



Gas

An essential fuel in a modern world

Gas has long played a key role in the UK's fuel mix, both as a source of heating and as a fuel for generating a significant proportion of Britain's electricity requirements. Even with the push for renewable energy generation, gas remains important to our energy supply portfolio, and this has been recognised in the Government's Gas Generation Strategy. However, as indigenous North Sea supplies of natural gas continue to decline, security of supply has become a hot topic in Britain, with imports of gas (whether by means of interconnectors to Europe or as liquefied natural gas (**LNG**) from further afield) now making up the majority of our gas supplies. Some see unconventional sources of gas (such as shale gas) in Britain as a possible answer to this security of supply issue, but the development of shale gas in this country is at an early stage.



KEY CHALLENGES FOR THE GAS INDUSTRY

While the role of gas in our energy future is well understood, there are a number of challenges that have to be overcome in order for that role to be fulfilled.

Firstly, the proposals for a Capacity Market as outlined in the Government's Electricity Market Reform (**EMR**) have introduced regulatory uncertainty – what level of support will new-build gas generation plants receive for making additional capacity available in the market? Until this is known, investors are unlikely to commit to new facilities. Ironically, the uncertainty caused by the lack of clarity around the Capacity Market is in itself causing a potential capacity issue as plants that would otherwise have been brought forward are delayed pending finalisation of the scheme.

Secondly, shale gas has struggled to achieve public acceptance in the UK and is at a nascent stage of development. In order to become a fully functioning part of our gas mix, the shale gas industry has to demonstrate that it can extract the gas both safely and economically. The creation of the Office for Unconventional Gas and Oil will help to provide both support to, and oversight of, this sector.

Thirdly, gas storage is critical to security of supply in the UK as we currently have significantly less storage capacity than most of our European neighbours, having historically relied on North Sea supplies to provide the necessary buffer. There are now calls for the Government to oblige energy companies to maintain a specified minimum amount of gas in storage to protect against supply interruptions and price spikes. If this obligation becomes law, more storage capacity will have to be built in the UK. Until then, making an investment case for new storage is challenging.

HOW WE CAN HELP

Our specialist Renewables, Energy & Resources Group is a multi-disciplinary team that has advised a range of clients across the gas sector, from power generators to energy suppliers, and gas storage developers to gas transporters and LNG importers. We understand both the regulated and unregulated aspects of the

market, and know the drivers and challenges for those operating in the sector. We are also closely following the development of EMR and other key policy developments, and can advise you on how this may affect your project.

Examples of our recent experience include:

Gas storage

We have advised Storengy (a GDF Suez subsidiary) on all aspects of the development of its Stublach gas storage facility in Cheshire. This advice ranged from site acquisition to construction and network connection. Working closely with the team from Storengy, we acted as a trusted adviser forming an integral part of the client's project team.

Transportation and importation

Walker Morris is appointed to National Grid's energy and regulation panel, advising the UK's largest energy network operator on a range of regulated issues, including network code modification, connection matters and capacity management. In addition, we regularly advise the Grain LNG business on all aspects of its importation terminal contracts, which included advising on the commissioning of the Phase 3 expansion of the terminal. In addition to the negotiations to secure the delivery of the required commissioning cargoes by the new customers to the terminal, our lawyers helped National Grid with arrangements with existing customers to ensure that gas flows from the terminal during the commissioning period were allocated appropriately and fairly between the existing customers and the new customers, taking account of the increased flows that resulted from the commissioning process.

Shale gas

We are currently advising a US-based shale gas developer interested in extending its activities to the UK. As part of this advice, we are supporting the client in its negotiations with landowners to secure the necessary rights to site drilling rigs and ultimately production facilities, as well as assisting the client in its discussions with joint venture partners about exploitation of the resources within its licensed areas. We are one of the few UK legal practices to be actively advising clients in this emerging sector.

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Walker Morris is uniquely recognised for its strong multi-disciplinary teamwork and straightforward advice. With national and international reach, the depth of our expertise and skill assures clients that all their needs can be met by one firm. We make it our priority to understand the dynamics of your business and appreciate that in today's business world, you need lawyers who are willing to offer support and advice beyond the 'legals'.

We are instinctively commercial and our goal is to add value at all stages of our relationship with you. We offer inquisitive people, who ask all the right questions; who work tirelessly on your behalf; and who work effectively as members of your own team to help you achieve results.

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