Looking ahead to Winter 2006/07

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Winter Outlook Consultation– thanks to all respondents...

aep Association of Electricity Producers
centrica storage
British Gas centrica
Scotia Gas Networks plc
CHEMICAL INDUSTRIES ASSOCIATION
Environment Agency
BG GROUP
eDF
Gaz de France
MINESCO
Met Office
Shell
TOTAL
Northern Gas Networks
UKOOA oil and gas for britain
energywatch
Global Insight
npower RWE Group
International Power
bbl company
e-on UK
INEOS Chlor
British Energy
Scottish and Southern Energy
British Nuclear Group Intelligent nuclear clean-up
nationalgrid
WALES&WEST UTILITIES
STATOIL
ScottishPower
ALCAN
SEPA Scottish Environment Protection Agency
WARWICK ENERGY

It appears that the outlook is brighter…

Heat is on the energy fat cats to cut winter bills
- Evening Standard

Gas forecast is a winter comfort for Ofgem
- Financial Times

Gas giants could face inquiry over £10bn price increases
- Daily Mail

Winter gas prices may fall, hints watchdog
- Financial Times

Cheaper gas in pipeline
- Sunday Express

Gas firms resist calls to cut household bills
- The Sunday Telegraph

Wholesale gas and electricity prices fall
- Financial Times

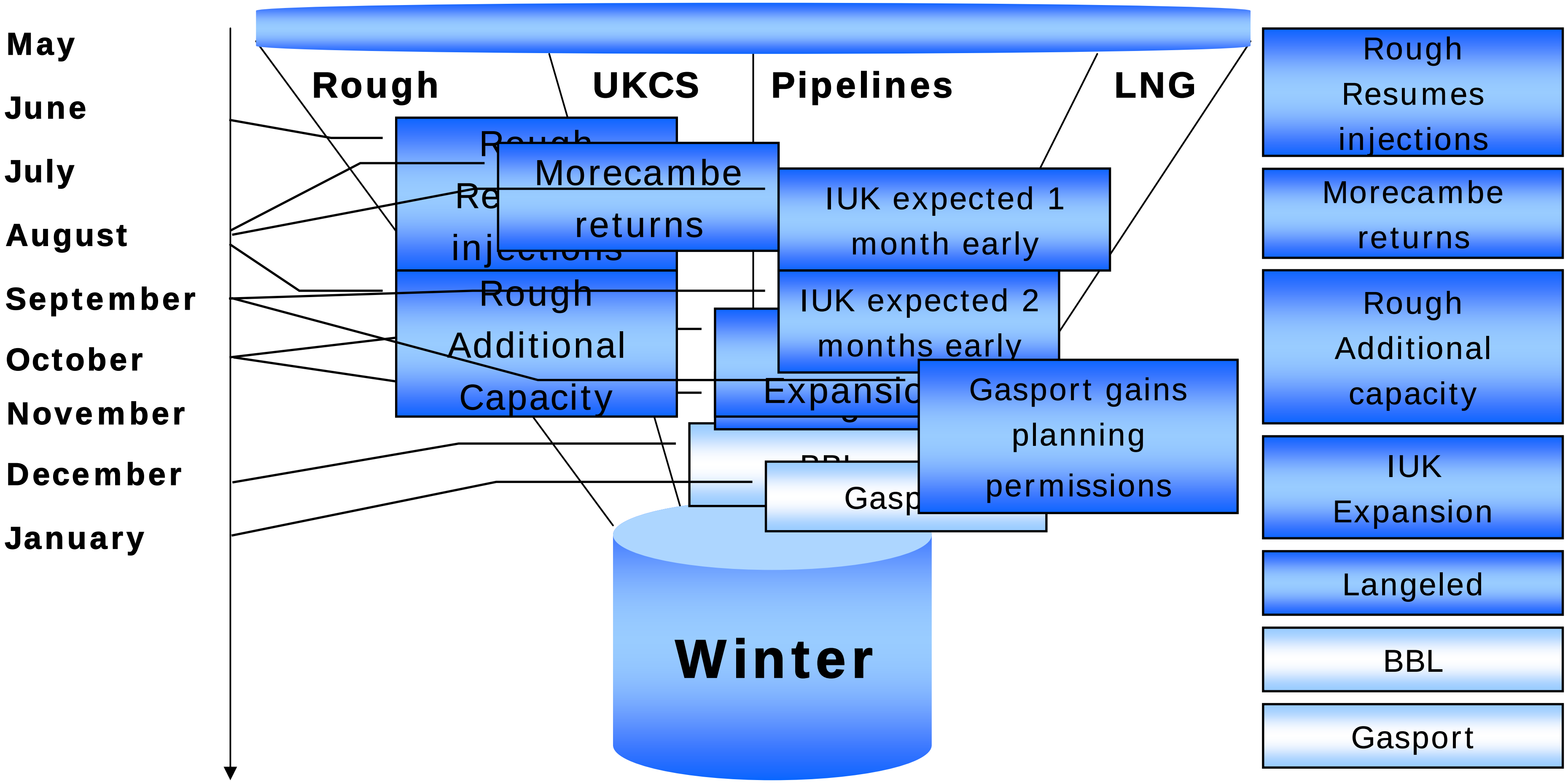
Price warning for greedy gas giants
- Daily Mail

Ofgem is firm but fair
- The Times

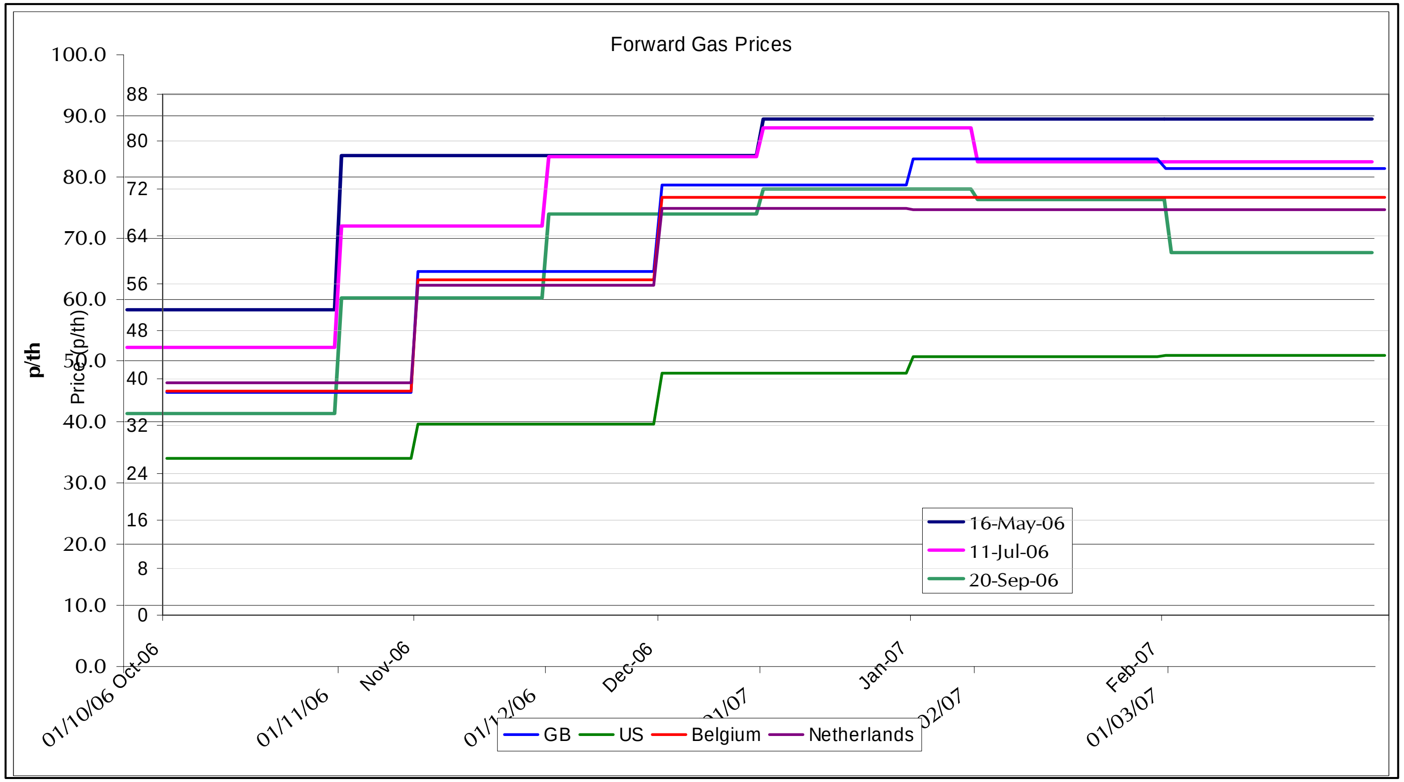
UK and Belgium in talks to pump up winter gas supplies
- The Independant

…but still no room for complacency

The road to winter...



The market's view...



Wholesale pri ...but still highest in Europe

‘Split Winter’ scenario seems likely...

October

- Langeled on stream...
- But limited (if any) increase in flows from Norway
- IUK enhancement in place – 2 months early
- Rough at full capacity

December

- BBL on track – schedule remains tight
- Gasport on track (1st flows early Jan)

Like last winter storage cycling is likely to be important

March

- BBL enhancement due...
- But what will the storage position be?

Gas and electricity interactions also likely to be important

Why wouldn't the gas flow?

Lack of Transparency
- European arrangements much more opaque
- Difficult to understand likely flows / storage position

Lack of Liberalisation
- Supplies do not always respond to price signals

Storage Obligations
- Gas in storage reserved for domestic use, vs. responding to price signals

Gas quality
- Potential for imports to be constrained
- Materiality remains unclear

Why the gas should flow: Positive developments in Europe

New Investment

- Upgrade of East-West transportation in Germany
- Working to remove constraints

New LNG

- New supplies from Egypt (to France & Spain)
- New train in Trinidad & Tobago
- New terminal at Fos Cavaou (France)
- New terminal + increased capacity at 2 existing terminals in Spain

Increased transparency

- More storage information now being released
- Gas quality – working with Fluxys to establish materiality

EU Commission continues to take steps forward in sectoral enquiry

European storage: information available for winter

Examples of information available from GdF and Total

from the 14 at August 20, 2006		
Stock at the beginning of period	GWh	20 816
Tapped quantities	GWh/week	-
Quantities Injected	GWh/week	1 162
Stock at the end of the period	GWh	[illegible]
Average rate of racking use		[illegible]
Average rate of injection use		72%
Ratio volume utilisation (fine of period)		80%
(*): utilisation ratio = subscribed capacities quantities		

JUNE 2006		
Stock at the beginning of period	GWh	[illegible]
Tapped quantities	GWh/month	-
Quantities Injected	GWh/month	4 626
Stock at the end of the period	GWh	[illegible]
Average rate of racking use		[illegible]
Average rate of injection use		67%
Ratio volume utilisation (fine of period)		47%
(*): utilisation ratio = subscribed capacities quantities		

Week from August 14th to 20th 2006

Storage group	Quantities in store on 08/21/06 at 6am (TWh)	Withdrawals (GWh)	Injections (GWh)	withdrawal capacity utilisation rate	injection capacity utilisation rate
Centre	39,5	0	1880	0%	85%
[illegible]	[illegible]	0	600	0%	81%
[illegible]	[illegible]	0	380	0%	48%
Lorraine	6,1	0	240	0%	64%
Picardie	10,8	0	570	0%	78%
Salins Sud*	9,2	0	230	0%	31%

July 2006

Storage group	Quantities in store on 01/08/06 at 6am (TWh)	Withdrawals (GWh)	Injections (GWh)
Centre	35,0	0	8580
[illegible]	10,5	0	2440
[illegible]	9,1	0	1720
Lorraine	5,6	0	590
Picardie	9,2	0	2320
Salins Sud*	9,2	0	1100

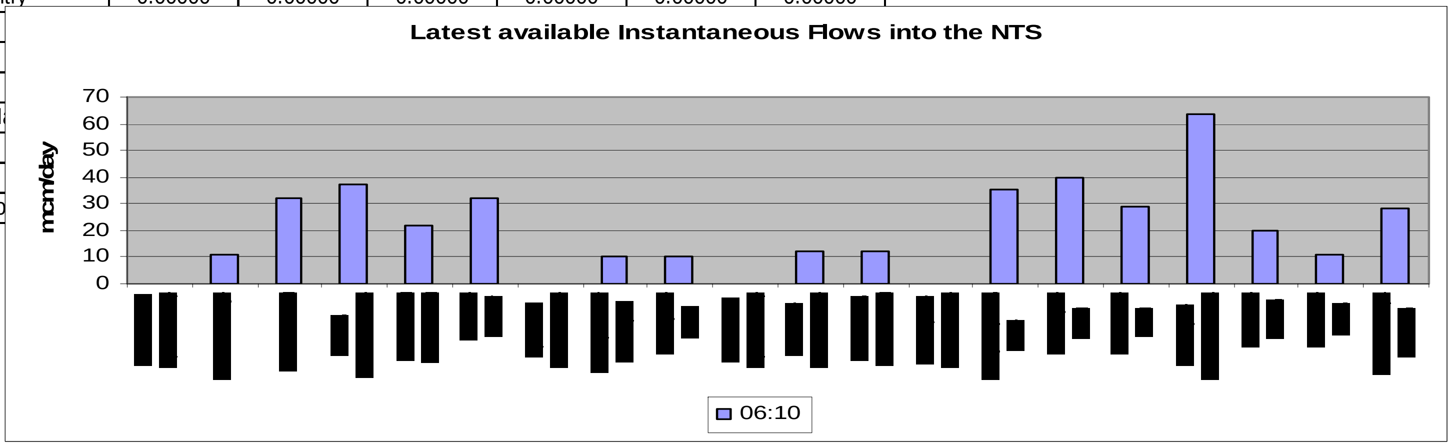
Injection volumes

Withdrawals

Quantities of gas in store

Positive developments in GB: New information this winter

	Instantaneous Flows (mcm/day)					
System Entry Name	06:00	06:02	06:04	06:06	06:08	06:10
Avonmouth - System Entry	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
Bacton - Philips	9.98755	10.01123	10.11491	10.24528	10.42872	10.61217
Bacton - Shell	30.47342	30.60110	31.87790	32.00558	32.16002	32.31446
Bacton Interconnector	36.51360	36.59040	36.66720	36.79488	36.94932	37.05372
Bacton Seal Subterminal	21.60274	21.65794	21.71314	21.76834	21.82354	21.90850
Barrow - BGE&P	29.85459	31.05459	31.05459	31.05459	31.05459	32.03060
Dynevor - System Entry	0.00000	0.00000	0.00000	0.00000	0.00000	0.00456
Easington - BP Dimlington	10.25160	10.27560	10.29960	10.39560	10.41960	10.44360
Easington - Other	9.85470	10.00015	10.52680	10.20289	10.00578	9.99753
Glenmavis - System Entry	0.10563	0.10563	0.10563	0.11043	0.11043	0.12243
Hornsea - System Entry	11.85620	11.95462	11.82880	11.86542	11.48439	11.94654
Isle of Grain Sub Terminal	12.50343	12.50703	12.50943	12.51183	12.51195	12.51207
Partington - System Entry	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
Rough - System Entry						
ST Fergus - Mobil						
ST Fergus - Shell						
ST Fergus - Total Oil Ma						
Teesside - Amoco						
Teesside - Enron						
Theddlethorpe - Conoco						



- ➢ October release of 006 flow data
- ➢ Users to develop understanding
- ➢ NG workshops held in September

Positive developments in GB: new incentives on NG

Customer concerns re: quality of market information

Ofgem developed new incentives on NG

- **Working with customers and shippers**

Gas demand forecasting incentive

- System gas demand
- Day ahead forecast

Website performance incentive

- Availability/timely delivery of key gas data

Incentives take effect on 3rd October

Winter 2006/07 – outlook for electricity

Slightly improved margin - remains 'healthy' at approx 22%

- Fawley returns to system = +500MW
- Lower peak demand forecast

National Grid remains confident electricity demand can be met

- Demand should be met even in 1 in 50 winter unless:
  - Unusually high level of plant breakdown
  - Lack of non-CCGT gas demand side response

Gas market interactions remain important

- Gas fired plant likely to continue to provide commercial response
- Potential for knock-on effects to electricity market at times of stress?

Industry proposals

Gas

Mod 086 (Rejected):

- Finely balanced decision – worthy of further consideration

NG initiatives:

- GBA email and SMS alert – live this week
- New alternative URL in case of website failure

Electricity

P194: strengthens signals to balance – implemented this Nov

P201/202 (Rejected):

- Detriment not demonstrated – further industry consideration needed

Other mods currently going through industry processes
Ofgem welcomes early consideration by industry

Looking beyond winter…

Summer issues?

Electricity

- ➢ Summer 2006 maintenance and high temperatures…
  - ➢ Led to tight supply / demand conditions
  - ➢ 18 July : Demand control imminent notice
  - ➢ Technical issues at Ratcliffe – protests at Drax

Gas

- ➢ Continued Decline of UK Continental Shelf
- ➢ UKCS maintenance → reduced gas supplies
- ➢ Maintenance on NTS → impact of constraints

This summer = record summer prices observed

…UK will soon be net importer of gas during summer…

"Summer outlook" needed?

Gas Quality

Potential for supply constraints

- IUK / Norwegian gas / LNG?
- Need to establish materiality of this issue
- short / medium term?

Impact on GB customers

Ofgem taking forward gas quality work-streams

- Open dialogue with industry and customers
- Working together with Fluxys and National Grid

Market participants need to engage this winter

Europe: Beyond this winter

Steps in the right direction…

- Increase in storage and gas quality information
- Work on regional initiatives underway
- **European Winter Outlook Reports**
  - First European electricity report to be published this year
  - First European gas report for winter 2007/8

…But big gaps still remain

- Further information transparency is needed
  - Commission continuing to push for wider market liberalisation – barriers still exist
- **Ofgem continuing to work with EC and European companies**

Summary

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- Infrastructure risk significantly reduced
- Some improvements in information (GB and EU)
- Wholesale prices have fallen
- Some positive developments in Europe

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- But no room for complacency – risks remain
- Prices still highest in Europe

Ofgem continues to work with market participants and key European players on these issues

ofgem

Promoting choice and value for all gas and electricity customers