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National Grid starts in-depth consultation on energy supplies for next winter

- **Gas supplies could be tighter next winter if major import projects hit delays- all projects are currently reported on schedule**
- **Wholesale gas prices currently higher than last winter reflecting uncertainty over new imports**
- **Ofgem urges European and other gas importers to provide more information about levels of gas imports this winter**
- **Ofgem will work to get accurate information to the market on energy supplies so industry can prepare for winter in an orderly way**

National Grid today highlights that gas supplies may be tighter next winter (2006-2007) in its first preliminary report on energy supplies.

Less gas from the North Sea and uncertainty about whether Britain's largest gas storage facility, Rough, may be filled in time could see tighter gas supplies, especially at the start of next winter. However, there is a potential increase of supplies on last winter if the major new import projects are delivered on time and all facilities are used to import gas to Britain at full capacity when required. At the moment all the developers have confirmed their projects are on schedule to deliver gas this winter.

Ofgem's Chief Executive Alistair Buchanan said: "National Grid's report shows we potentially face another winter of tight gas supplies where demand-side response from gas-fired power stations and industry will again play a crucial role.

"While there is a possibility that supplies will increase if the new import projects are built on time, Ofgem believes that industry should adopt a cautious approach, as there is no room for complacency. Major infrastructure projects can be delayed and as we saw last winter, new pipes and terminals are not always used at full capacity to import gas.

"Lack of transparent information about gas supplies and storage from Europe and elsewhere in the world remains a significant problem. This makes it very difficult to predict the level of gas imports into Britain. To try and make up for this lack of information Ofgem is holding a series of meetings with companies that could import gas into Britain to encourage them to provide National Grid with more accurate information about the levels of gas imports we can expect from the continent this winter."

Ofgem has also taken steps to ensure the market has accurate and timely information about British offshore gas supplies.

"It is vital that industry and market take an active part in National Grid's winter outlook consultation and provide the best information available. Industrial customers and the energy markets will then be able to prepare for next winter," said Mr Buchanan.

Electricity supply is expected to be similar to the last two winters with a 'safety cushion' of reserve generation at around 20 per cent.

Ends

Notes to editors

1. National Grid's report is the first stage in a four month consultation process which will seek to provide the market with a more accurate picture of winter energy supplies by September. The report published today does not represent National Grid's view, but provides a base case to stimulate discussion with the industry. Further reports will be published in July and September.

2. Ofgem's role

Ofgem has approved changes to allow for greater information on British offshore gas production in time for this winter and is continuing to work for greater transparency both in Britain and Europe.

Ofgem will be working to ensure government, customers and the energy markets are kept fully briefed on energy supplies this winter.

Ofgem is also:

- o supporting National Grid's consultation process by holding a seminar programme throughout the summer aimed at making sure that the market, industry and large public sector gas users understand the outlook for the winter, so they can make informed purchasing decisions and are able to provide a demand side response if required
- o continuing to work with the Demand Side Working Group to remove any remaining barriers to demand-side response
- o consulting with industry on new incentives for National Grid to improve the robustness of its website that provides key market information to customers and gas suppliers and its gas demand forecasting, and
- o asked National Grid to carry out a technical study to see whether it can offer gas blending services this winter to allow more European gas to be imported to the UK this winter.

3. New importation projects.

There are four importation projects scheduled to come on stream this winter. They are:

- o the final upgrade of existing Belgium interconnector due to be completed in December, increasing capacity from 48 to 68 million cubic meters (mcm) a day
- o a new interconnector pipeline between Holland and Britain due to be completed by December, with an initial capacity of 27mcm/day, increasing to 42mcm/day from March 2007

- o the Langeled pipeline which will be able to import gas from Norway. The first phase is due to be completed in October 2006 and will be capable of delivering 40 mcm/day. The second phase to deliver 68 mcm/day is due to be completed in October 2007, and
- o a proposal to bring in LNG to Teesside by ships which can convert the liquefied gas into gas that can be pumped onshore without the need for the construction of expensive terminals. Proposed 11 mcm to come on stream in December.

Added together these projects following completion could deliver a total import capacity of around 146 mcm/day this winter. Record gas demand to date was 449 mcm in 2002-2003. National Grid estimate that in very severe winter conditions demand could reach 550 mcm.

4. Rough gas storage

A fire in February this year has closed the Rough storage facility, which accounts for over 80 per cent of Britain's gas storage. Its owners, Centrica Storage Limited, in their recent update said the uncertainties around reopening the facility for injection on June 1st were reducing. However, a further delay in opening Rough may mean it cannot be filled in time for winter.

5. Demand-side response

Last winter demand-side response, when large gas users turn down their gas usage in response to prices, made significant contribution to gas supplies. Over 80 per cent of this response came from gas fired power stations, many of whom can run on back-up or alternative fuels. National Grid's report shows that a demand-side response to market prices has the potential to again play an important role next winter

6. Gas imports

GB gas supplies are delivered from a diverse range of sources. These include supplies from Norway, Europe, Russia, and the global LNG market.

7. More information on future gas supplies are available from the "Securing Britain's gas supplies" factsheet available from the Ofgem website at www.ofgem.gov.uk
8. 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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