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UNCERTAINTY OVER NEW IMPORT INFRASTRUCTURE DECLINES BUT OFGEM WARNS AGAINST COMPLACENCY

- **Two new major import pipeline schemes delivered early, remaining projects reported on schedule,**
- **but gas supplies could be tighter if new pipes and terminals are not used to capacity**
- **National Grid's report says even in a 1:50 winter supplies can be maintained to domestic customers**

Ofgem has today (Thursday) warned against complacency after it published National Grid's final report on energy supplies this winter. The new Langeled pipeline, from Norway to the UK, and the upgrade to the existing Belgium interconnector are reported to be ready ahead of schedule for this winter. Centrica's Rough storage facility is scheduled to be full ahead of the winter.

Ofgem Chief Executive, Alistair Buchanan, said: "When we started this consultation process there was a great deal of uncertainty surrounding whether the new infrastructure projects would be completed in time. In addition there were the problems with the Rough storage facility following a fire in February. These uncertainties have substantially reduced and we can be more confident. However, the key question remains whether the existing and new links with continental Europe and Norway will be fully utilised and how cold the winter is going to be.

"We may also experience severe weather which would require industry to respond by reducing its demand for gas. So while there is no doubt the gas supply situation has improved industry needs to prepare cautiously for this winter.

"These new import projects represent the start of over £10 billion pounds of investment in Britain's gas market and this will continue to develop momentum with new LNG terminals and a link with the Norwegian Ormen Lange gas field coming on stream next year as well as a further expansion of the new pipeline with Holland. These new developments will ease the pressure on gas supplies which has along with the high oil price driven up energy prices for consumers."

Ofgem is still concerned about the lack of information on how much gas will flow into the UK this winter from continental Europe. There is very little information about gas demand, supply and storage on the continent, even though there has been moves towards greater transparency in France and the Netherlands. This contrasts with Britain where an Ofgem approved change means there will be more information than ever before on gas production.

Ends

Notes to editors

1. 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 year 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 remaining barriers to demand-side response, and
- o has introduced new incentives for National Grid to improve the reliability of its website where it provides key market information to customers and gas suppliers and its gas demand forecasting.

2. Meetings with European companies

Ofgem has met with key energy companies across Europe and has received updates regarding the status of new infrastructure projects in Europe and the impact that they are likely to have on Britain.

For example:

- o Germany. E.on and Wingas have invested in the pipeline network to allow more gas to flow at the Belgian border. This could enable more gas (10 mcm) to be exported from Germany to the UK through the interconnector.
- o France. Improvements are starting to be made in the amount of information given on gas storage stocks. New LNG terminal at Fos Cavaou (8.25 bcm) is due to be operational 2006/2007.
- o Norway. New LNG export terminal to open at Snohvit in December 2007. This would allow Norwegian gas to be brought into the UK by LNG tanker in addition to the Langeled pipeline which will bring in gas from the Ormen Lange field next winter (2007/08).

3. New importation projects.

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

- o the next upgrade of existing Belgium interconnector due to be completed in October, 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. This pipeline is being tested in September and is expected to be operational by October. National Grid estimates that imports from Norway could deliver 48 mcm of gas this winter. The second phase to deliver 68 mcm/day, when the pipe is connected to the Ormen Lange gas field, is due to be completed in October 2006, 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 January.

Added together these projects following completion could deliver a total import capacity of around 154mcm/day this winter. Record gas demand to date was 449 mcm in 2002-2003.

4. Rough gas storage

A fire in February this year closed the Rough storage facility, which accounts for over 80 per cent of Britain's gas storage. In June the facility reopened for injection and it is currently nearly full ready for the 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.

For further press information contact:

Mark Wiltsher 020 7901 7006/Out of hours 07774 728971

Julia Collings 020 7901 7217