

Winter experience

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Context

Market developments

- ◆ UKCS production is continuing to decline
- ◆ New importation and storage infrastructure is expected
 - ◆ Further expansion of IUK
 - ◆ Grain LNG
 - ◆ Humbly Grove storage facility
 - ◆ BBL
 - ◆ Langeded
- ◆ Interactions between the UK and other markets are growing
 - ◆ We can no longer assume full imports through the Interconnector or of LNG whenever required in the UK
- ◆ Generation background is similar to last winter
 - ◆ 21% plant margin
 - ◆ But around one-third of electricity capacity is gas-fired

Winter Outlook Report – 2005

- ◆ Ofgem ask us to produce a winter outlook report each year
- ◆ In 2003 and 2004 we published a preliminary report in May
- ◆ In 2005 we issued a consultation report in May
 - ◆ Recognised the increasing dependence on market interactions
 - ◆ Two scenarios plus some sensitivities
 - ◆ Sought input on wide range of issues
- ◆ 15 responses, qualitative rather than quantitative
- ◆ No clear consensus but useful as a guide

Winter Outlook Report – 2005

- ◆ Published by Ofgem
- ◆ Takes account of latest analysis and guided by consultation
- ◆ Uses a base case rather than scenarios
 - ◆ Somewhere between the consultation scenarios
 - ◆ A balanced view but lots of uncertainty
 - ◆ Supplemented by sensitivities
- ◆ Base case used to analyse the supply-demand position
 - ◆ Gas, electricity and the interaction between the two
- ◆ Output revolves around the need for gas demand response

Winter Outlook Report – 2006

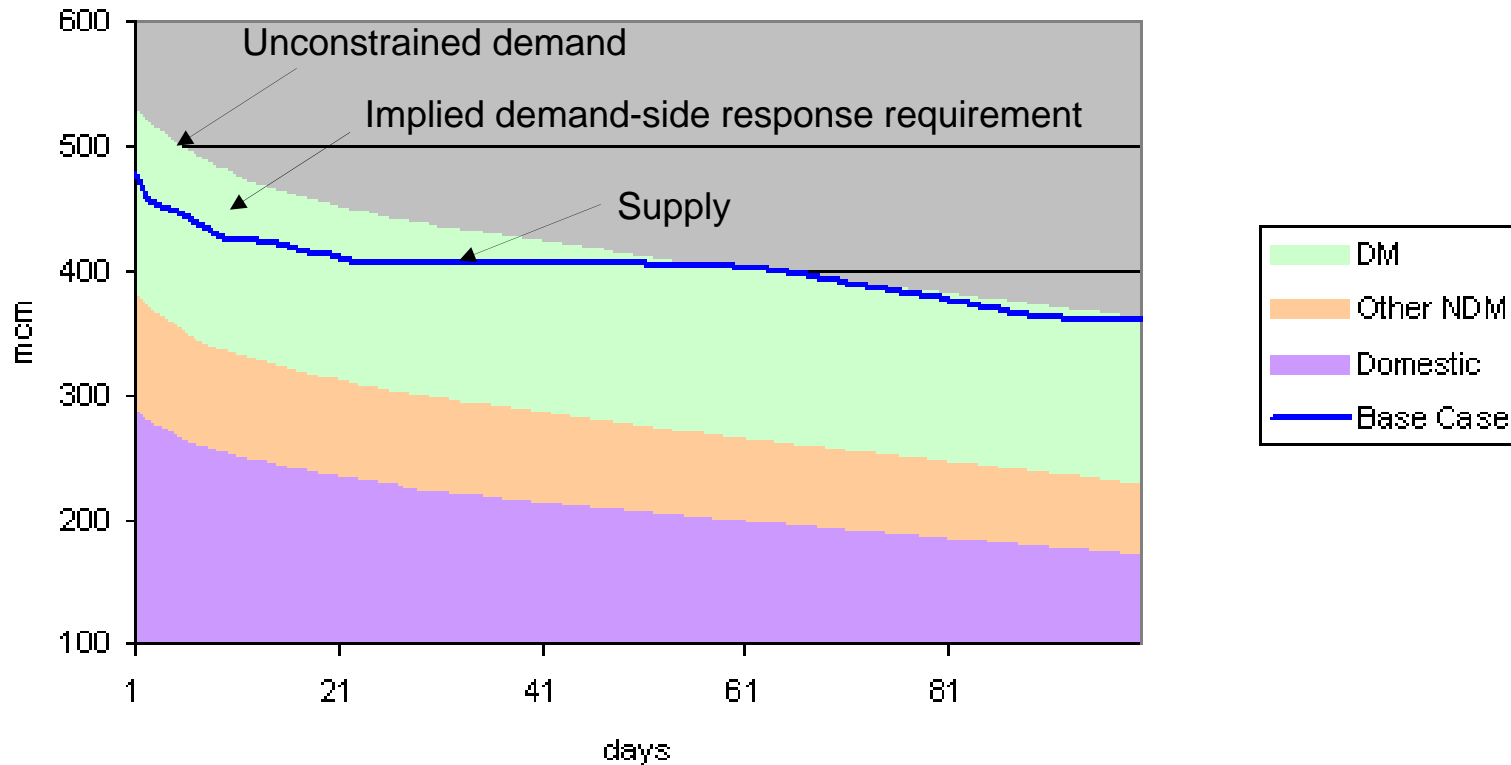
Process

- ◆ The process is currently being developed
- ◆ Consultation process
- ◆ Engage customers and wider gas industry
- ◆ Timetable (provisional)
 - ◆ Initial outlook published in May 2006
 - ◆ Update paper in June 2006
 - ◆ Final paper in September, 2006

Winter Outlook Report

Example of analysis

1 in 10 Cold Load Duration Curve Analysis for 2005/06

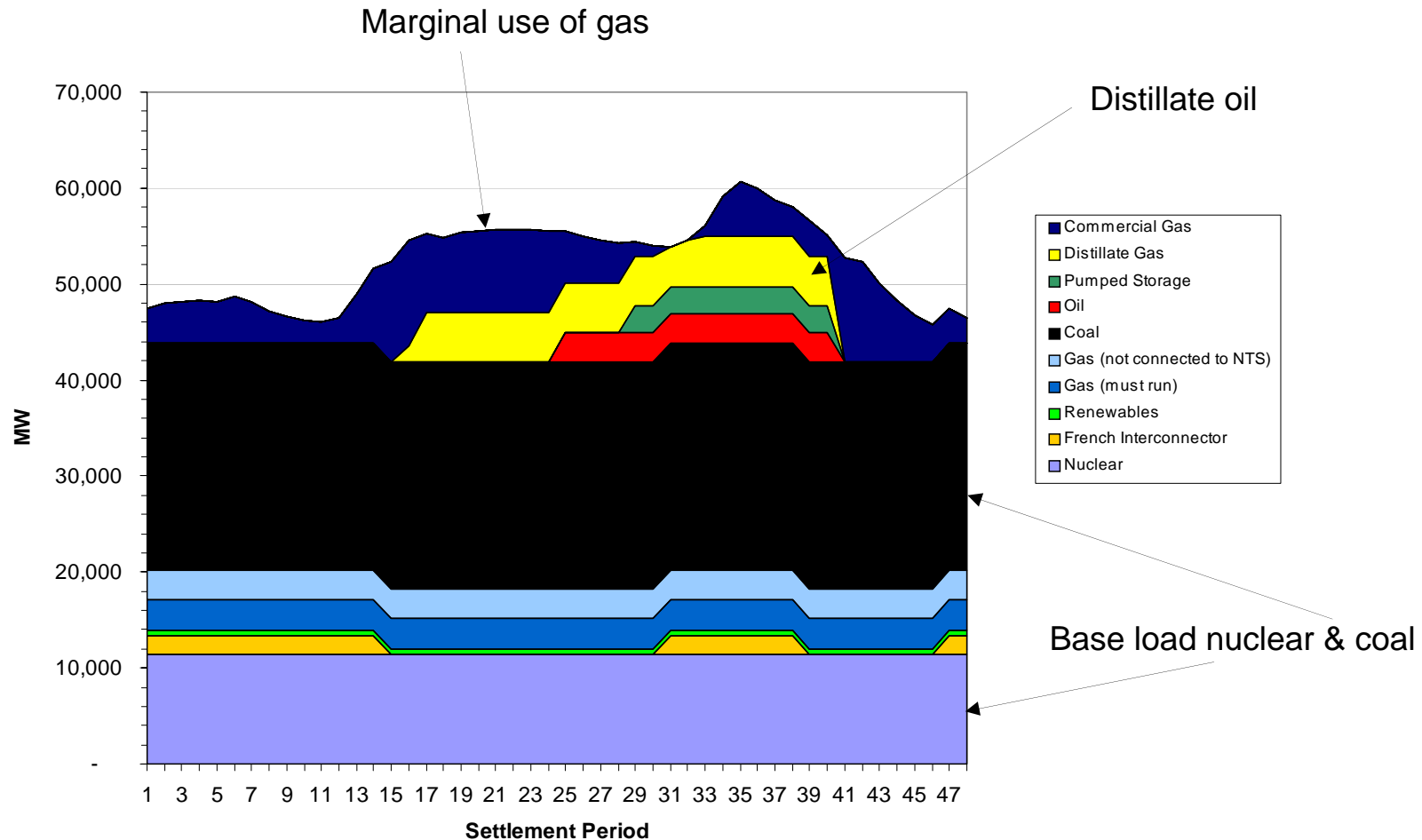


Interaction between gas and electricity

- ◆ Gas and electricity markets modelled together
- ◆ Estimates ability of CCGT sector to reduce demand
 - ◆ Results are at the “optimistic end of possibilities”
- ◆ Takes account of:
 - ◆ Real weather patterns
 - ◆ Half-hourly electricity demand
 - ◆ Anticipated generator availability
 - ◆ Daily gas demand
 - ◆ Anticipated gas supply
- ◆ Opportunity for gas consumers to offer demand side response

Interaction between gas and electricity

Potential cold day electricity generation profile



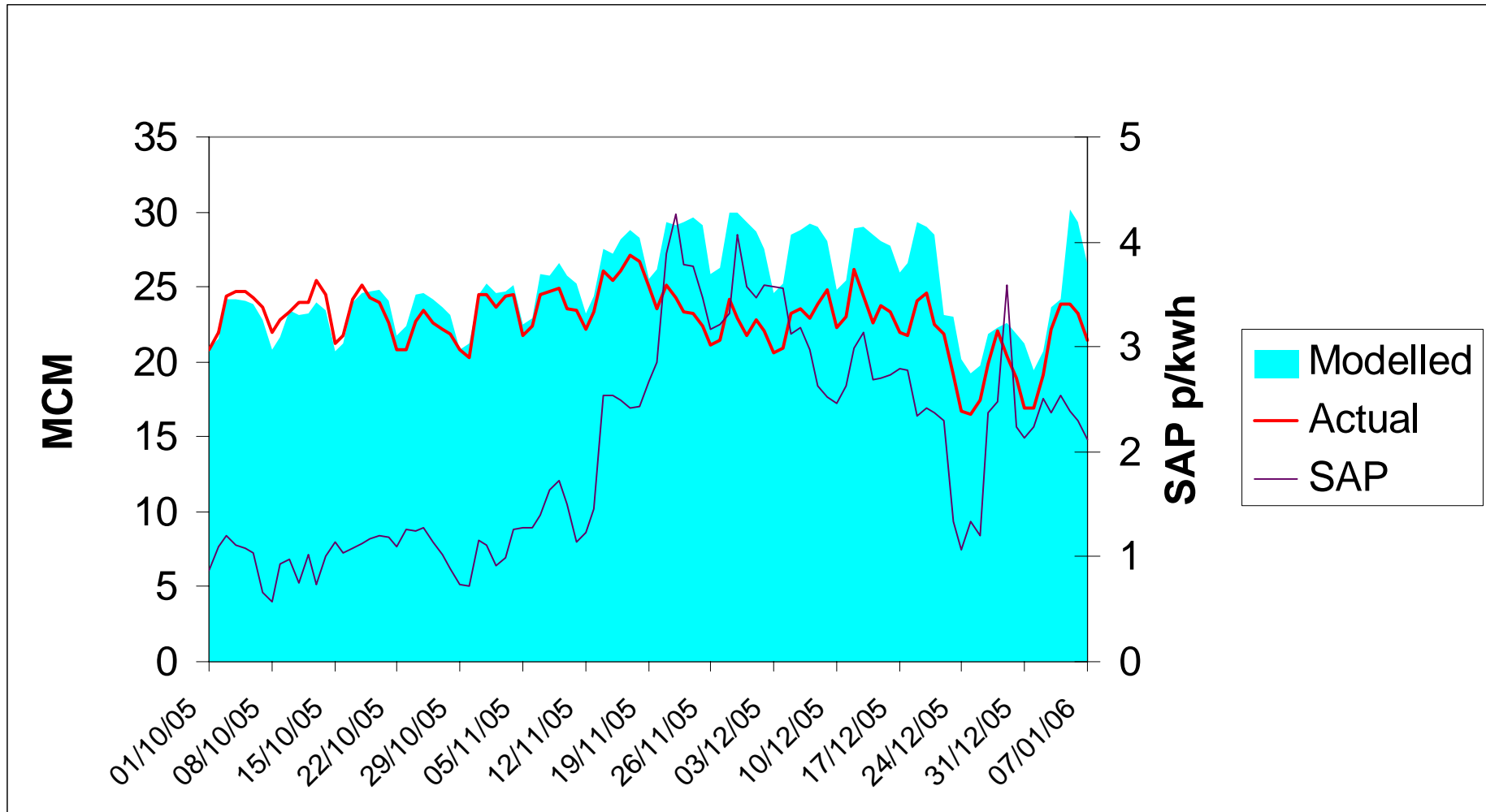
Interaction between gas and electricity

Implications

Winter severity	Estimated demand-side response required (bcm)	Potential contribution from CCGT sector (bcm)	Approximate residual requirement as percentage of non-power DM market sector
Average	0.1	0.1	None
1 in 10 cold	2.2	1.3	30% on average over 40 days
1 in 50 cold	3.7	1.8	50% on average over 50 days

Demand Side Response – Early Winter

LDZ Daily Metered (DM) Interruptible*



* Indicative figures only, taken from a range of differing measures of Demand Side Response

Consideration of recent changes

- ◆ Storage Withdrawal Curtailment Trade Arrangements in an Emergency (UNC0052)
 - ◆ Shippers may face exposure because of the inability to access storage flexibility where the NEC has required curtailment on storage withdrawals.
 - ◆ Charged at a broadly 'neutral' market price i.e. the 30 day System Average Price
- ◆ User Compensation for NEC Storage Curtailment (UNC0071a)
 - ◆ Replaced the Storage Withdrawal Curtailment Quantity Trade introduced in Modification Proposal 0052
 - ◆ Introduced a storage curtailment compensation payment to Users affected by NEC storage curtailment activity during a Network Gas Supply Emergency or a Potential Network Gas Supply Emergency

Further Modifications

- ◆ Facilitating further demand-side response in the event that a Gas Balancing Alert is triggered
 - ◆ Create the ability for multi-day trading on the OCM
 - ◆ Allow residual balancing actions outside of the OCM for non Trading parties, including multi-day trades
 - ◆ Multi-day trades restricted to when a GBA has been issued
 - ◆ Multi-day trades up to 7 day duration