Working with customers to understand contingency arrangements

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Winter 2005/06 – a challenging time for customers


ENERGY Users demand that National Grid be given control of spare capacity on the pipeline linking the

Where's the gas?

Scandal of the half-empty Interconnector

By Tim Webb

Leading manufac... that energy pr... forced up ...

in the rest of Europe – the pipeline has only been operating at half capacity this winter.

The Energy minister, Malcolm Wicks, has called for an inves-

Jeremy Nicholson, the director of the Energy Intensive Users Group, said that Nation... which balances electri... ply and demand, shoul...

Gas price hikes set to lessen

GAS CRISIS COULD HIT MILLION JOBS

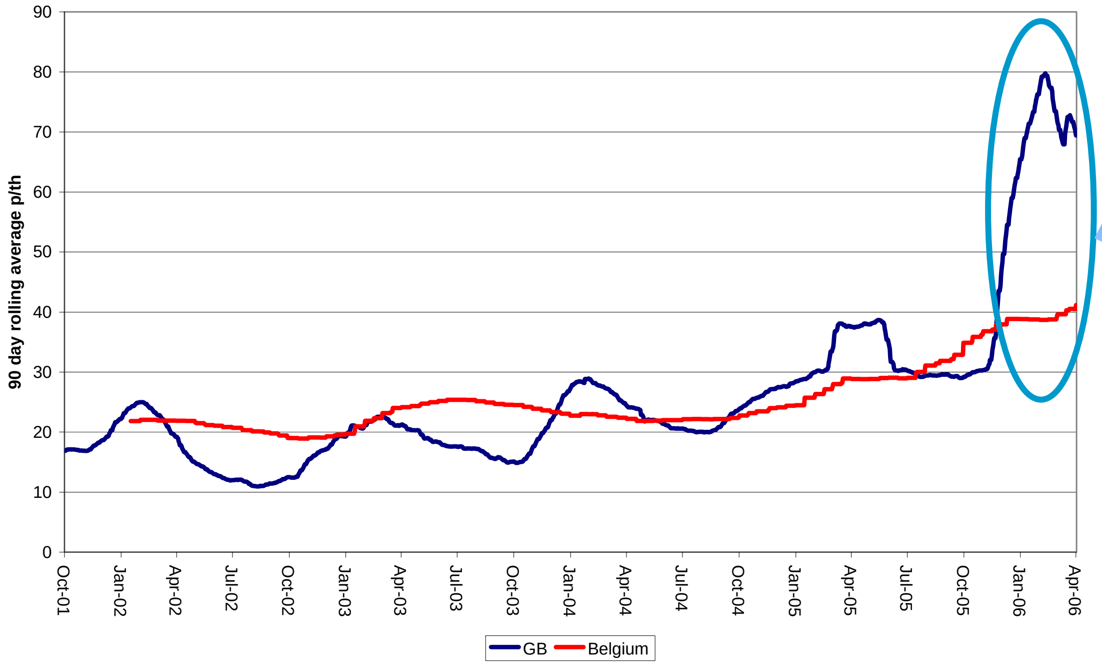
Gas crisis could leave economy 'at risk'

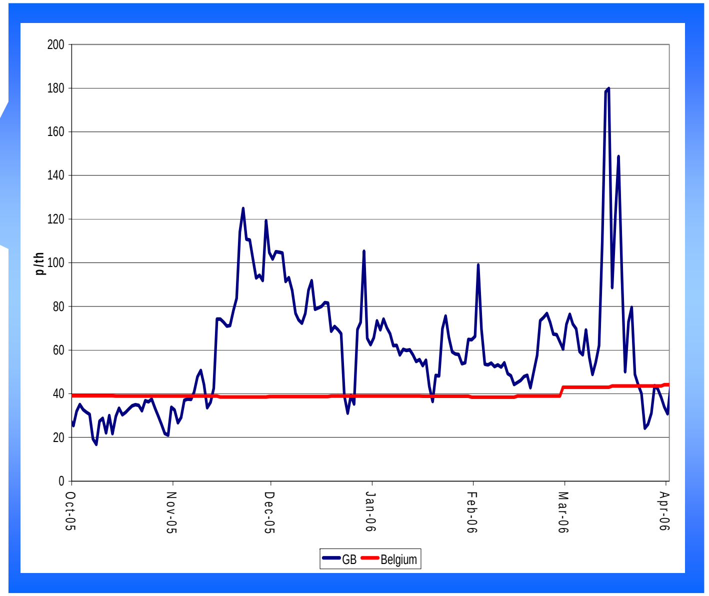
Record Winter bites

HARD-PRESSED householders are going to be squeezed for even more cash by utility companies.

Gas giants warned over supply fiasco

Price trends – Winter 2005/06





Long term trends – rolling average prices

Prices over winter 2005/06

Outlook for Winter 2006/07 appears 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

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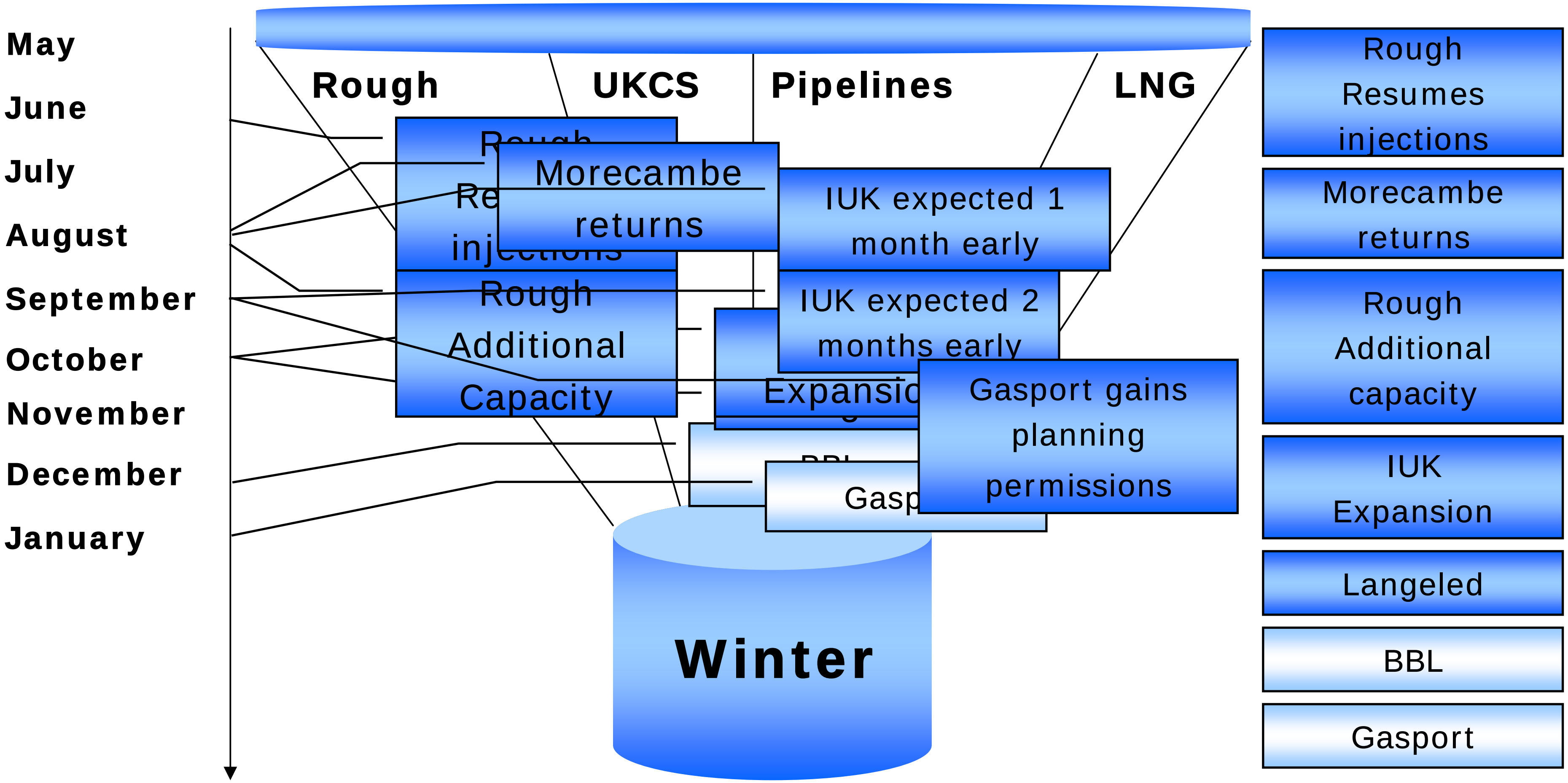
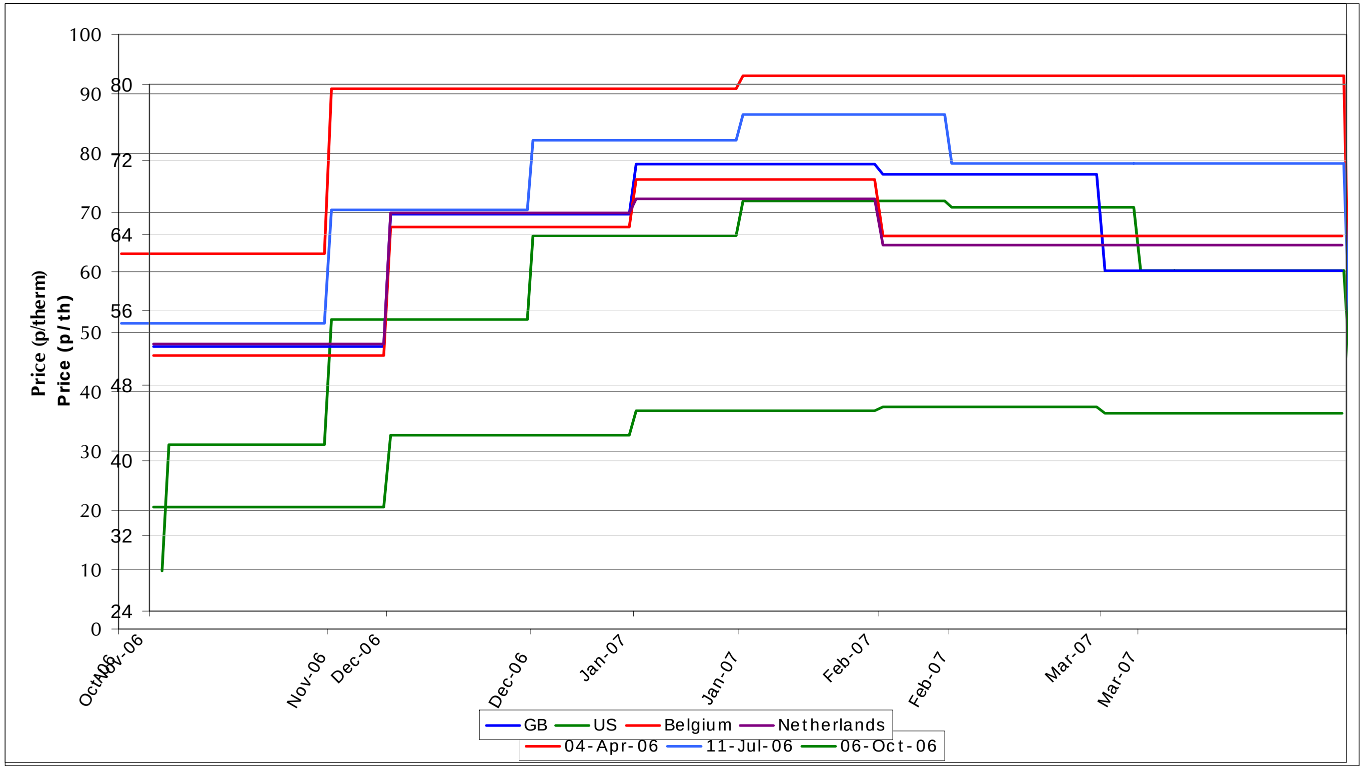
Promoting choice and value for all gas and electricity customers

The road to winter...



The market's view…..



Wholesale pri | **…but still highest in Europe**

'Split Winter' scenario seems likely...

October

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

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

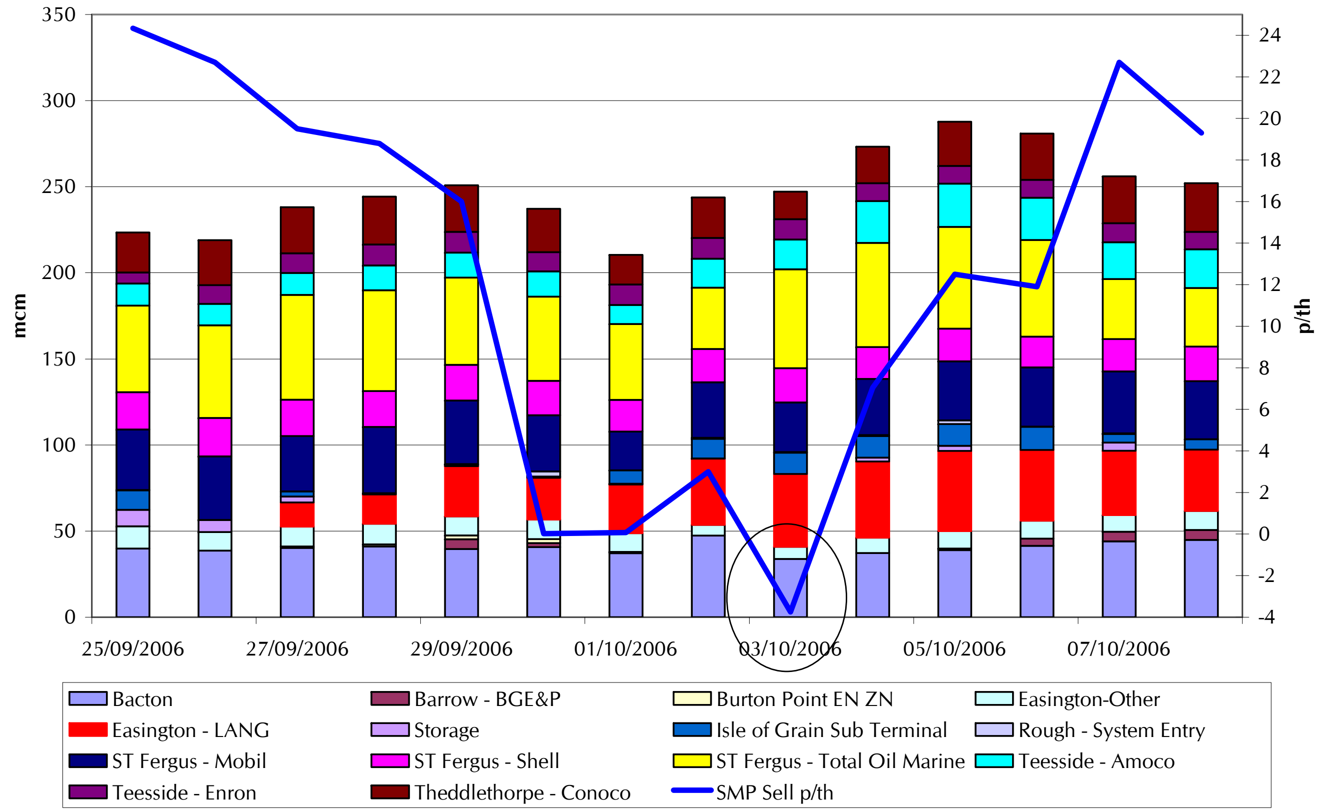
Gas/Electricity market interactions

Gas fired generators providing response to gas market

In average winter conditions...	required level of 0.1bcm provided by CCGTs (No response is required)
In 1 in 10 winter conditions...	1.0bcm of the required 1.4bcm provided by CCGT
In severe winter conditions...	1.3bcm of required 3.7bcm provided by CCGT

- Wider customer response required under more difficult scenarios
- NG - Domestic supplies secure under all scenarios

Winter 2006/07 – experience so far...



- Demand below seasonal normal for early October
- Demand levels now around seasonal normal

- IUK is continuing to export gas to Europe

- Langeled began importing on 27 September

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

Looking further ahead

Beyond this winter: European issues

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**

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 – to start 23 October

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

Market participants need to engage this winter – customer input is valuable

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 = constraints on gas and electricity system

Need to consider contingency arrangements in Summer?

Avoiding a gas emergency

Information is key

- ➢ Aids the effective functioning of the market
- ➢ Helps to avoid a gas emergency as far as possible

Demand Side Working Group

- ➢ Facilitated NG daily summary report
- ➢ New SO incentives - demand forecasting & web performance
- ➢ Gas Balancing Alerts
- ➢ Release of storage data
- ➢ Rule changes e.g. sub terminal flow data (Oct 06 release)

Seminar series

- Getting key messages to wider audience
- Winter outlook
- Options for energy buyers
- Gas contingency arrangements

Commercial incentives

Market arrangements provide strong commercial incentives on parties to avoid a gas supply emergency

- Cash out arrangements
- Commercial response v emergency response

Ofgem is working with customers and suppliers to ensure arrangements are clear

- Modifications to arrangements
- Work of demand side Working Group
- Seminar series

Market Arrangements

Emergency cash out

- Cash out arrangements designed to reduce risk of gas supply emergency
- Modified by Ofgem last winter
- Stronger commercial incentives on shippers to balance their position pre-emergency
- Role for customers - commercial demand side response

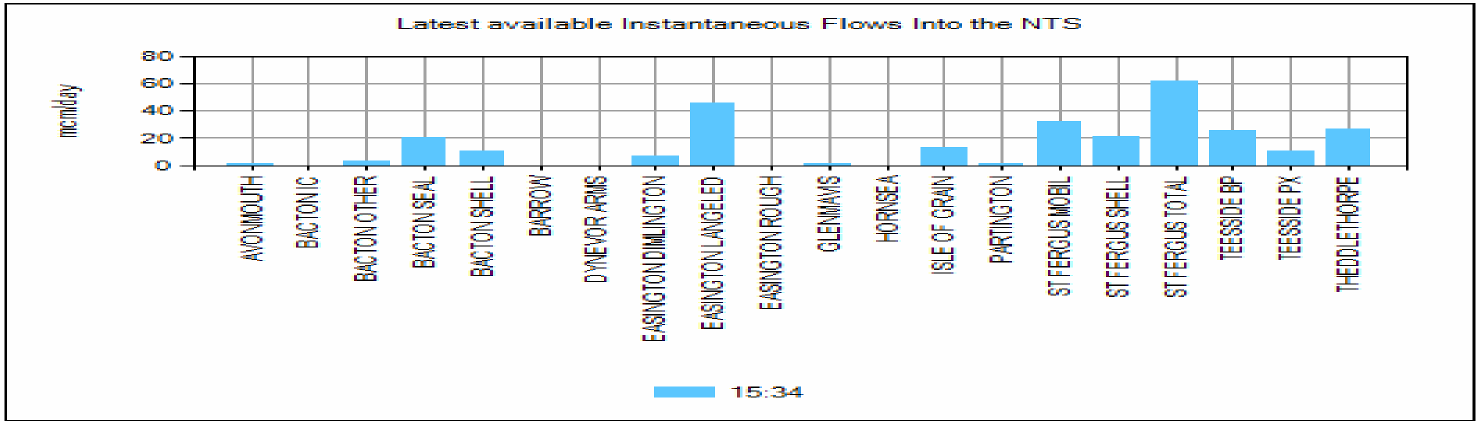
Gas Balancing Alert

- Developed through DSWG
- Similar to NISM/HRDR in electricity
- Recognises that some customers only want to respond to avoid an emergency
- 'Independent' warning from SO
- Information and SMS alerts available from NG website

Positive developments in GB: Actual flow information now available

System Entry Name	15:24	15:26	15:28	15:30	15:32	15:34
	Instantaneous Flows (mcm/day)					
AVONMOUTH	0.27	0.28	0.27	0.27	0.27	0.30
BACTON IC	0.00	0.00	0.00	0.00	0.00	0.00
BACTON OTHER	3.41	3.39	3.51	3.51	3.35	3.39
BACTON SEAL	20.69	20.64	20.72	20.72	20.72	20.62
BACTON SHELL	9.98	9.99	9.93	9.92	9.94	9.94
BARROW	0.00	0.00	0.00	0.00	0.00	0.00
DYNEVOR ARMS	0.00	0.00	0.00	0.00	0.00	0.00
EASINGTON DIMLINGTON	7.12	7.12	7.12	7.12	7.12	7.15
EASINGTON LANGELED	45.97	45.49	45.87	45.59	45.59	45.56
EASINGTON ROUGH	0.00	0.00	0.00	0.00	0.00	0.00
GLENMAVIS						
HORNSEA						
ISLE OF GRAIN						
PARTINGTON						
ST FERGUS MOBIL						
ST FERGUS SHELL						
ST FERGUS TOTAL						
TEESSIDE BP						
TEESSIDE PX						
THEDDLETHORPE						

- New information released to the market this month
- Gas sub-terminal flows onto GB system
- Users to develop understanding



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 are now in place

Summary

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- ➢ Supply outlook for winter 2006/07
- ➢ 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 to continue to work with customers and suppliers
- ➢ Important to remove any barriers to effective market operation and to avoid potential emergencies

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Promoting choice and value for all gas and electricity customers