

R/40

Wednesday 5 October 2005

NATIONAL GRID PUBLISH WINTER ENERGY OUTLOOK TO AID INDUSTRY PLANNING

- **NG's analysis shows energy supplies to domestic customers can be maintained even in a severe 1:50 winter**
- **NG's report 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**

National Grid's (NG) winter energy outlook was published today (Wednesday) to give the gas and electricity markets the information they need to prepare effectively for the coldest months of the year.

NG's report - which follows a consultation in May - concludes that, while gas supplies are lower than last year, demand can be met during an average winter, with only a small amount of demand-reduction from large gas users, such as gas-fired power stations.

Even in a 1:50 winter - last seen in 1963 - NG's analysis shows that the market can maintain supplies to domestic customers by a combination of actions to reduce consumption of gas. This would include power stations and major industrial users reducing their demand for gas.

Ofgem Chief Executive, Alistair Buchanan, said: "While gas supplies are lower than last year, the results of National Grid's detailed consultation with the industry shows that even in a severe 1:50 winter the energy market can deliver supplies to domestic customers. However, there is clearly no room for complacency.

"Today's report gives electricity generators, gas producers, energy suppliers, gas shippers, major energy customers and National Grid the information they need to put in place the commercial and operational arrangements to ensure they are ready for all possible winter conditions."

Over the last few years, Ofgem has worked consistently with industry to improve the level of information available and to fine-tune the market to enable industry to respond effectively to maintain supplies. This year, Ofgem has worked with the industry on several initiatives. These include a special website with easy-to-understand information about current gas supplies for large gas users, and changes to market rules to increase the financial incentives on gas shippers to respond to any tightening of gas supply.

ends

Notes to editors

1. NG's report. As highlighted in NG's report, the main issues relevant to security of supply for this winter relate to gas supplies. The key issues are the level of UK gas supplies that will be delivered this winter. NG's forecast is for a total availability of around 476 mcm against around 488 mcm last winter. The record highest gas demand stands at 449 mcm in January 2003.

2. Market developments since NG's May preliminary winter outlook report

Since May 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 November, one month ahead of schedule), gas from the new Isle of Grain LNG import terminal, which took its first delivery this summer, and a new storage facility at Humble Grove, in Hampshire due to open in October 2005.

3. Demand-side is the reduction in gas or electricity demand in response to price or tight supply conditions.

NG says that under average weather conditions there are sufficient gas supplies to meet all demand with only a modest amount of demand-side response. Even in an average winter, large users may choose to turn down gas demand in response to high prices caused by a cold snap.

In a severe 1:50 winter, NG considers that a larger volume of demand-side response will be required to maintain supplies to domestic customers. NG's analysis suggests that around half 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 rest of the demand-side response would come from firms selling back gas to the system. This significant volume of demand-side response will be required throughout a 1:50 winter.

4. Role of energy market. While no energy system can give a 100 per cent guarantee that there will never be any interruption to energy supplies, it is extremely, important that all market participants understand the key factors outlined in NG's report that affect supply and demand.

The report allows the market – principally electricity generators, gas producers, energy suppliers and large industrial and commercial customers – to assess the risks and put in place appropriate commercial and operational arrangements to mitigate them.

All parties have a role to ensure that customers' demand is met and therefore to deliver security of supply. The primary responsibility for balancing supply and demand lies with the market and commercial arrangements provide incentives to achieve it. All market participants, including NG, also share responsibility to work to enhance the existing market arrangements so appropriate commercial incentives exist to deliver security of supply.

NG also has an important role as System Operator (SO) for both the gas and electricity markets. As the residual system balancer it can buy and sell energy to ensure that both gas and electricity networks remain in balance at all times.

5. Ofgem's role is to protect the interests of customers through facilitating the efficient operation of the market. This year Ofgem:

- ◆ has changed the rules for the gas market to increase the incentives on gas shippers to respond to any potential tightening of gas supply

- ◆ introduced market alerts in the gas industry to give the market advanced notice that it needs to respond to a tightening of gas supply. A similar system has been in use in the electricity market for many years, and
- ◆ worked with large energy users and NG to set up a new website to provide larger energy users with accessible information about the gas market.

6. Electricity. In electricity, the forecast 'safety cushion' stands at 21 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.

7. Copies of NG's Winter Outlook report (214/05), are available on the Ofgem website at 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. 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.

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 Chris Lock: 020 7901 7225

Out of hours contact: 07774 72 8971

