

R/24

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## NGT PUBLISH CONSULTATION ON POSSIBLE WINTER ENERGY SUPPLY SCENARIOS

- **NGT's analysis shows energy supplies to domestic customers can be maintained even in a 1:50 winter**
- **NGT's consultation will help industry organise and respond to this winter's supply and demand conditions**
- **UK gas supplies lower than last year - but new import and storage projects coming on stream**
- **Electricity generation 'safety margin' at over 20 per cent**

A preliminary consultation by National Grid Transco (NGT) – setting out possible scenarios for winter gas and electricity supplies - was published today (Tuesday) by energy regulator Ofgem.

The consultation is published at this time each year to allow the market to get the best information about likely supply and demand scenarios so that it can prepare and respond in an orderly way.

NGT reports that, under normal winter conditions, there is sufficient gas and electricity to meet demand. In the severest of winters, of the kind seen only twice a century, NGT's analysis shows that the market can maintain supplies by a combination of actions to reduce demand for gas. This would include running other electricity generation plant ahead of gas-fired plant and reducing demand by major industrial users – a likely response in any other European energy market faced with similar winter conditions.

Ofgem Chief Executive, Alistair Buchanan, said: "Although NGT's report shows that under all credible scenarios the energy market can deliver supplies to domestic customers, there is no room for complacency.

"NGT's report provides the basis for electricity generators, gas producers, energy suppliers and major energy customers to plan for, and respond to, this winter's supply/demand conditions in a timely and orderly way. Ofgem's role is to help ensure that the market has the information it needs and to remove any barriers or approve changes which will better allow the market to maintain secure supplies in all winter conditions.

"Britain's gas market is responding well to meet the shortfall as North Sea gas supplies decline. New gas imports and storage projects, totalling £6 billion worth of investment, are beginning to come on stream. The market is expecting this investment to ease pressure on gas prices."

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## Notes to editors

**1. NGT's report.** As highlighted in NGT's report, the main issues relevant to security of supply for this winter relate to the wholesale gas market. The key issues are the level of UK gas supplies that will be delivered this winter. The market has responded to declining UK gas supplies and has replaced some of this gas with more imports through the Belgian interconnector (new upgrade due in December), gas from the new Isle of Grain LNG import terminal (due to take first delivery this summer) and storage facilities (Humbly Grove due to open in October 2005).

NGT's analysis suggests that under normal weather conditions, there is sufficient gas and electricity generation to meet demand. Under severe weather conditions, NGT considers that a larger volume of demand-side response will be required for approximately half the winter. If severe weather conditions combine with lower gas supplies then a significant volume of demand-side response will be required throughout most of the winter.

NGT's analysis suggests that the bulk of the required response can be provided by gas-fired power stations without threatening security of supply on the electricity system. This can be achieved by running nuclear, coal and oil-fired stations ahead of gas, and switching some gas-fired stations to run on back-up fuel, or by only running gas-fired stations during periods of peak demand. The remainder of the response can be provided by other large industrial and commercial gas customers.

In the event of a severe winter hitting Britain, it is likely that similar conditions will be experienced elsewhere in Europe and that a demand-side response from large energy users would also be required. For example, Gaz de France interrupted all its interruptible customers in February this year when it experienced a sudden cold snap.

NGT will be consulting with industry on the various scenarios set out in this May preliminary report and will publish a final report in October.

## **2. Maintaining security of supply.**

Ofgem and the DTI have statutory duties in respect of security of supply as does NGT – the national gas and electricity system operator.

In keeping with the Government's energy policy, Ofgem takes the view that security of supply is maintained best by creating and sustaining competitive wholesale and retail energy markets, and by establishing appropriate incentive arrangements for network monopolies.

Ofgem monitors gas and electricity markets to make sure that they work effectively and are able to respond to signals of the need for additional generation capacity or gas supply.

Last year, Ofgem asked NGT to bring forward publication of its winter outlook report to May to give the market a better opportunity to consider the outlook, inform it and respond to it in a timely and orderly way. In the past, the winter outlook was only published in October at the start of the winter.

Ofgem also works to approve appropriate changes to the market rules and industry codes to help facilitate the efficient operation of the market. At the time of last year's Winter Operations Report, Ofgem announced a series of measures for market participants to consider ahead of that winter, and this year it is doing the same. Last year Ofgem:

- ◆ approved modifications to enhance information on mothballed plant and reserve fuel availability to NGT, and
- ◆ approved a rule change to enable power stations who decide to run over a short period of time to not pay a full year's payment of transmission charges.

This year Ofgem will:

- ◆ respond expediently to any modifications that are raised to the cash-out rules in both gas and electricity, in so far as these rule changes enhance the operation of the market, and
- ◆ consider changes to further enhance the transparency of information in the market, and Ofgem urges parties to the consultation process to alert Ofgem to their views.

**3. Electricity.** In electricity, the forecast 'safety cushion' stands at 20 per cent this winter. The 'safety cushion' consists of spare generating capacity to cover events such as unplanned plant failures or sudden spikes in demand, for example, during unexpected bad weather or following very popular TV programmes.

4. Copies of NGT's Preliminary Winter Outlook report and Ofgem's accompanying letter to the industry (144/05), are available on the Ofgem website at [www.ofgem.gov.uk](http://www.ofgem.gov.uk). Hard copies can be obtained from the Ofgem Distribution Centre on 020 7901 7116 or by email at: [distribution@ofgem.gov.uk](mailto:distribution@ofgem.gov.uk). Factsheets on **Securing Britain's gas supply** and **Securing Britain's electricity supply** are also available on Ofgem's website in the Press Office section, under factsheets.

6. Ofgem is the Office of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority, the regulator of the gas and electricity industries in Great Britain. Ofgem's aim is to bring choice and value to all gas and electricity customers by promoting competition and regulating monopolies. The Authority's powers are provided for under the Gas Act 1986, the Electricity Act 1989 and the Utilities Act 2000.

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