

UK Gas Wholesale Market - Winter to Date

Ofgem Seminar
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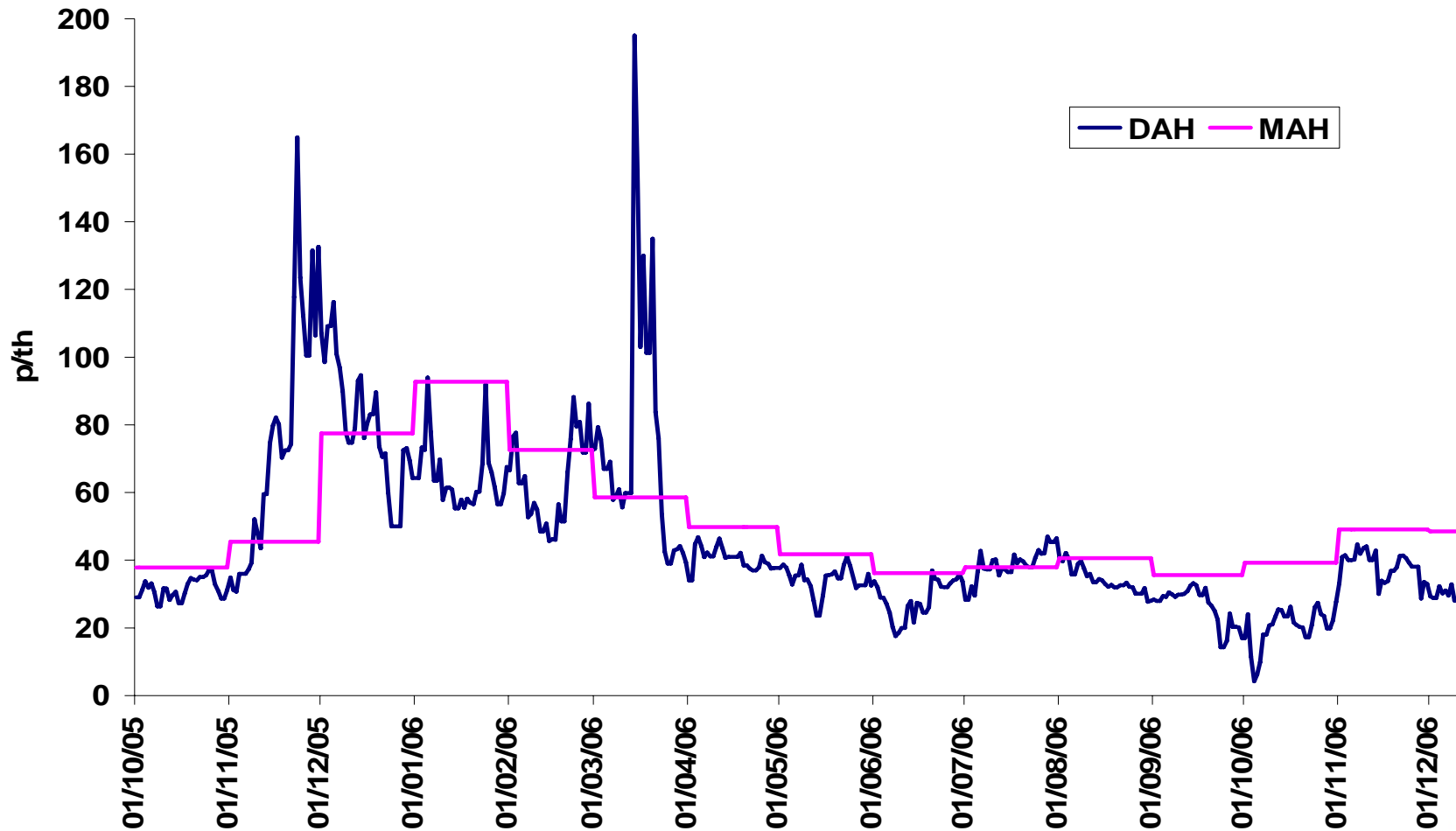


Agenda

- **Winter Prices – the story so far**
- **Supply and Demand**
- **Q1 07**
- **Summer 07 and Beyond**
- **Summary**

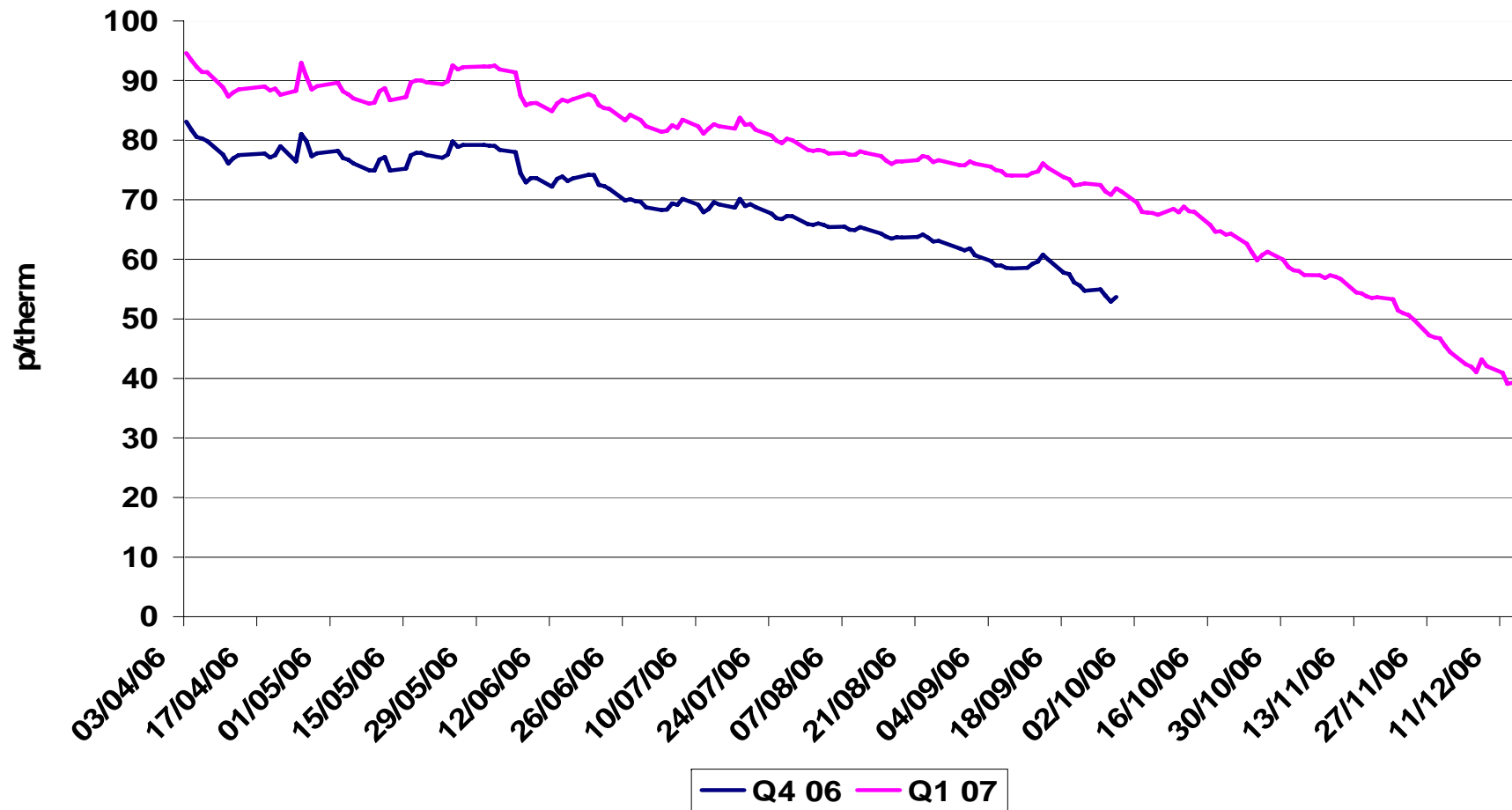
There is a stark contrast between the peaky prices of last winter and Q4 07 daily prices which are struggling to reach levels seen in the summer!

Comparison of DAH and MAH



Forward Prices have been falling reflecting delivery of infrastructure to timescale, strong import levels and mild weather

Winter 06/07 Forward Gas Prices



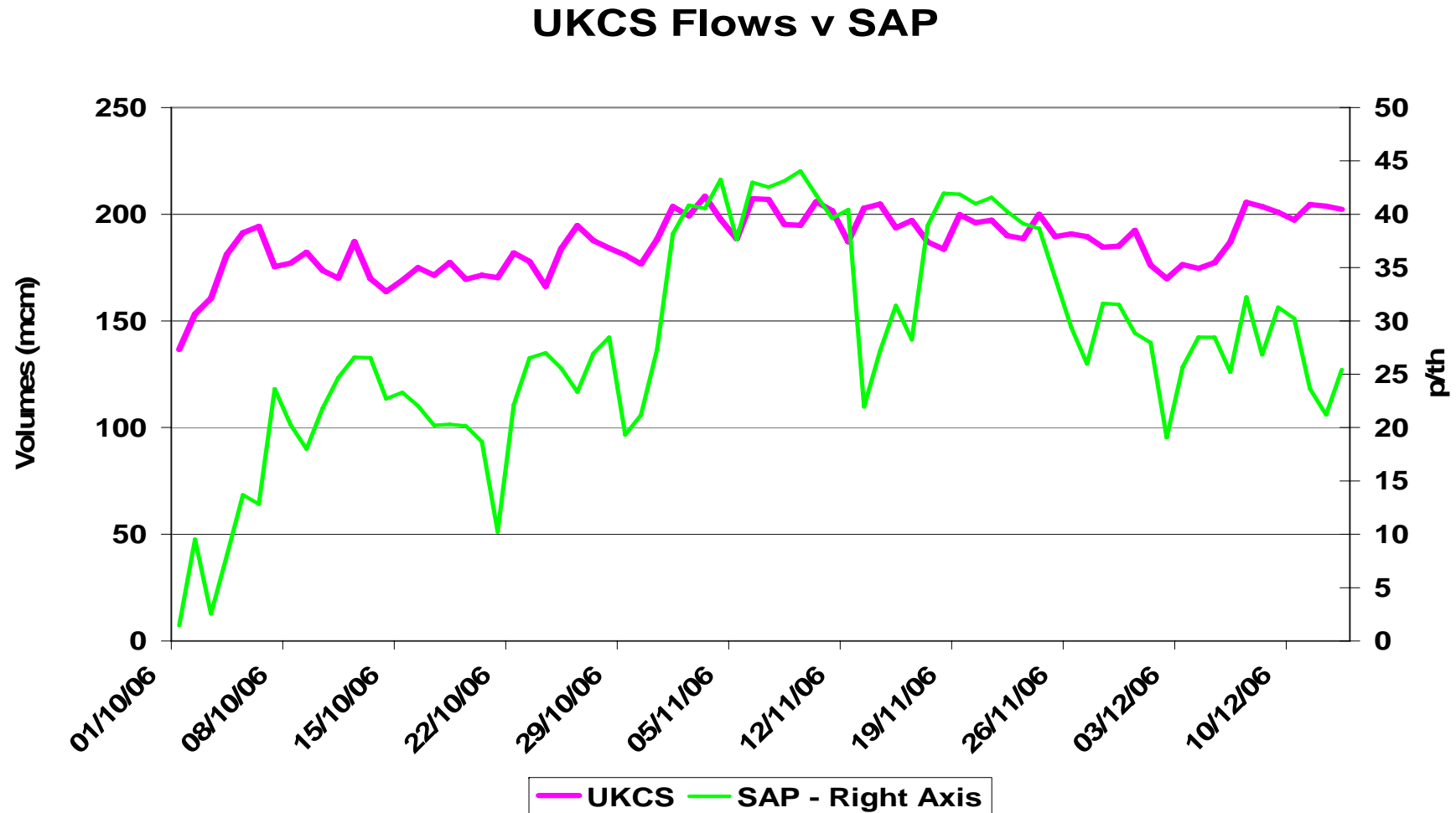
What new supplies might we expect vs 2005/6 winter?

Import Facility Mcm/day	Possible scenario Oct 06	What we are seeing?	Comment
Langeled	25	Incremental NCS circa 30 average and 55 max	Flow levels have been above expectations
BBL	25	25 fairly constant	Based on Centrica contracted supply
IUK	5	Not tested	Based on new reinforcement from Germany to Belgium
Excelerate	10	Not yet available	

Norwegian imports have been above the scenario Centrica put forward in October at the IGEM Seminar.

However, we are still unsure how much 'new' gas would be available on a high demand day in the UK and Europe.

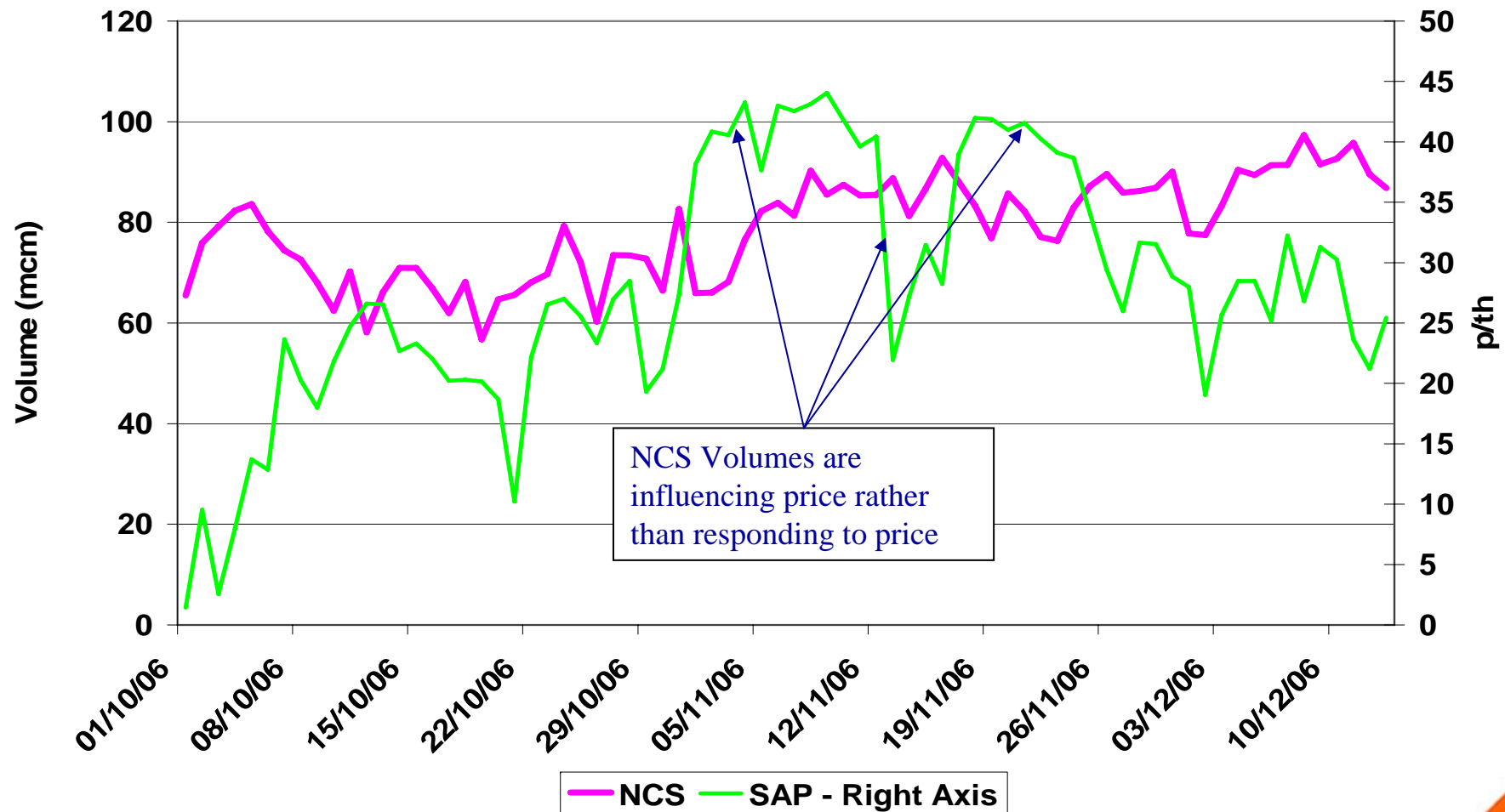
UKCS Flows Not Price Responsive



(Note Excludes Vesterled flows based on pipe capacity)

Norwegian Flows not Price Responsive

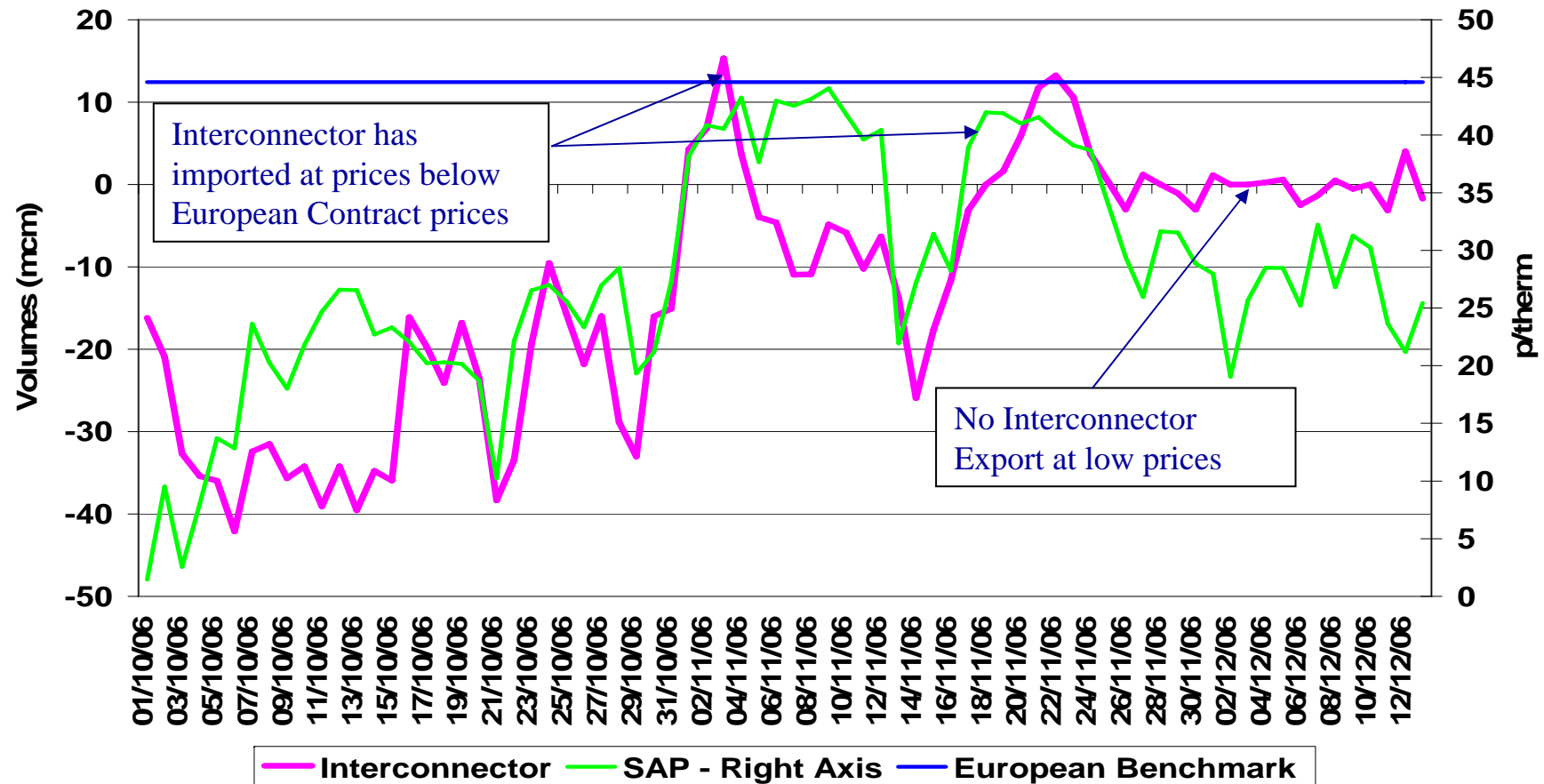
NCS v SAP



(Note Vesterled flows estimated by pipe capacity)

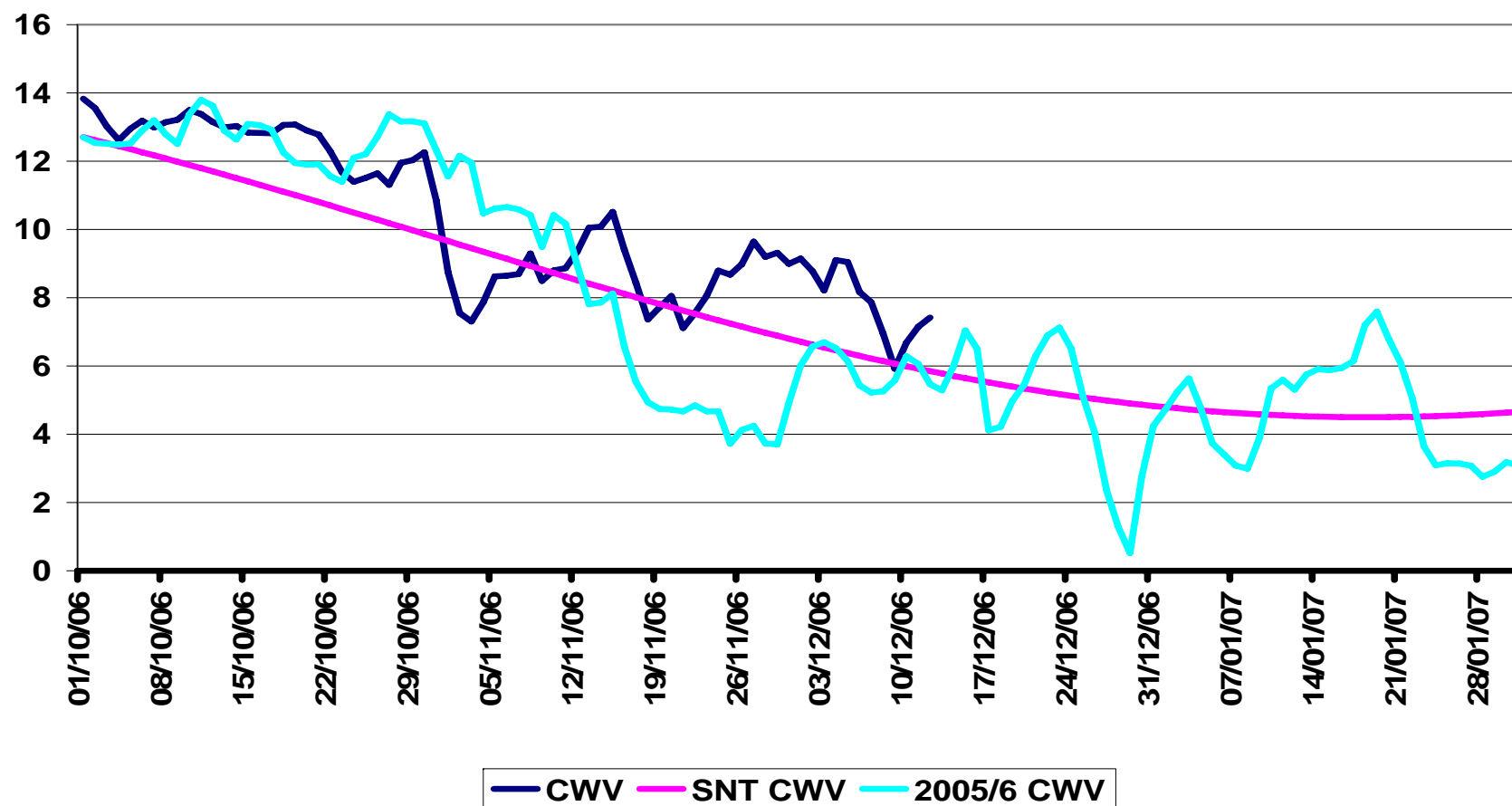
Interconnector Flows

Interconnector Flows v SAP, European Benchmark Price



Demand has been below expectations reflecting the mild weather

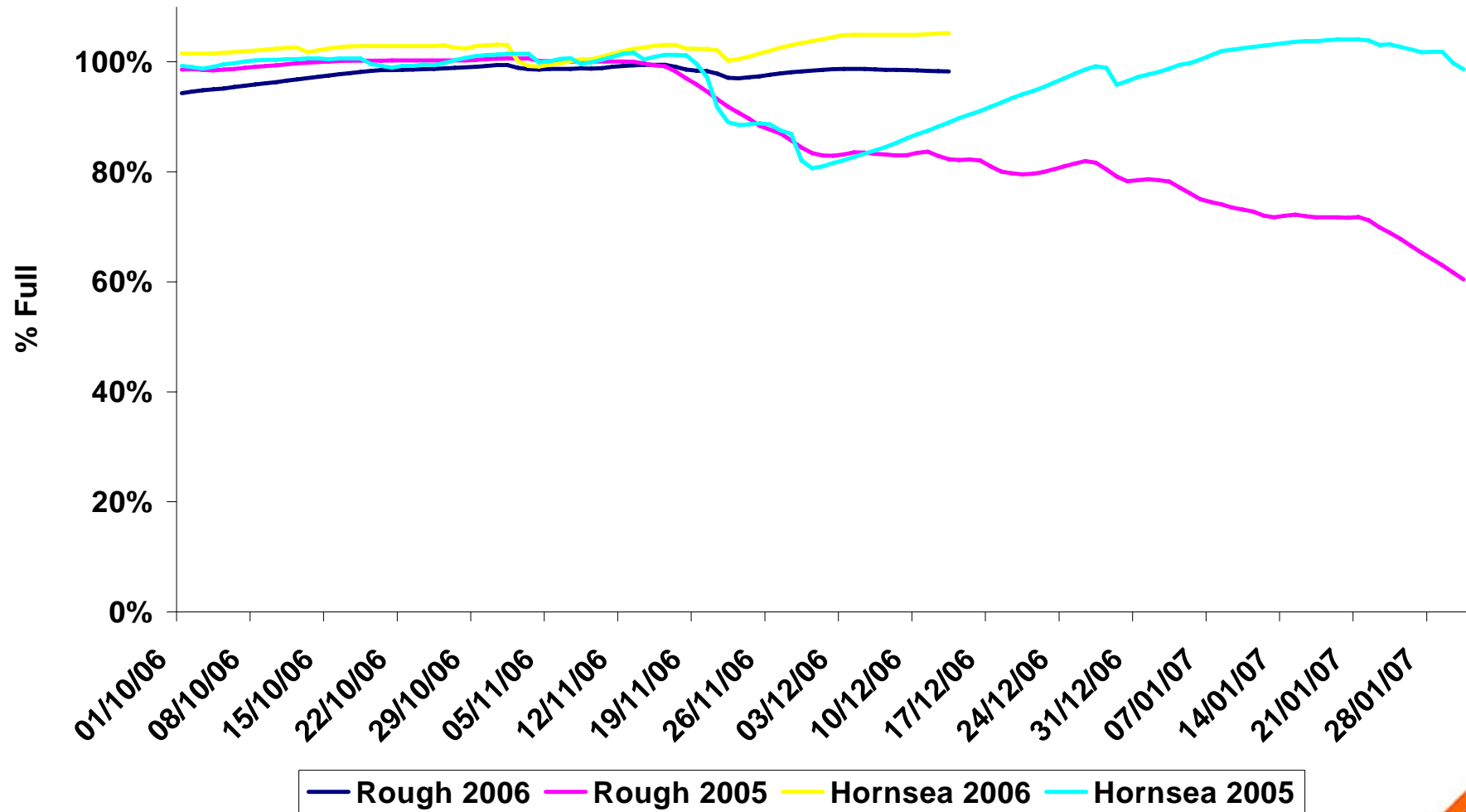
Current Winter CWV v SNT CWV v 2005/6 CWV



UK Demand from October through to mid December has been nearly 1 bcm (5%) lower in 2006 vs 2005

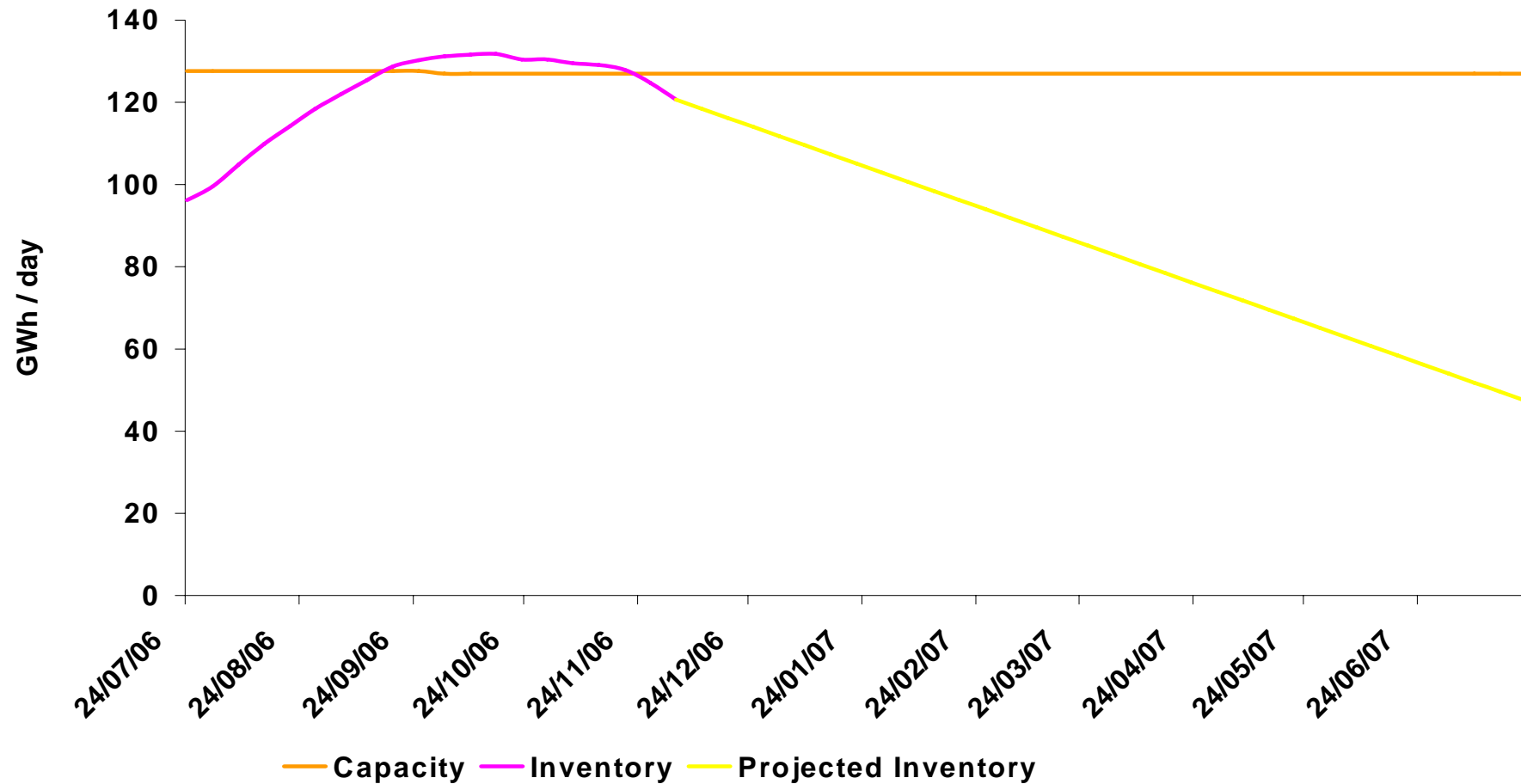
Storage is Nearly Full

Rough and Hornsea - Fill %



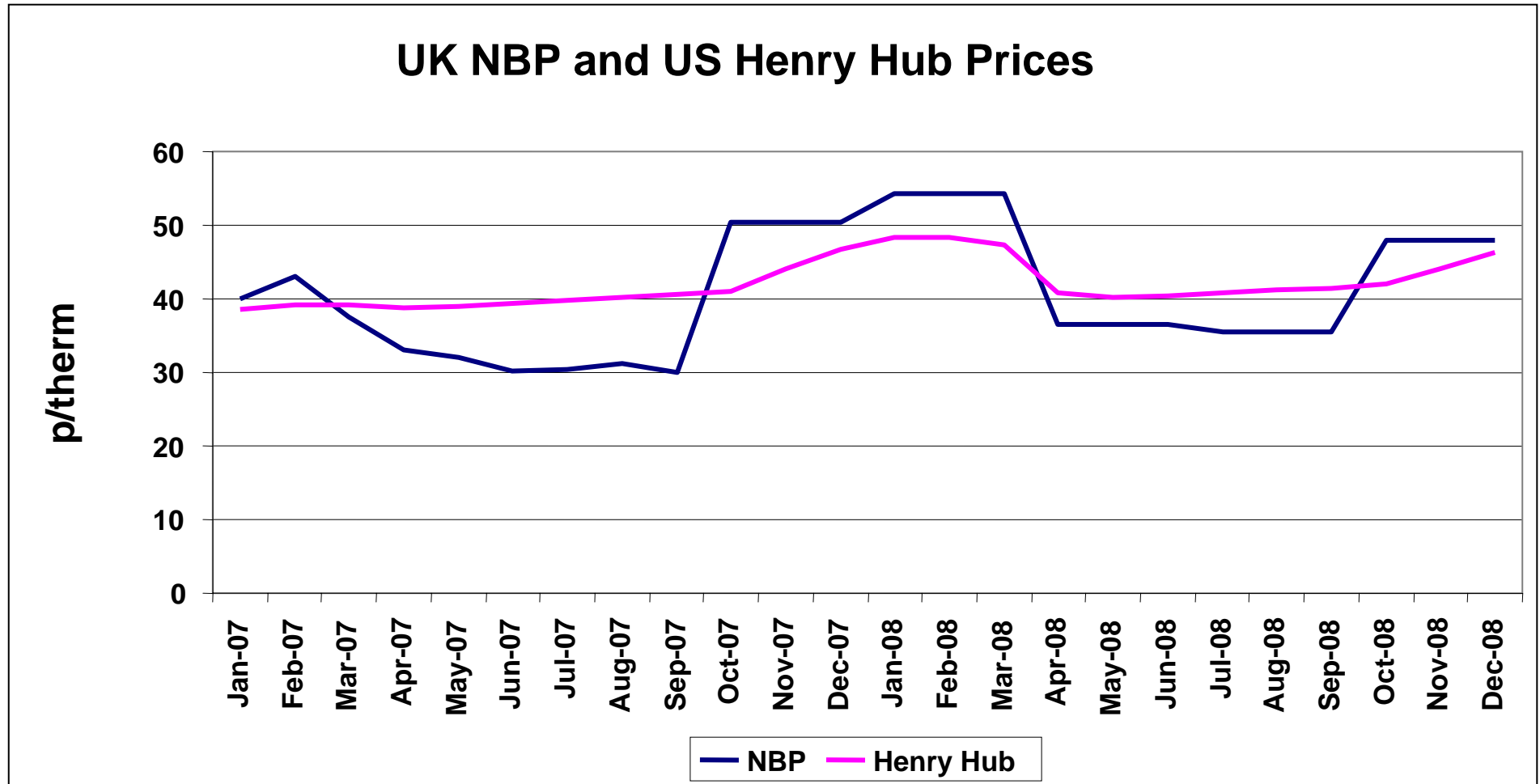
French Storage

French Storage Inventories



French Storage is full

UK and US prices for Q1 07 are converging



Will we see LNG diversions to the US?



Bullish/Bearish Factors Q1 07

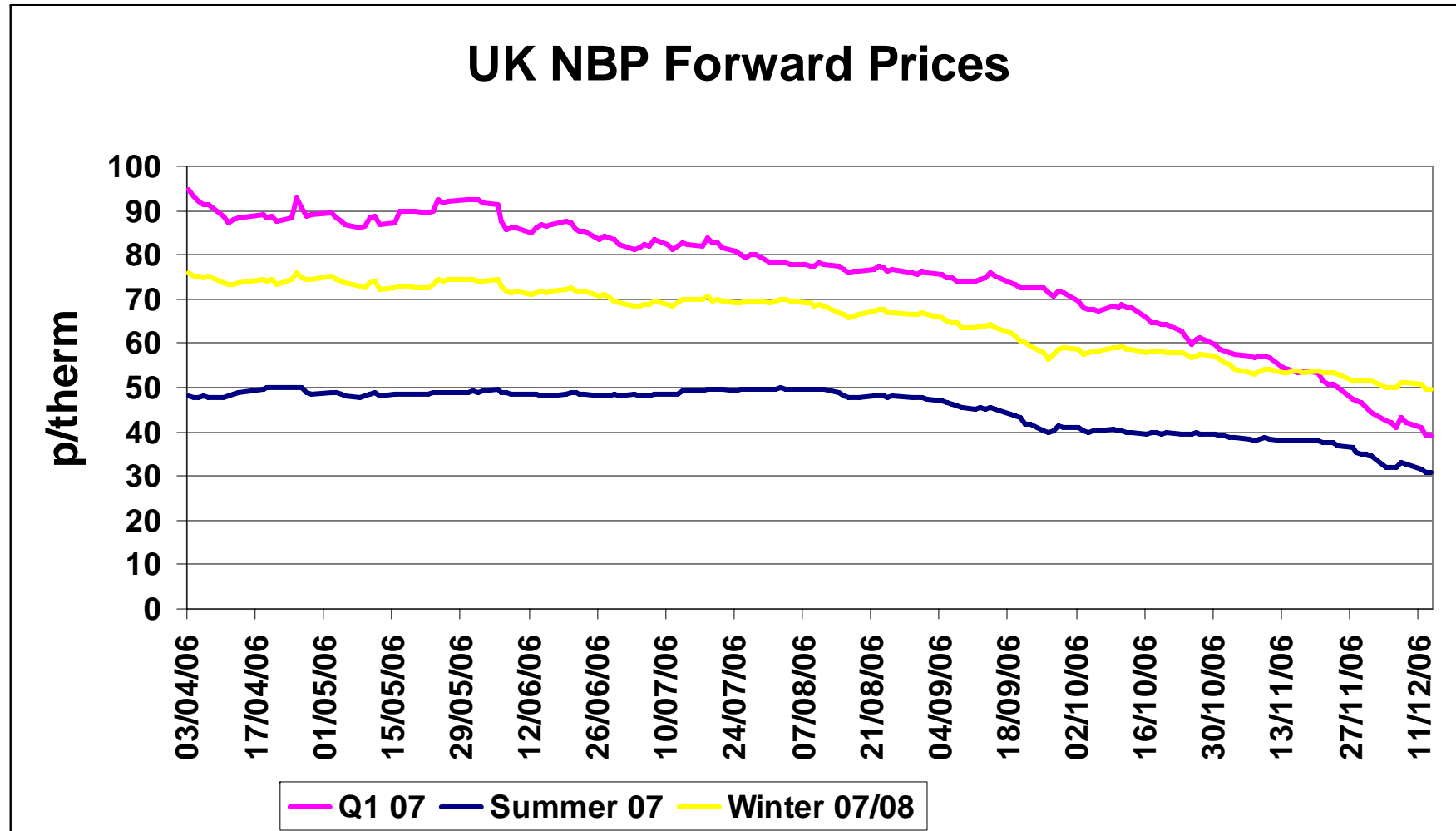
Bearish

- UK Storage full and high levels on Continent
- Further UKCS turn up available if required (i.e. economic to flow)
- Still expected to see a reasonable level of imports from NCS and via BBL continue even if weather gets colder in UK/Europe
- Based on weather over last 12 years how likely is a severe Q1 07?
- Excelerate project expected to deliver additional gas to the UK (US prices still currently lower than UK prices for Q1 07)
- Carbon prices likely to remain low – so limited upward pressure on gas fired power generation vs coal

Bullish

- Difficult to see 2005/6 type winter prices without a major supply failure
- Severely Cold weather in UK/Continent really testing supply availability, particularly if this follows LNG diversion to the US:
 - NCS deliveries could fall if weather is cold on the Continent
 - What BBL/IUK delivery will we see if the weather turns cold across Europe

Forward prices are falling beyond the front winter



Summary

- Q4 07 prices have been lower than expected reflecting the mild weather, delivery of import projects to timescales and strong imports through this new import capacity
- Despite particularly low prices at times, we have seen relatively little supply responsiveness
- European players also seem to have been unable to take advantage of the low UK prices – exports via IUK have been low
- Import levels from Norway have been above (Centrica) expectations but this may reflect some diversion from the Continent
- UKCS supply capability has not been fully tested
- Looking forward to Q1 07 it seems unlikely that we will see a repeat of last year's prices (unless there is some major supply failure) – given the high levels of storage in the UK/Continent coupled with the likelihood of continued strong imports and the prospect of additional LNG imports at Teesside.
- Summer 07 prices have fallen reflecting confidence in imported supplies as well as the prospect of lower than expected storage injection if this winter continues mild/seasonal.
- Winter 07 prices have also fallen given the confidence in supply but it remains firm relative to current winter prices given the weather uncertainty.
- The UK is now fully integrated with Europe so to understand UK gas price formation transparency of European supply/demand fundamentals is now essential.