that the UK has had a very positive impact in terms of negotiating the third package, and seeing its implementation. I hope that we can get the changes that we want to see in the regulation and continue to encourage further liberalisation.

Q33 Lord Powell of Bayswater: There are those who are opposed to liberalisation who might be prepared to settle for this, but still go on digging in their heels over liberalisation. That is what would worry me.

Lord Hunt of Kings Heath: I agree, we must be ever vigilant in ensuring that the Commission continues to support liberalisation. You will know that a new Commissioner has been appointed to the energy brief, and I can assure you that we will be seeking an early meeting with him to discuss those very matters.

Q34 Chairman: Just before we end, are there any additional comments that you, Minister, or your colleagues would wish to make, any particular points you wish to clarify or add any other advice to the Committee?

Lord Hunt of Kings Heath: No, I do not think that we need to say anything further. I think that we are very clear that whilst the regulation offers some opportunities and benefits, we need to be absolutely sure that we can live with it, and that it does not give the Commission open-ended powers which we would be very reluctant to see them activate.

Q35 Lord Dykes: Would you agree, from what you said earlier on, that this has been actually, pragmatically speaking, a good example of the Commission and the Member States acting very briskly together?

Lord Hunt of Kings Heath: Yes, clearly, the lessons of last winter showed the frailties of a number of Member States, and their energy policy and infrastructure. It also showed that the 2004 directive had not led to sufficient action by those Member States. So certainly the case for the EU taking on a more pro-active role, we would accept, but it should not be at the expense of the Commission being able to intervene inappropriately in the UK, and in our own energy affairs and market. Getting the balance right is where we want to get to.

Chairman: Thank you very much indeed, for the clarity of your responses and advice, and we look forward to in due course following this subject. This session is closed.