Scottish and Southern Energy

Will the UK be short of gas on peak days in Winter 07?

Winter 06 Outlook

- Over the last twelve months the within day gas price has peaked at £2.65/therm implying that the NTS was extremely tight.

- On the back of a fear in the gas market this led to extraordinarily high forward gas prices for Winter 06, peaking at 94.75p/therm for Q1 07.

- This sentiment fed through to the power market where Q1 07 peaks traded to a high of £81.80/MWh.

- This forward perception of market tightness was driven by concerns that :
    - UKCS beach production would be substantially down year on year.
    - the risk that Norwegian supplies would not cover any reduction in UKCS supplies.
    - that Rough would not be fully available through the Winter (despite assurances from CSL to the contrary).

Winter 06 Out-turn

- But despite all the concerns, the SAP out-turn will be 25.42p/therm.
- Resulting in one leading energy industry executive to declare that
  "…..this was the end of high gas prices in the UK….."

Demands

- Undoubtedly the slack in the gas system was caused by an exceptionally mild Winter causing low end user demand.
- Certain meteorologists believe this to be an exceptional event, others that Winter 06 will increasingly be the norm in future years.
- Whether it is coincidental or not the Met Office has the last 5 years as being the warmest on record since 1914.
- Scottish and Southern Energy’s experience was of reduced demand not only due to mild conditions BUT also to a change in end-user behaviour.
- This could be down to price elasticity of demand OR growing general environmental awareness.

Supplies

- Despite the concerns of a tight system, shared by all and exemplified best by the high forward price for Winter 06 gas, by the end of February :

    - Rough Storage was 64.7% full.
    - Hornsea Storage was 56.4% full.
    - European Storage was 50.0% full.
    - Morecambe Bay ran from October to March at just 35% of full capacity.
    - There was minimal running from the Sean field from October to March.
    - There was so much gas in the UK that the market did not require LNG to be landed at Teeside.
    - Isle of Grain did not fully import LNG through the entire winter.
    - The UK exported more gas to Europe through October to March than it imported.
    - On average through November to February, there was 2.45GWh less of nuclear generation on the power system than in the same period for 2005/06.

Winter 07 Outlook

- Whether Winter 07 is as benign as Winter 06 remains to be seen. There are unknowns going forward :
    - Ormen Lange flows through Langeled.
    - Volume of BBL flows through year two of the project.
    - The availability of gas at Morecambe Bay and Sean.
    - Any increase in the rate of depletion of the UKCS.
    - The success of Milford Haven and South Hook LNG projects.
    - Future levels of end-user demand. As tariffs reduce will demand increase?
    - And from a suppliers perspective the continuing levels of market volatility are a concern.

SSE Flexibility

- Scottish and Southern retains a considerable volume of short-notice flexibility in the UK gas and power markets :

Flexibility of gas plant.

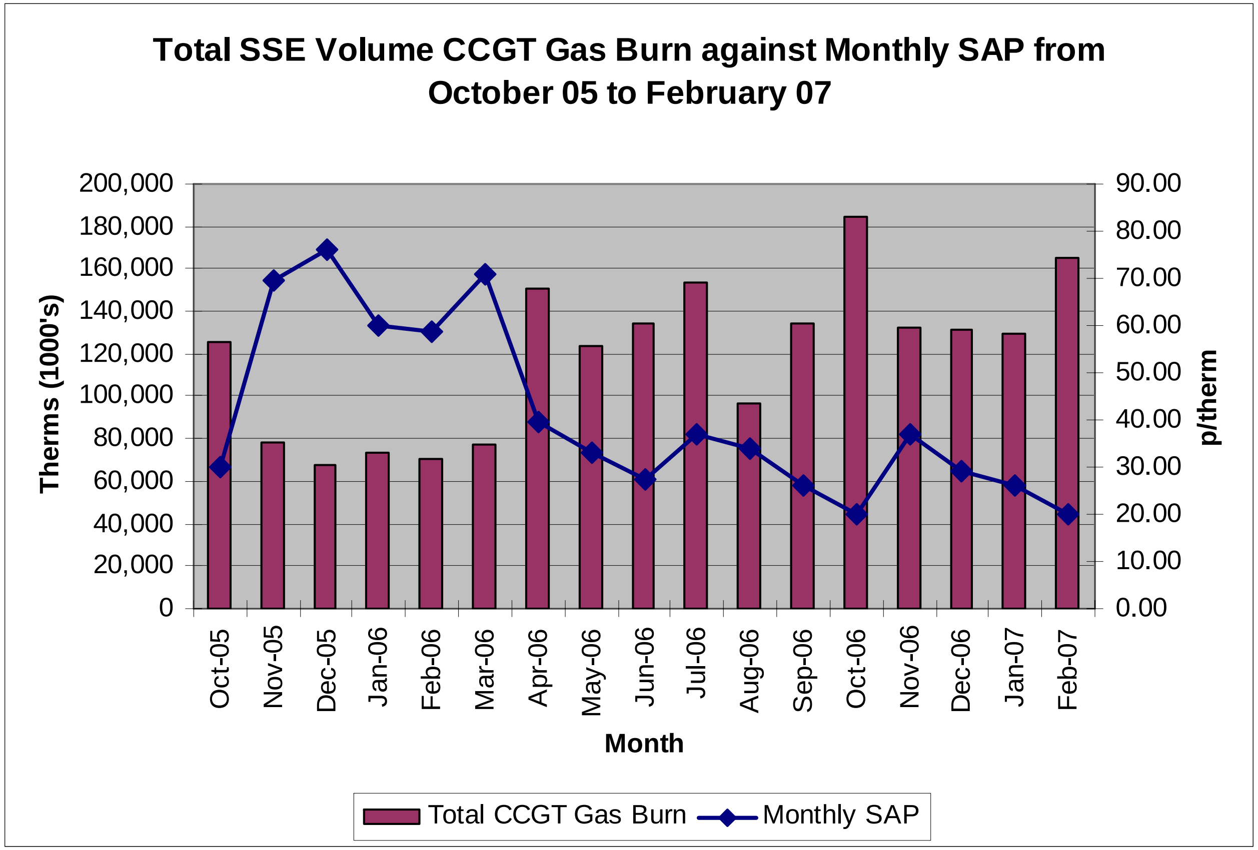
- Medway, Keadby, Seabank 1, Seabank 2, Peterhead, Fife Power representing up to 4GW of flexible Plant.

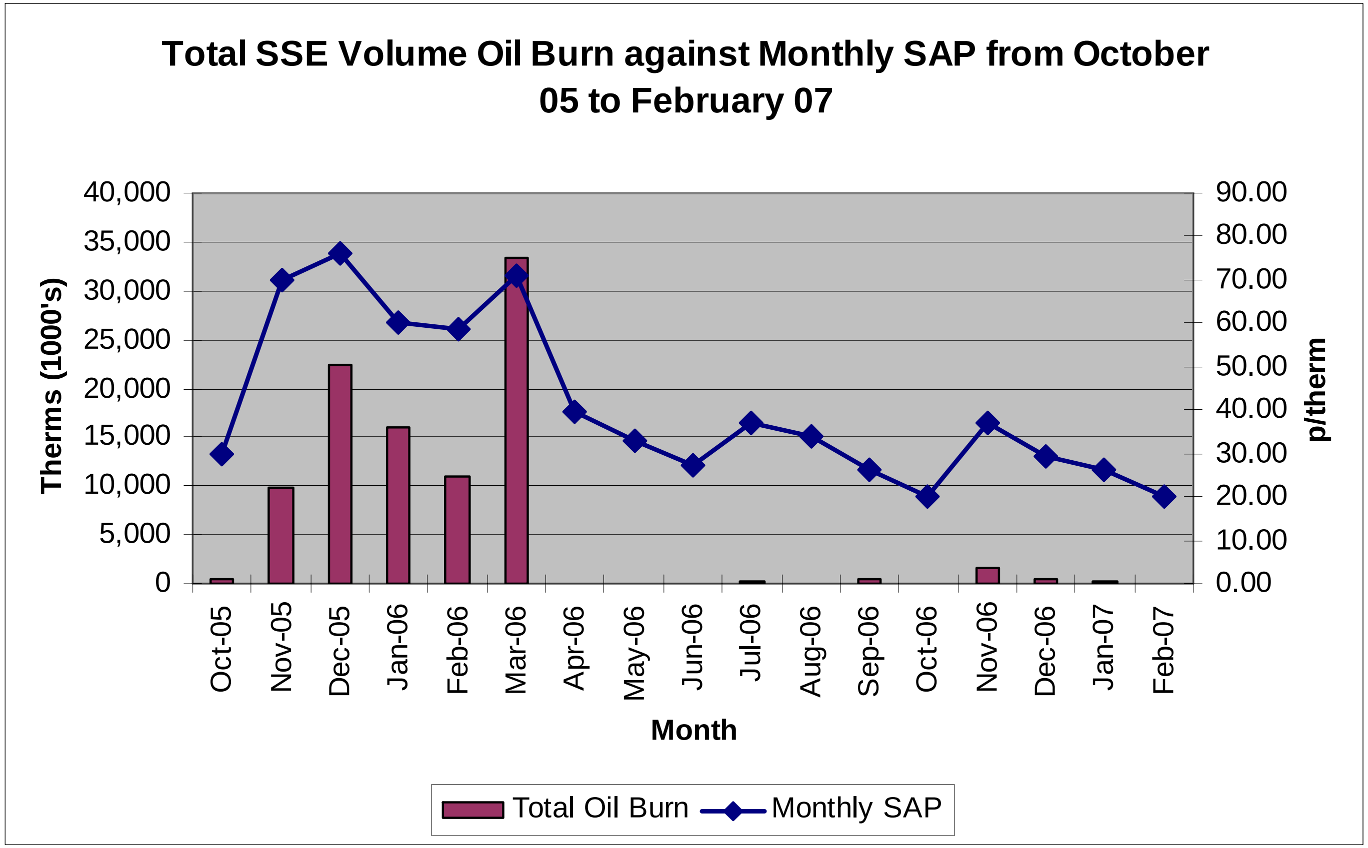
Ability of gas plant fleet to switch to either HFO or GO.

- Peterhead, Medway and Keadby represent 10 million cubic meters of short notice fuel switching.

Flexible Hydro fleet that at times of gas price spikes can be run to displace CCGT generation.

- Up to 500 MW/d of peak running displacing the equivalent generation output of ten inefficient OCGT's.


Total SSE Volume CCGT Gas Burn against Monthly SAP from October 05 to February 07
Therms (1000's)
200,000
180,000
160,000
140,000
120,000
100,000
80,000
60,000
40,000
20,000
0
p/therm
90.00
80.00
70.00
60.00
50.00
40.00
30.00
20.00
10.00
0.00
Oct-05
Nov-05
Dec-05
Jan-06
Feb-06
Mar-06
Apr-06
May-06
Jun-06
Jul-06
Aug-06
Sep-06
Oct-06
Nov-06
Dec-06
Jan-07
Feb-07
Month
Total CCGT Gas Burn
Monthly SAP


Total SSE Volume Oil Burn against Monthly SAP from October 05 to February 07
Therms (1000's)
40,000
35,000
30,000
25,000
20,000
15,000
10,000
5,000
0
90.00
80.00
70.00
60.00
50.00
40.00
30.00
20.00
10.00
0.00
p/therm
Oct-05
Nov-05
Dec-05
Jan-06
Feb-06
Mar-06
Apr-06
May-06
Jun-06
Jul-06
Aug-06
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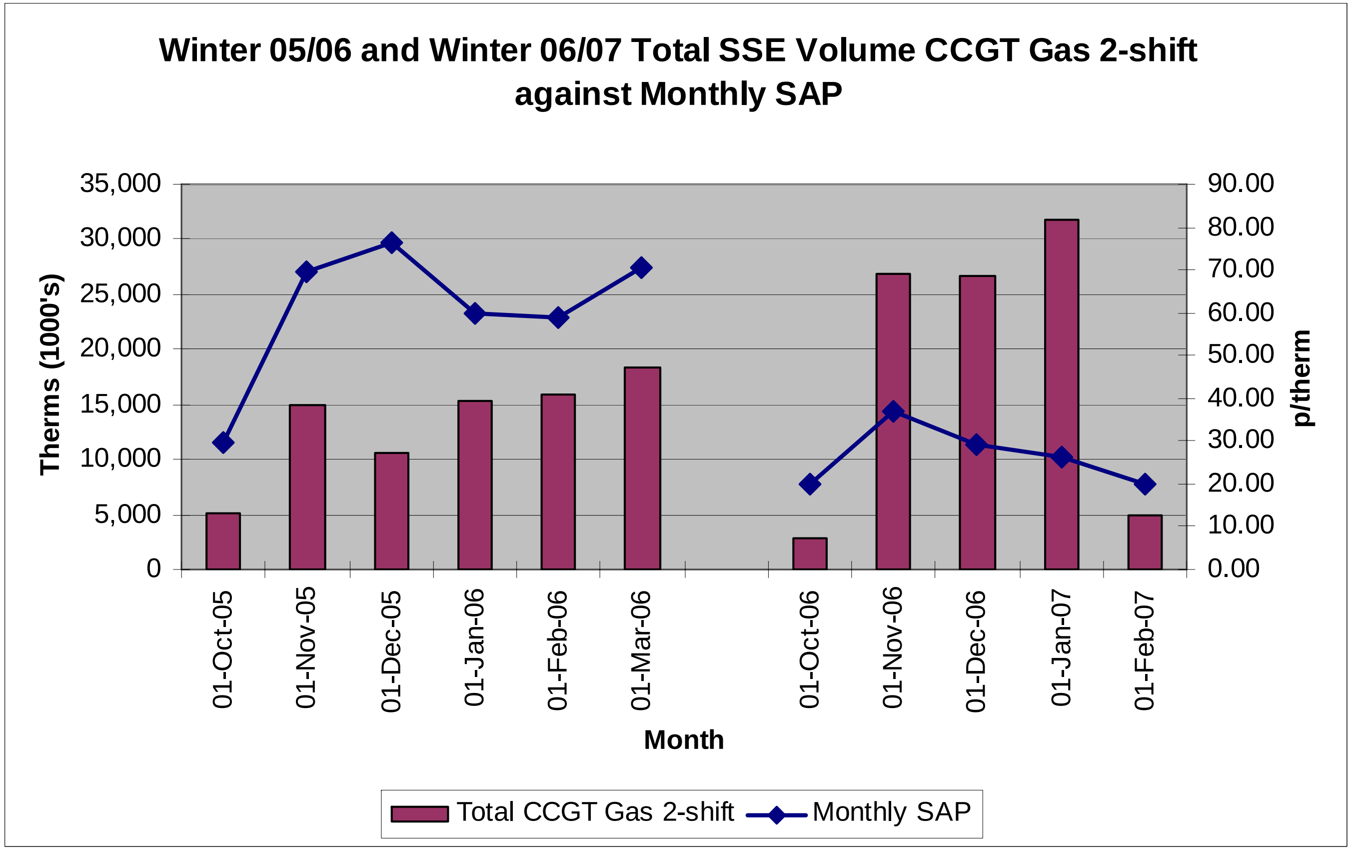
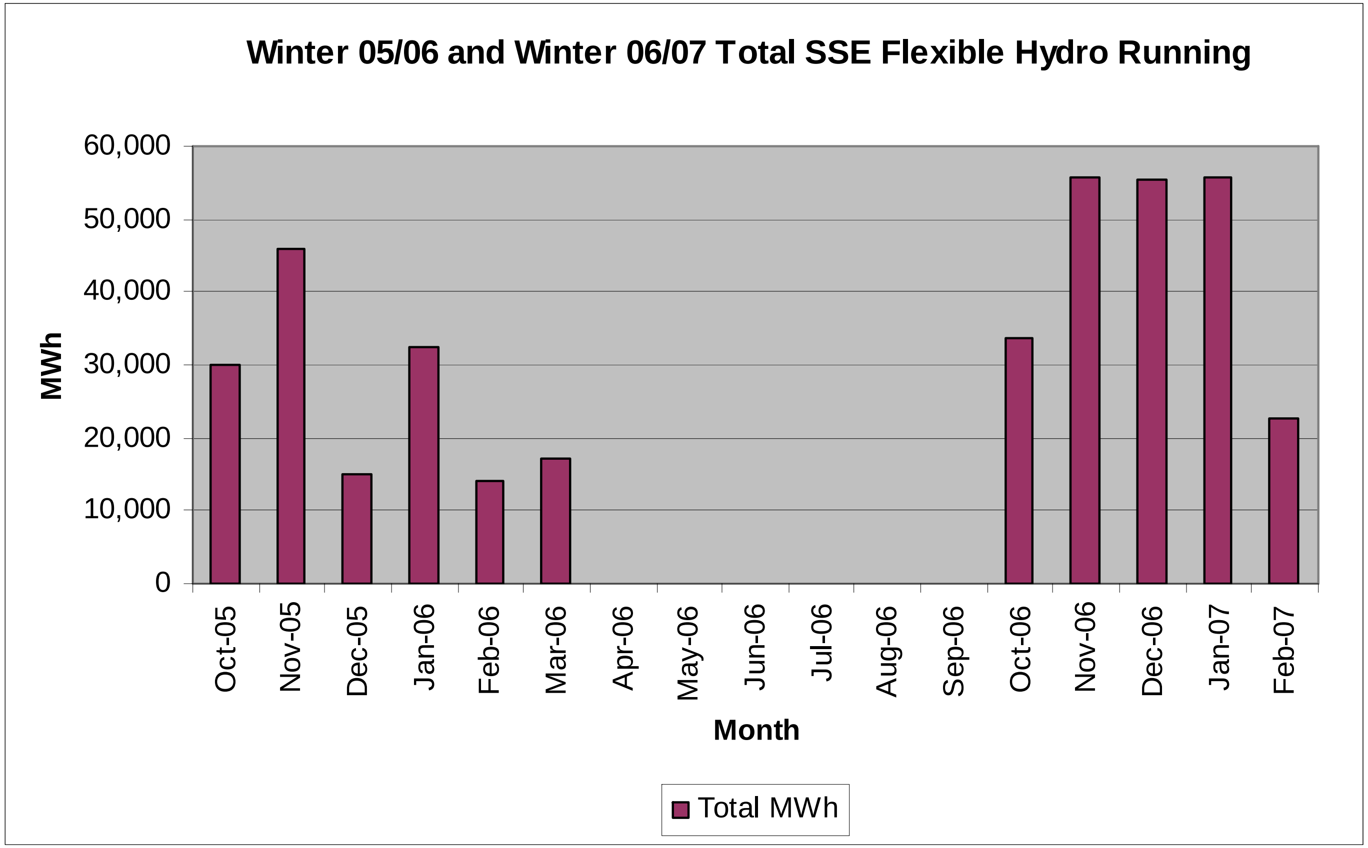
Jan-07
Feb-07
Month
Total Oil Burn
Monthly SAP


Winter 05/06 and Winter 06/07 Total SSE Volume CCGT Gas 2-shift against Monthly SAP
Therms (1000's)
35,000
30,000
25,000
20,000
15,000
10,000
5,000
0
p/therm
90.00
80.00
70.00
60.00
50.00
40.00
30.00
20.00
10.00
0.00
01-Oct-05
01-Nov-05
01-Dec-05
01-Jan-06
01-Feb-06
01-Mar-06
01-Oct-06
01-Nov-06
01-Dec-06
01-Jan-07
01-Feb-07
Month
Total CCGT Gas 2-shift
Monthly SAP


Winter 05/06 and Winter 06/07 Total SSE Flexible Hydro Running
MWh
60,000
50,000
40,000
30,000
20,000
10,000
0
Oct-05
Nov-05
Dec-05
Jan-06
Feb-06
Mar-06
Apr-06
May-06
Jun-06
Jul-06
Aug-06
Sep-06
Oct-06
Nov-06
Dec-06
Jan-07
Feb-07
Month
Total MWh

Winter 07 Readiness

- This flexibility was not required by either the gas or power systems throughout 2006/07.
- Tighter demand conditions in the future may bring all this flexibility into play.
- However, if there was a demand or supply shock this flexibility would be made available to both the gas and power systems and is proved to be available on both a reliable and a short-notice basis.
- Therefore we don’t know if this “is the end of high gas prices in the UK” but in a peak scenario we believe there is sufficient supply to cover any system shortfall in the short-term.