Options for Energy Buyers
Winter 2006/07

Sonia Brown

Director, Wholesale Markets, Ofgem

Why are we here?

Winter 2005/06: A challenging time for customers

GB moving from use of indigenous supplies to net gas importer

Low continental flows | **Explosion at Rough** | **Issues with LNG - UIOLI**

Tight supplies ☑ | **High + volatile prices** ☑ | **Customer response** ☑

National Grid winter outlook process key for this winter…

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

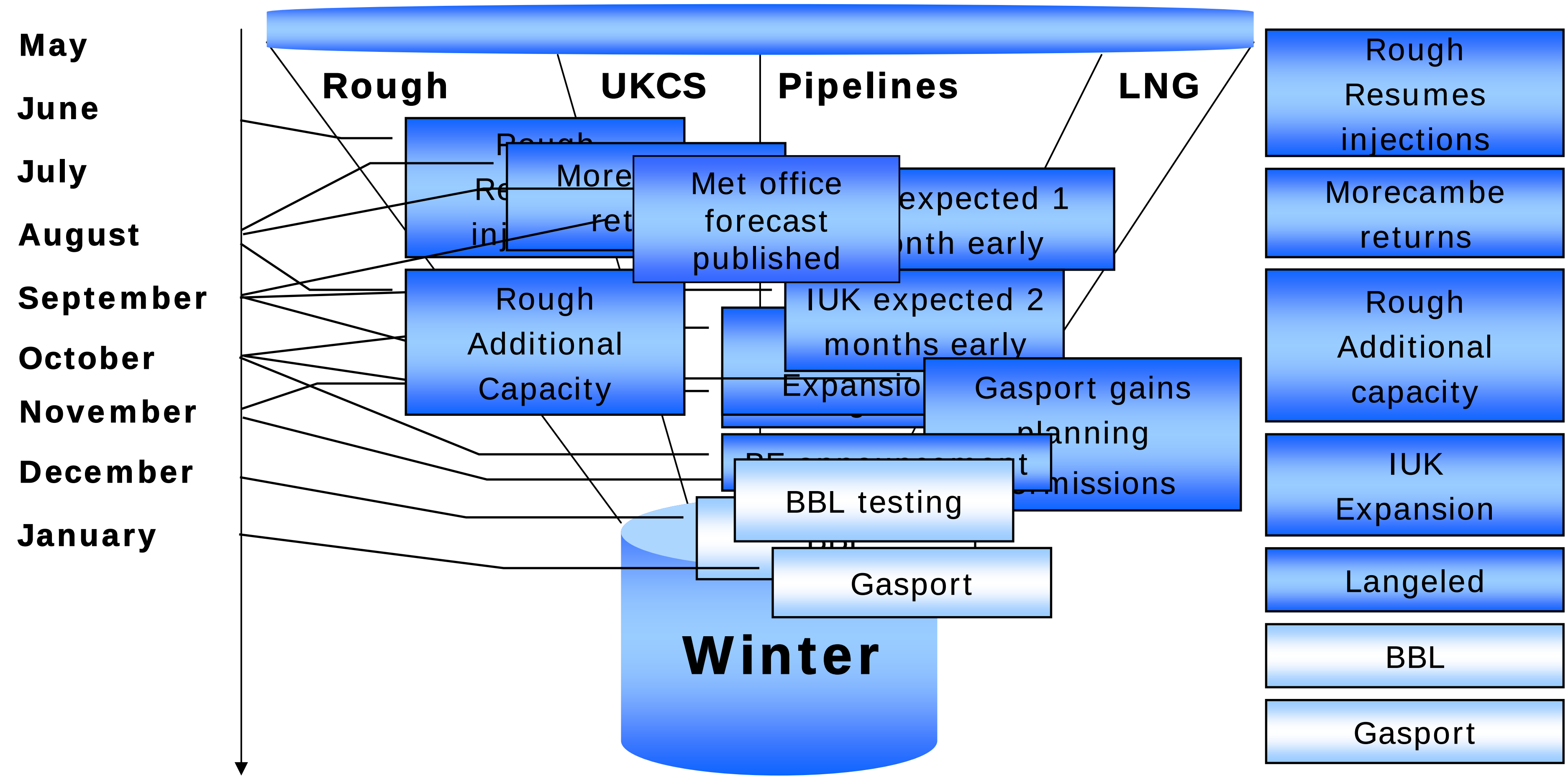
Price warning for greedy gas giants
- Daily Mail

Ofgem is firm but fair
- The Times

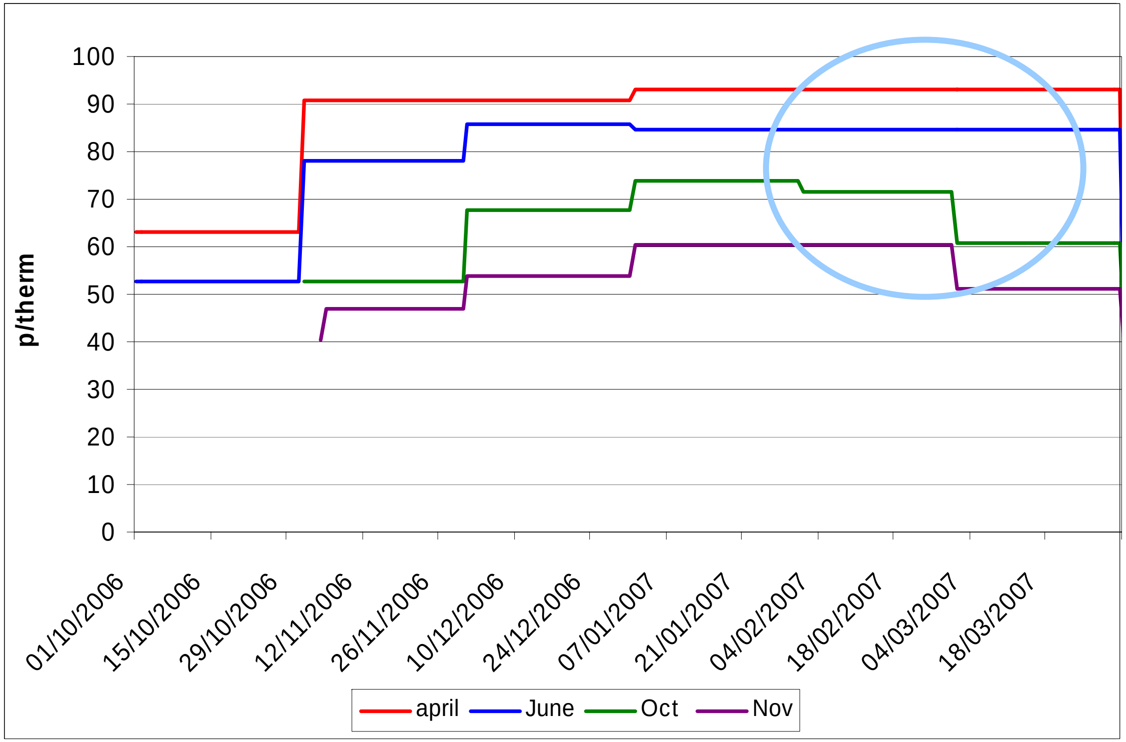
UK and Belgium in talks to pump up winter gas supplies
- The Independant

…but still no room for complacency

The road to Winter 2006/07



The market's view…..



Wholesal **…and differential with Europe reduced**

Gas - outlook for a 'split winter'

October
- Langeled on stream - high flows during commissioning
- Negative prices observed
- IUK enhancement in place – 2 months early
- Rough full – additional capacity made available
- BE plant announcement – gas market interactions

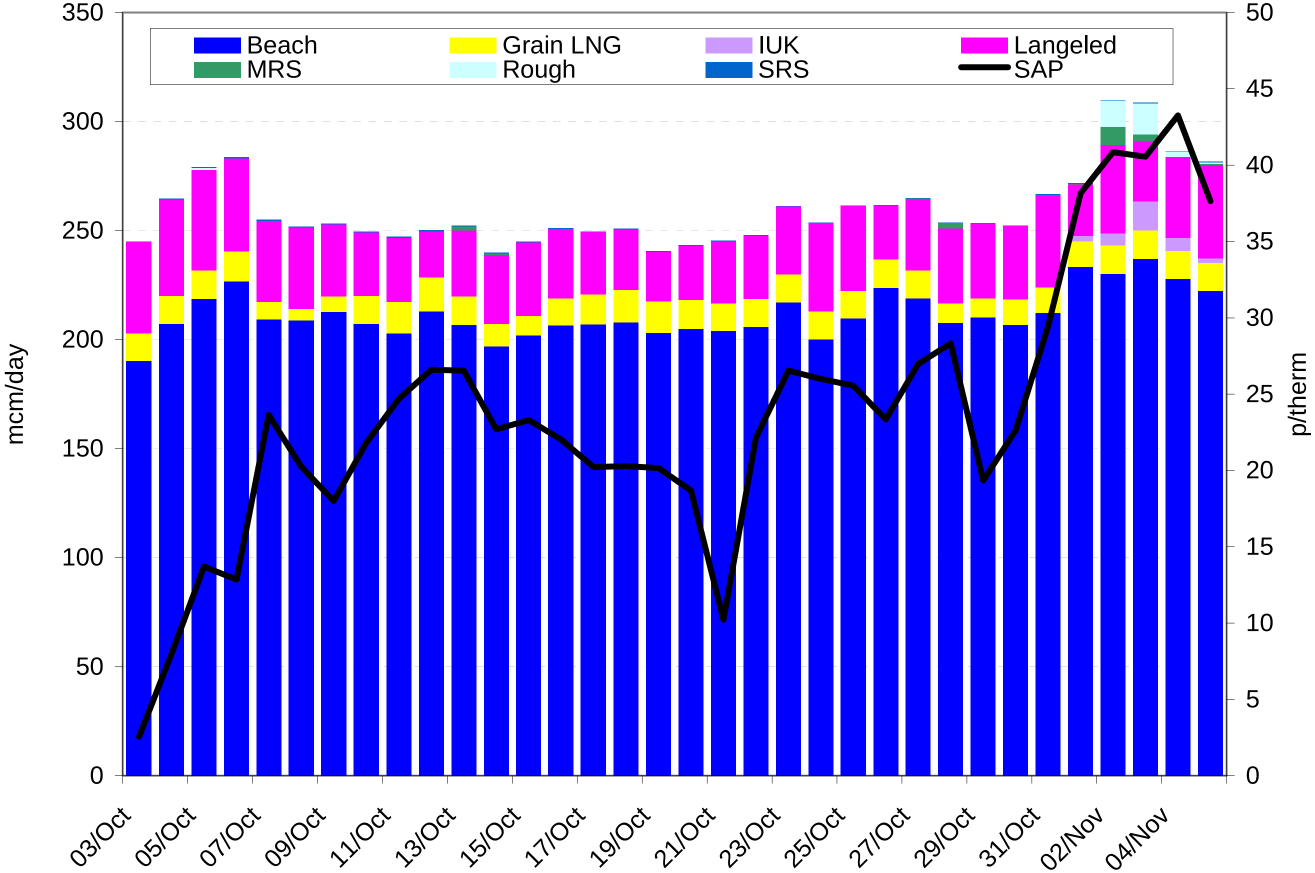
November
- First flows observed from Rough
- BBL – early testing of pipe

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

Storage cycling is likely to be important

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

Experience so far this winter



Early Oct - negative prices

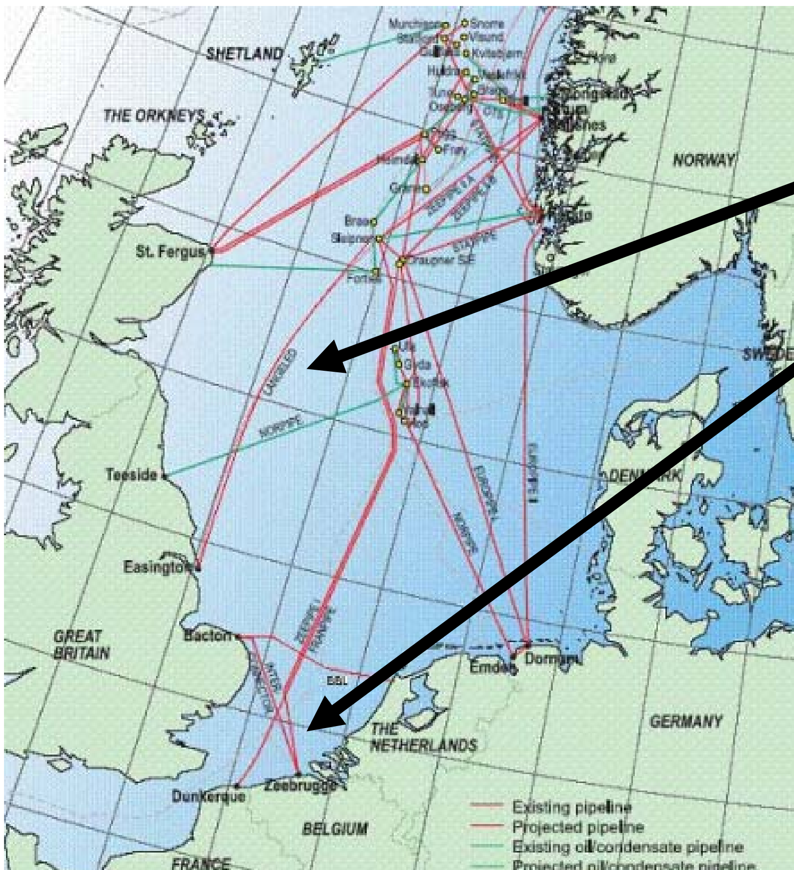
- Warm weather
- Langeled starts
- Grain flows at max
- IUK in export

Illustrates rigidity in continental markets

Early Nov

- Colder weather
- Flows from IUK
- Use of storage

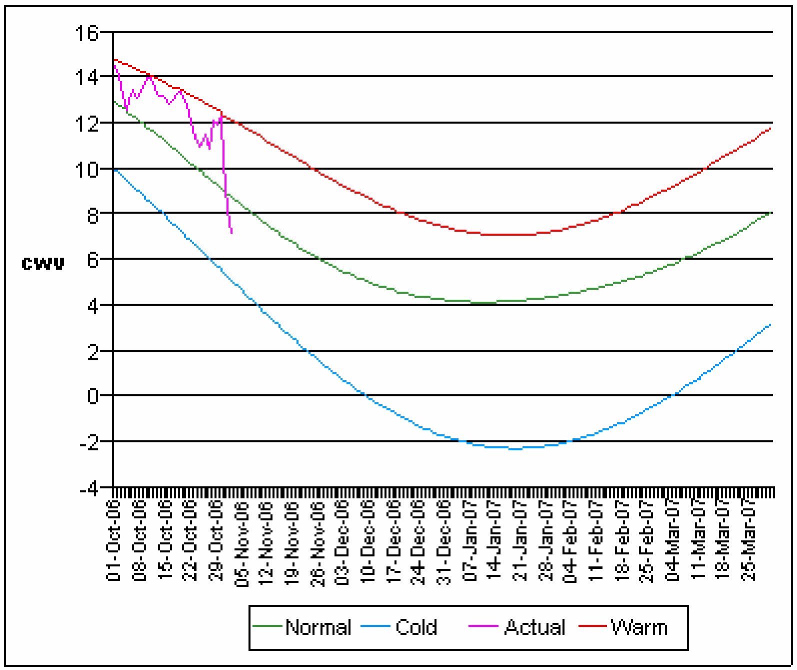
Norwegian vs. Continental supplies?

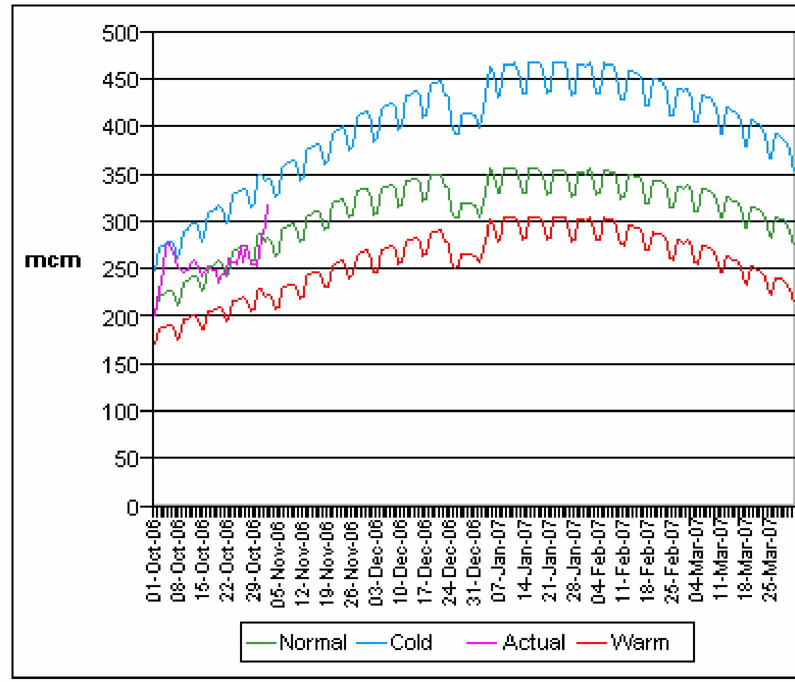


- Higher Norwegian flows - Langeled + Vesterled
- Reduced flows observed through IUK
- Draw down of GB storage

Displacement of IUK gas?

Temperature and Gas Demand

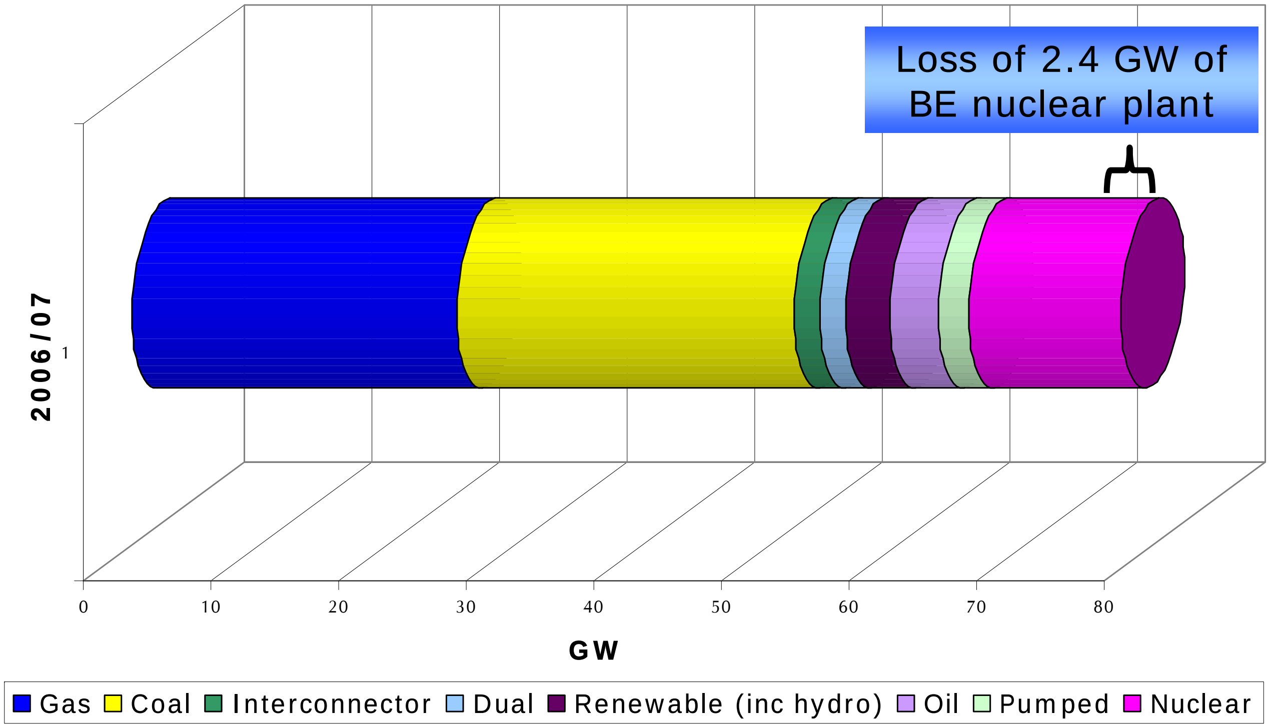




- October warmer than average
- Cold snap in early November

- Corresponding levels of demand observed

Electricity – outlook for this winter



- NG winter outlook:

  margins = 'healthy'

- BE plant announcements
- Reduces flexibility to gas market

Gas-electricity market interactions likely to be important again this winter

Information is key

Developments in information release

Ofgem developed incentives on NG to improve quality of information provision

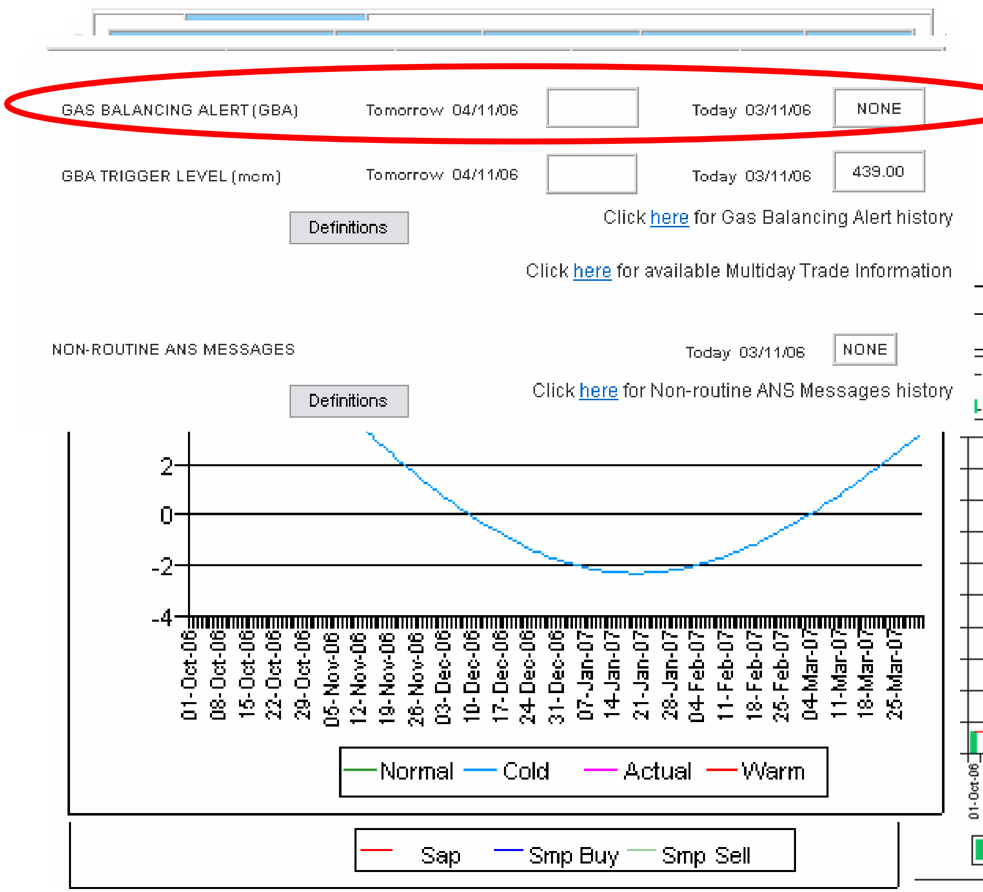
Gas demand forecasting	✓
Website performance	✓

Incentives are now in place

- NG wanted earlier submission of system demand data
- Will assist with more accurate demand forecasts
- **Ofgem approved rule change to do this on 30 Oct**

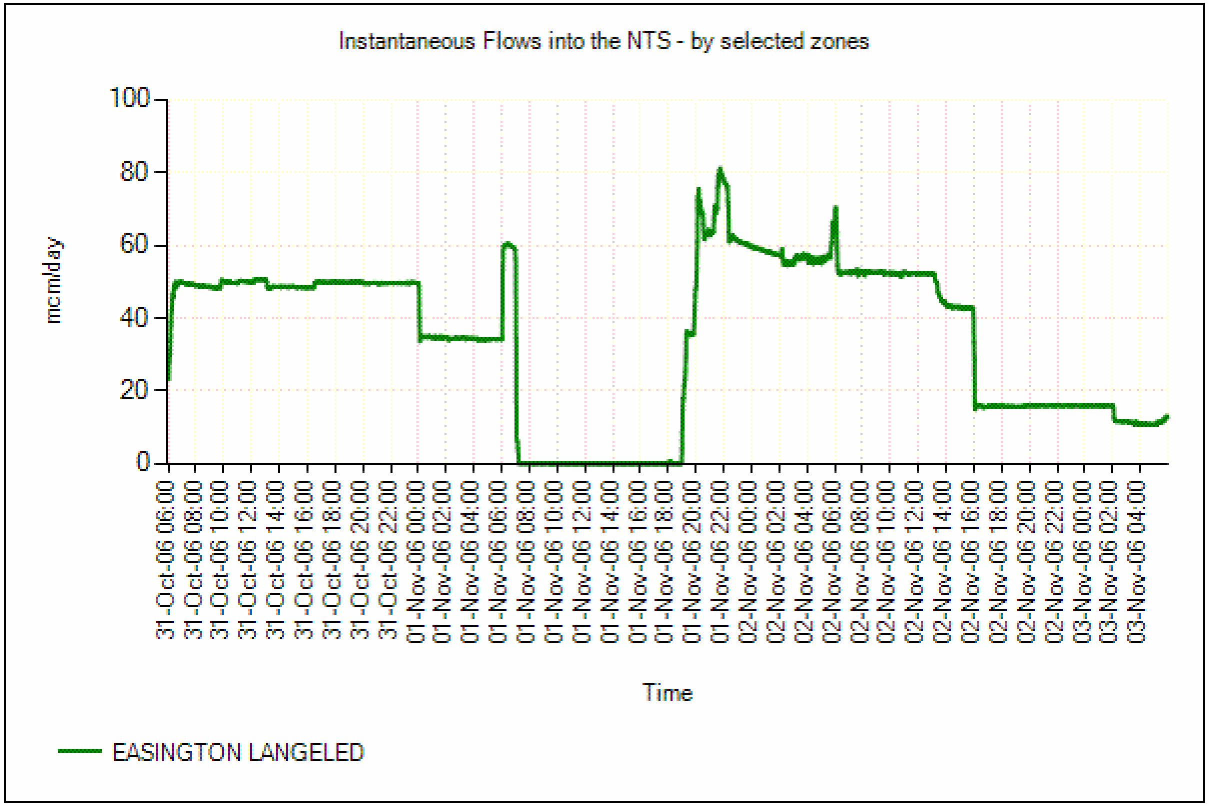
- 5 day out demand forecast info now available from NG
- Gas Balancing Alert notification available via SMS/email
- **Initiatives progressed together with customers & suppliers in Ofgem's DSWG**

Daily gas market information – National Grid



- Demand data
- Storage position
- Summary of supplies
- Linepack position
- Pricing information
- Weather data
- Transporter interruptions
- Market Alerts – ‘GBAs’

Gas flow information now available



- ➢ Real time data – available to whole market
- ➢ Gas flows onto the system from each sub-terminal
- ➢ Users to develop understanding of variations in data

French storage data now available

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		

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%

Injection volumes

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		

Withdrawals

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

Quantities of gas in store

Industry led initiatives

UNC 108

- Sought 'near time' publication of GB storage flows
- Info on more sites but reduced transparency at key facilities
- Ofgem rejected on 29 Oct – balanced decision

Other proposals still undergoing industry assessment…

UNC 88 — Seeks to enable further demand side response

UNC 97/97A — Seeks ex-post publication of interconnector off-take flow data

UNC 104 — Proposes D+1 publication of storage stock info at LNG Importation Facilities

UNC 121 — Provision of Ex-Post Demand Info for all NTS Off-takes

What is Ofgem doing - work ahead

It's not just about winter...!

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

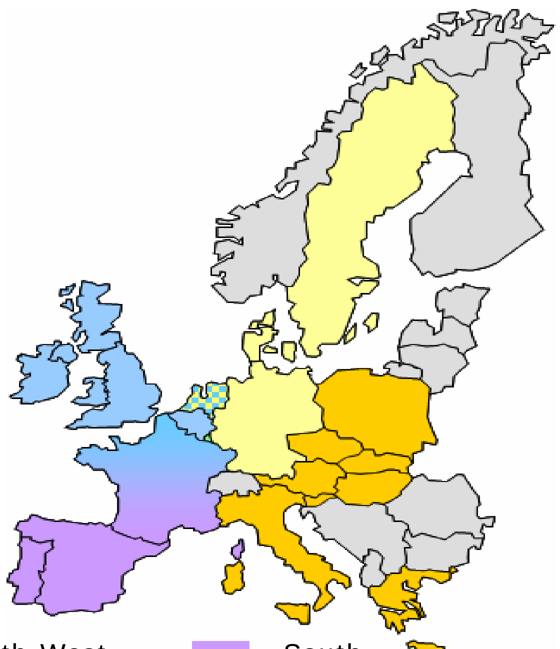
This summer = record summer prices observed

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

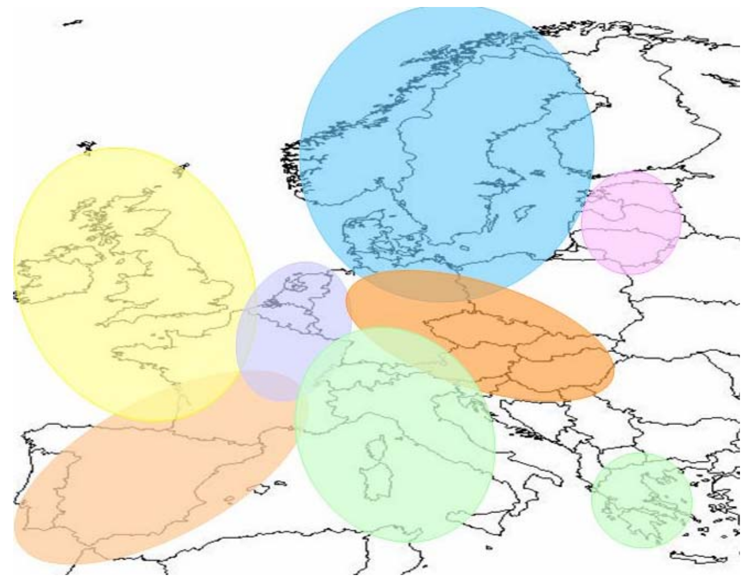
"Summer outlook" needed?

Making progress in Europe

Gas Regional Initiative



Electricity Regional Initiative



Real progress being made – customer involvement is important

Work of the European Commission

- ➢ Preliminary results of sector enquiry published in February
- ➢ Final report due at the end of the year

EC Direction: Increased levels of information transparency
Unbundling of network and supply activities

*** Encouraging results for GB customers ***

Key question remains:

How long will European market liberalisation take?

Ofgem is continuing to work with the EC on these issues

Gas Quality
– potential for supply constraints?

GB gas supply sources have differing quality specifications

- Working to establish materiality of this constraint
- Short / medium term issue?
- Range of options for regulatory framework for new treatment plants
- **Impact on GB customers**

Ofgem hosting gas quality workstreams

Open dialogue with industry : customer input is valuable

** Results of industry assessment to be published in January **

Ofgem Seminar Series

Powering the energy debate

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2006 events programme

20 December	**Winter to date seminar -** to be held in London Ofgem Seminar For more information contact wholesalemarkets@ofgem.gov.uk

2007 events programme

24 January	**Winter to date seminar -** to be held in Manchester Ofgem Seminar For more information contact wholesalemarkets@ofgem.gov.uk
29 March	**Winter to date seminar -** to be held in London Ofgem Seminar For more information contact wholesalemarkets@ofgem.gov.uk
5 April	**Winter to date seminar -** to be held in Glasgow Ofgem Seminar For more information contact wholesalemarkets@ofgem.gov.uk

To reserve a place contact: wholesale.markets@ofgem.gov.uk

Summary

Discuss with suppliers

Consider outlook for winter

Variety of options

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Promoting choice and value for all gas and electricity customers