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Winter Outlook Consultation 06/07

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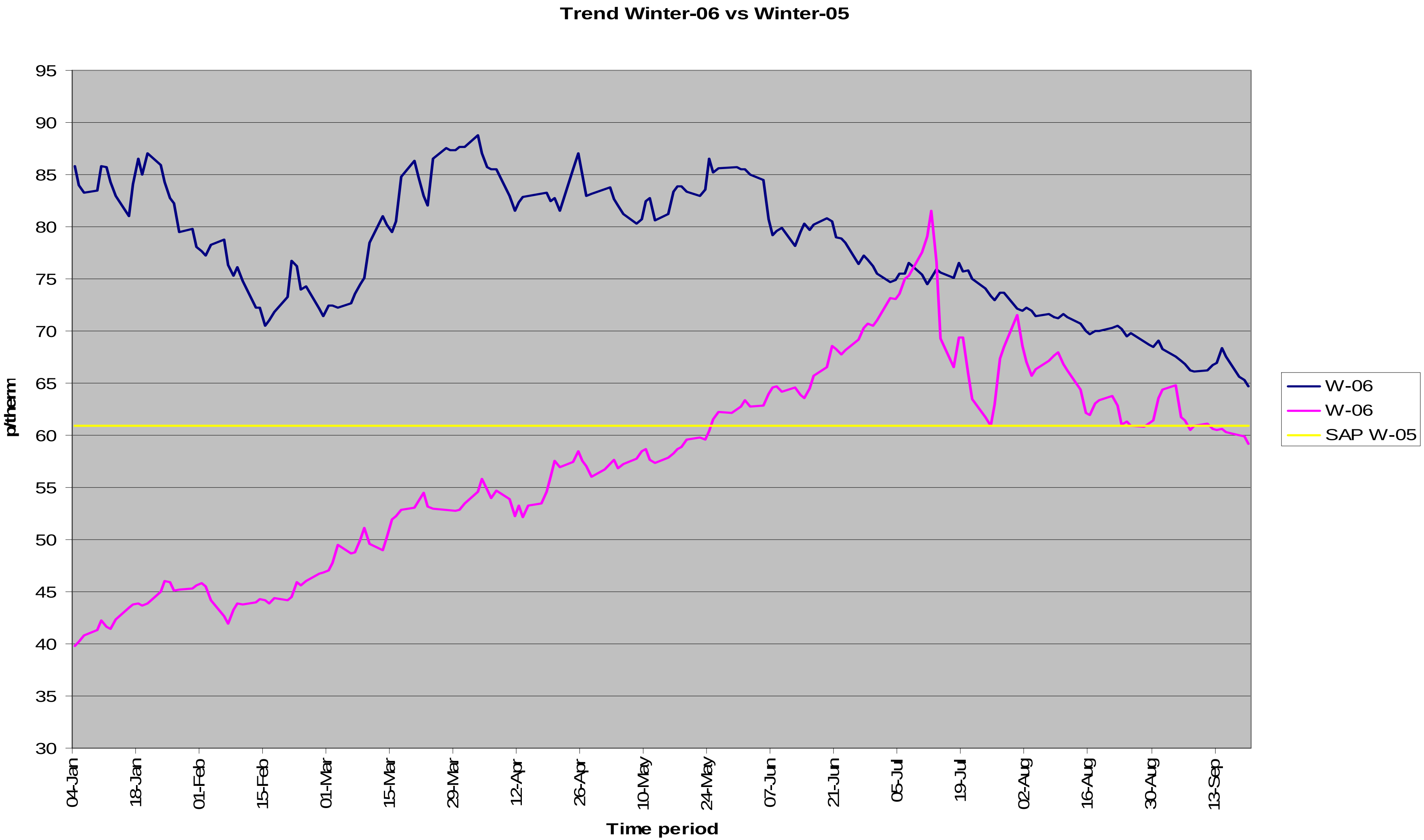
Winter-06 price trend



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Why is Winter6 trading higher than Winter5?

- Market undervalued Winter 5 volatility
- Daily volatility higher than expected
- Risk premium function of volatility
- Average daily volatility Nov/March = 250%!!
- Options market – market pricing 27p movement in January contract

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Risk Premium

- Increased Volatility = increased risk premia
- New assets e.g. storage, pipelines reduces volatility
- BUT market sceptical of new infrastructure given gas flows in Interconnector last year

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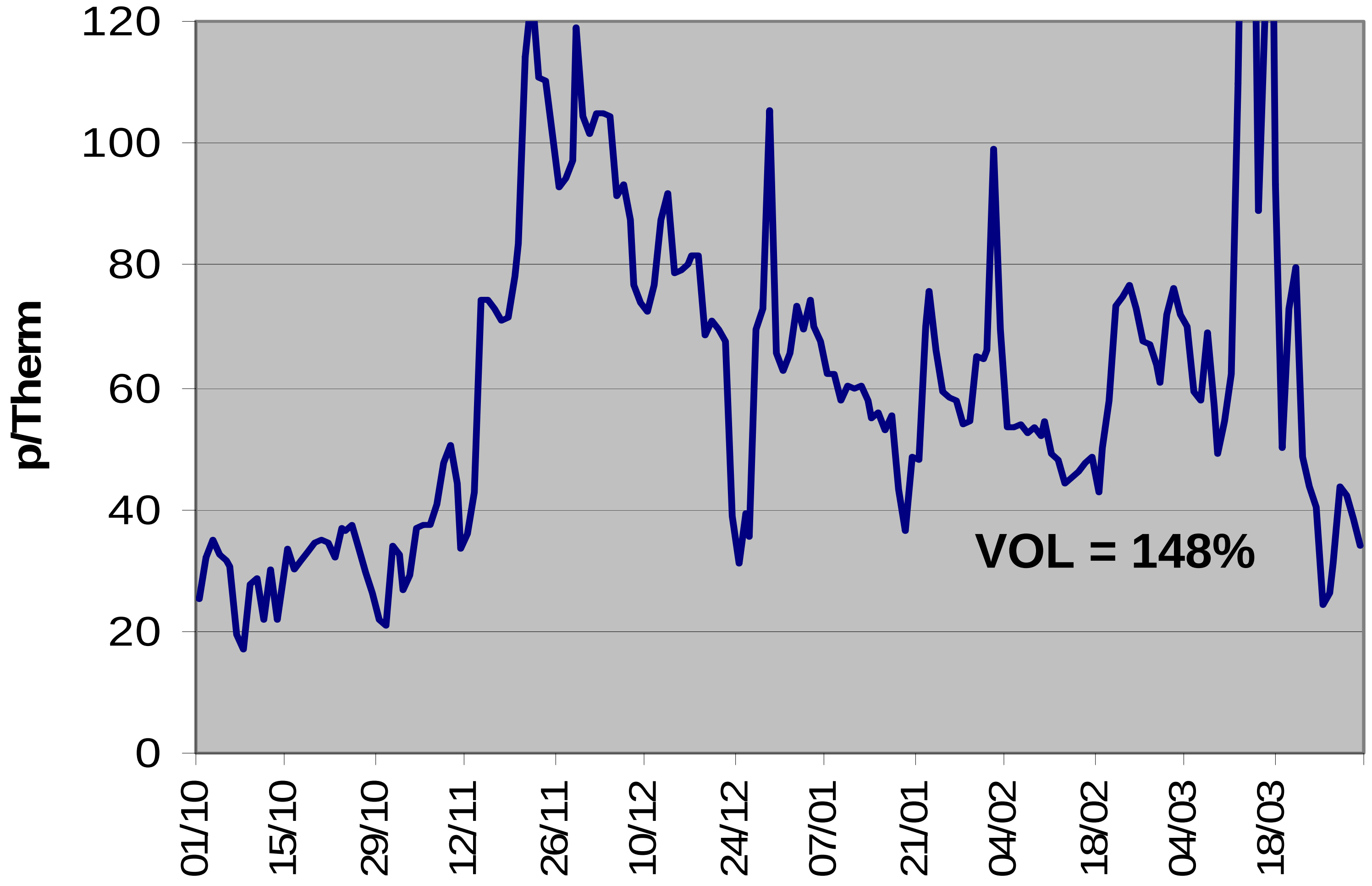
Winter 5 SAP Prices



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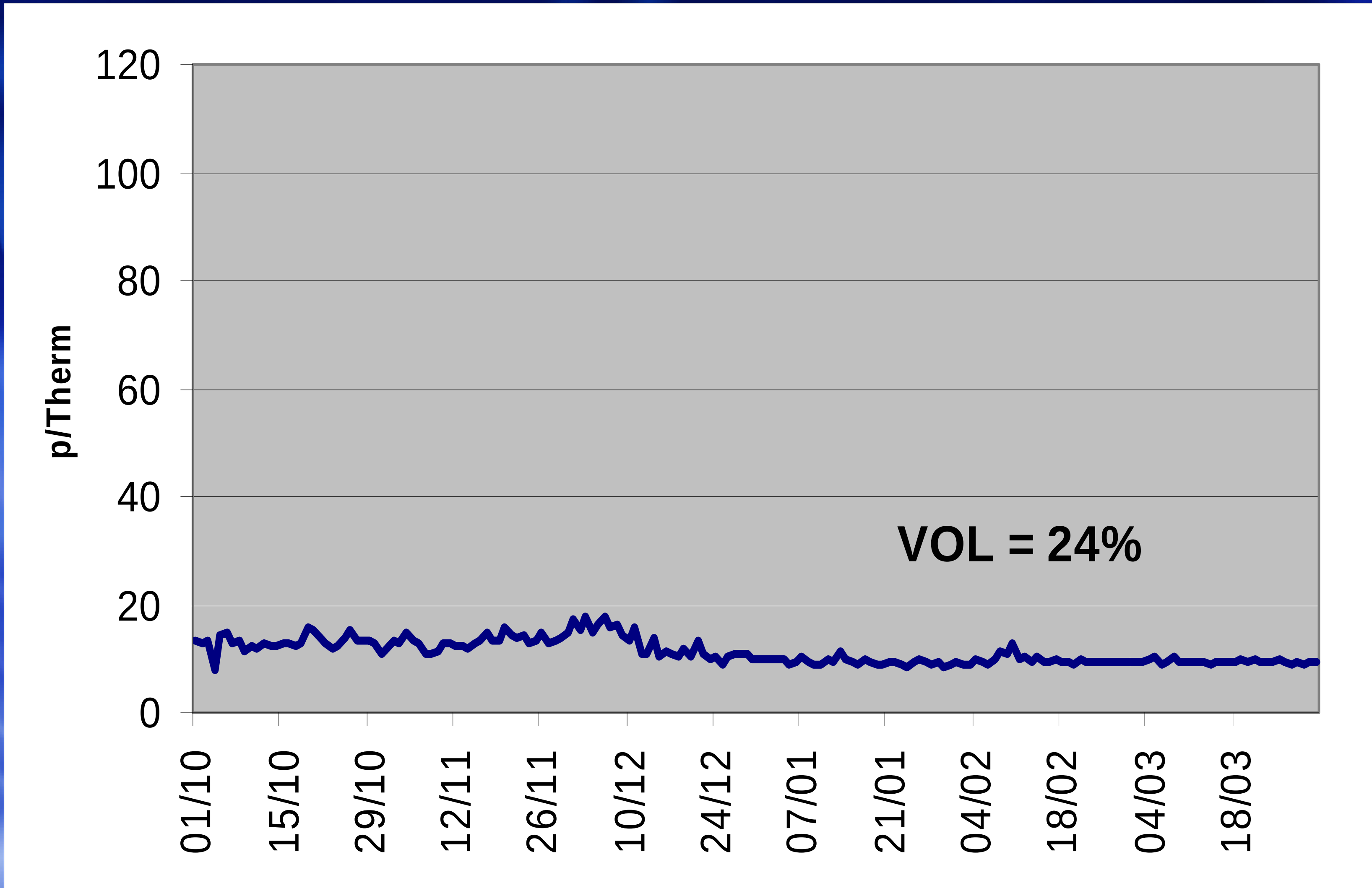
Winter 98 SAP Prices



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Risk Factors:

- Weather
- Storage reliability
- Gas field decline
- Interconnector gas flows 2005
- Lack of storage/swing UK
- New gas pipelines
- LNG
- Demand side response
- European Storage, and transportation capacity