

Our Ref: 149b/07

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Dear Colleague

National Grid's Winter 2007/08 Consultation Update Document – June 2007

Ofgem has published today National Grid's (NG) Winter 2007/08 Consultation Update Document¹. This signals the second phase of the consultation process to develop gas and electricity supply-demand outlooks for winter 2007/08.

This report reflects feedback on NG's March document². We very much welcome all of the views received from respondents and the time taken by everyone to feed into this process. This feedback has helped NG develop its analysis of the outlook for the coming winter, and provide a more robust outlook for the industry and customers to plan for the challenges ahead. I strongly encourage everyone to respond to this second phase of the consultation to assist NG in developing a robust final outlook for winter 2007/08 that will be published this September.

Overall, NG's assessment of the gas supply balance remains broadly similar to that outlined in the March report. Although the revised view for non-storage gas supplies no longer includes any flows from the South Hook LNG facility in Q1 2008, the outlook is more positive than for last winter. This is reflected in the fact that on 31 May, NG announced that they would be setting safety monitors to zero for short and medium range storage.

NG has an important role in helping to ensure that the gas transmission network develops to deal with changes in the pattern of gas supplies and imports to Great Britain. This includes making sure that as much capacity as is physically possible is made available at those terminals where shippers want to land gas and therefore value the capacity the most. NG has commercial incentives to encourage it to do this and a range of licence and statutory obligations that require it to do this. NG has a variety of commercial tools to achieve this including the ability to sell firm and interruptible capacity day by day and to use buybacks and forward/option contracts to manage constraint risks. We published an open letter today regarding the development of this area of work ahead of winter 07/08³.

¹ 'Winter 2007/08 Consultation Update Document', NG, 19 June 2007 available on Ofgem's website: www.ofgem.gov.uk.

² 'Winter 2007/08 Consultation Document', NG, 27 March 2007 available on Ofgem's website: www.ofgem.gov.uk.

³ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=30&refer=Networks/Trans/GasTransPolicy>

NG has not made any significant adjustments to its electricity market assessment since the March consultation document and continues to indicate that forecast margins remain healthy even under severe weather conditions. From 1 January 2008 there will be two important developments: the start of the second phase of the EU Emissions Trading Scheme and the commencement of the operating hours restriction period for plant that has opted out of the Large Combustion Plant Directive. However, neither of these measures are expected to significantly impair security of supply for Winter 2007/08. However, they may push up electricity prices, particularly with carbon dioxide permits trading at much higher prices under the second phase than under the first phase. The LCPD restrictions may also put upward pressure on balancing costs.

The UK now has substantial interconnection with the North West European gas market and a number of LNG terminals and facilities linking us to the US and Asian markets. Therefore, it is important that large gas users including power stations continue to put in place the necessary contractual and operational measures in place to offer demand side response in case there are shocks to gas supplies or very high demand during a very cold winter.

NG is forecasting lower electricity demand figure for Winter 2007/8 than it did for Winter 2006/7. In contrast, they have slightly increased their expectation for gas demand growth between Winters 2006/7 and 2007/8 in light of lower prices. We would encourage the major energy suppliers to provide information to NG on whether they think price cuts announced already this year will lead to a rebound in demand or whether increased environmental awareness and greater energy efficiency will lead to a sustained reduction in the level or growth in demand. Suppliers should have the best information on how their customers' demand will be affected by falling prices under different weather conditions.

Consultation process

We would like to thank once again all those market participants, customers and other interested parties who took the time to attend either of our first two Winter 2007/08 seminars. The seminars have been designed to give parties additional opportunities to participate in the Winter 2007/08 consultation process in addition to providing responses to the consultation. We are continuing these seminars over the lead up to winter - timetable as follows:

Date	Event	Location
27 March	Winter 2007/08 first consultation	Available on Ofgem's website
28 March	Winter 2007/08 seminar	London - Presentation materials available on Ofgem's website
2 April	Winter 2007/08 seminar	Glasgow - Presentation materials available on Ofgem's website
19 June	Winter 2007/08 second consultation	Available on the Ofgem website
27 June	Winter 2007/08 seminar	Birmingham
Late September	Winter 2007/08 final report	Will be published on the Ofgem website
Late September	Winter 2007/08 seminars	Details to be published on the Ofgem website

As set out above, the next Winter 2007/08 Seminar will be held on **27 June** at **the Thistle Hotel in Birmingham**. Please send requests to attend this or any other of Ofgem's Winter 2007/08 seminars to GB.markets@ofgem.gov.uk.

Way forward

Finally, I would like to once again thank all those companies, customers and other key stakeholders who found the time to participate in the first stage of NG's Winter 2007/08 consultation process - by either responding to the March document or attending our Winter 2007/08 seminars in London and Glasgow. Despite the more positive outlook for the winter, a number of risks and challenges remain. Therefore, it remains important that all market participants respond to the consultation and provide as much information as possible. I hope that you will all be able to continue to find the time to contribute to this process.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'Steve Smith', with several horizontal strokes underneath.

Steve Smith
Managing Director, Markets