

UK gas market and prices

With permission, Mr Speaker, I will make a statement on the UK Gas Market.

As Honourable and Right Honourable members will be aware, over the weekend I held meetings with Ofgem and energy companies, and this morning I held a further roundtable discussion.

Today I will set out the government's approach to manage the impact of high global gas prices affecting the UK – and countries across Europe.

To begin, I want to make two points extremely clear.

Firstly, Mr Speaker, I must stress that protecting consumers is our no.1, our primary focus – and will shape our entire approach to this important issue.

Secondly, I also want to reassure the House that while the UK – like other countries in Europe – has been affected by global prices, Britain benefits from having a diverse range of gas supply sources.

We have sufficient capacity **and more than sufficient capacity** to meet demand, and we do not expect supply emergencies to occur this winter.

There is absolutely no question, Mr. Speaker, of the lights going out, or people being unable to heat their homes.

There'll be no three-day working weeks, or a throw-back to the 1970s. Such thinking is alarmist, unhelpful and completely misguided.

To begin I'd like to set out some context for the global situation we are now witnessing.

As the world comes out of COVID-19 and economies begin to reopen, we are seeing a dramatic uptake in global gas demand, much faster than many people had anticipated.

High demand in Asia for Liquefied Natural Gas (LNG), transported globally by freight, means that far less LNG has reached Europe. Weather events in the US have also affected LNG exports to Europe.

So therefore, increased demand, coupled with reduced variety of supply globally, has put upward pressure on the price of gas traded globally.

High wholesale gas prices have subsequently driven an increase in wholesale power prices, with a number of short-term markets trading at, or near, record levels.

While we are not complacent, we do not expect supply emergencies this winter. This is a very important point. This is not a question of security of supply.

The GB, the Great British, UK gas system has delivered securely to date and

is expected to continue to function effectively, with a diverse range of supply sources and sufficient delivery capacity to more than meet demand.

The National Grid Electricity System Operator has the tools within itself to operate the electricity system reliably, to balance that system and we remain confident that electricity security can be maintained under a very wide range of scenarios.

We aren't reliant on any one particular source for our gas, like many of our friends in Europe.

Domestic production, and member and right honourable members should know, is still our largest single gas supply source, and accounted for about 50% of total supply last year.

However, the UK also benefits from an excellent relationship with Norway, one of our most important and reliable energy partners, and that delivers nearly 30% of our total gas supply. Just in the past half hour, I was privileged enough to speak to the Norwegian Energy Minister to welcome the announcement from Equanor today that gas production will significantly increase from 1 October to support the UK and European demand.

Our remaining supply, Mr Speaker, is sourced from global markets via two interconnectors to the Continent, and also through our LNG infrastructures, which is as many of you know, the largest in Europe.

Obviously, the global gas situation has had an impact on some energy suppliers. We have already seen four suppliers exit the market in recent weeks, and we may well expect to see further companies exiting the market over the coming weeks.

I have to say, Mr. Speaker, at this point that having been energy minister for nearly 2 years before I became Secretary of State, we saw in those two years, at around this time, companies exiting the market. It may well be more this year, but this is something that, as this time of year, and ahead of the renewable obligation, is often seen in the market.

I want to make clear today, however, that it is not unusual for smaller energy suppliers to exit the market – particularly, I may add, when wholesale global prices are rising.

The sector has seen regular entry and exit over the last five to 10 years, that is the feature of a highly competitive market.

The current global situation may see more suppliers than usual exiting the market, but this is not something that should be cause for alarm or panic.

We have clear processes in place to make sure all customers are supplied with energy. When an energy supplier typically fails, Ofgem appoints another supplier to take on serving the customers and there is no interruption to supply. I reiterate, our first and primary concern is for the customer.

I'd like to stress three further principles, which are guiding my and the

government's approach in this matter.

Firstly, the government will not be bailing out failed companies. There will be no rewards for failure or mismanagement. The taxpayer should not be expected to prop-up companies who have poor business models and are not resilient to fluctuations in price.

Secondly, customers, especially and most particularly vulnerable customers, must be protected from price spikes.

And thirdly, Mr. Speaker, we must ensure that the energy market does not pay the price for the poor practices of a minority of companies, and that the market still maintains the competition that is a feature of today's current system. We must not see a return to, I quote, the "cosy oligopoly" of years past, where a few large suppliers simply dictated to customers conditions and pricing.

I'd like to reassure all members, and honourable members and their constituents that the Energy Price Cap – which still saves 15 million households up to £100 a year is staying – isn't going anywhere.

As I said earlier, our priority in this situation has to be the consumer, the Great British public, and the cap has done that effectively. It protects, and has protected, millions of customers from sudden increases in global gas prices this winter. We are committed to the Price Cap and it will remain in place.

Meanwhile, our Warm Home Discount, Winter Fuel Payments and Cold Weather Payments will continue supporting millions of vulnerable and low-income households with their energy bills.

It is absolutely vital that the energy supply sector remains a liberalised competitive market in order to deliver value and good service to consumers.

As a result of high global gas prices, members and right honourable members will have read, two fertiliser plants shut down in Teesside and Cheshire last week. They suspended the production of CO₂ and ammonia. A decision which has affected in the short-term our domestic supply of CO₂, which is used in the food and drink, as well as the nuclear and health sectors.

Yesterday, I met Tony Will, the global chief executive of CF Industries. We discussed the pressures the business is facing and explored, quite thoroughly, possible ways to secure vital supplies.

Work is ongoing across departments in Whitehall, across government to ensure that those sectors impacted and affected by this announcement have appropriate contingency plans in place to ensure that there is indeed minimal disruption. To maintain our domestic supplies of CO₂, we are in constant contact with relevant companies who produce and supply CO₂ and we are monitoring the situation minute by minute.

Over the past few days, as has been widely reported, I have held several discussions with chief executives of the UK's largest energy suppliers and

operators, and also with Ofgem to discuss this vital issue.

Just this morning, I chaired a roundtable with UK energy companies & the representatives of consumer groups, in which I reiterated as I have on the floor of this house, the need for us all of us in government and industry to prioritise customers, in short to protect the consumer.

Meetings continue across government today and throughout the course of this week.

In terms of further actions and statements, this afternoon, shortly after the statement presented here, I will be making a joint statement with Ofgem setting out the government's next steps following healthy and illuminating discussions with them and suppliers.

Mr Speaker, our security of gas supply is robust. But it is the case that the UK is still too reliant on fossil fuels. Our exposure to volatile global gas prices underscores the importance of our plan to build a strong, home-grown renewable energy sector to strengthen our energy security into the future.

Thanks to the steps that we have made as a government, renewable energy has quadrupled in terms of gigawatts capacity since 2010, far more than quadrupled in fact – but there is clearly a lot more we can do in this area.

That is why we committed to approve at least one large-scale new nuclear project in the next few years, and are backing the next generation of advanced nuclear technology with £385 million, helping to attract billions of pounds in private capital and create tens of thousands of jobs.

Consumers come first. We must protect our constituents.