



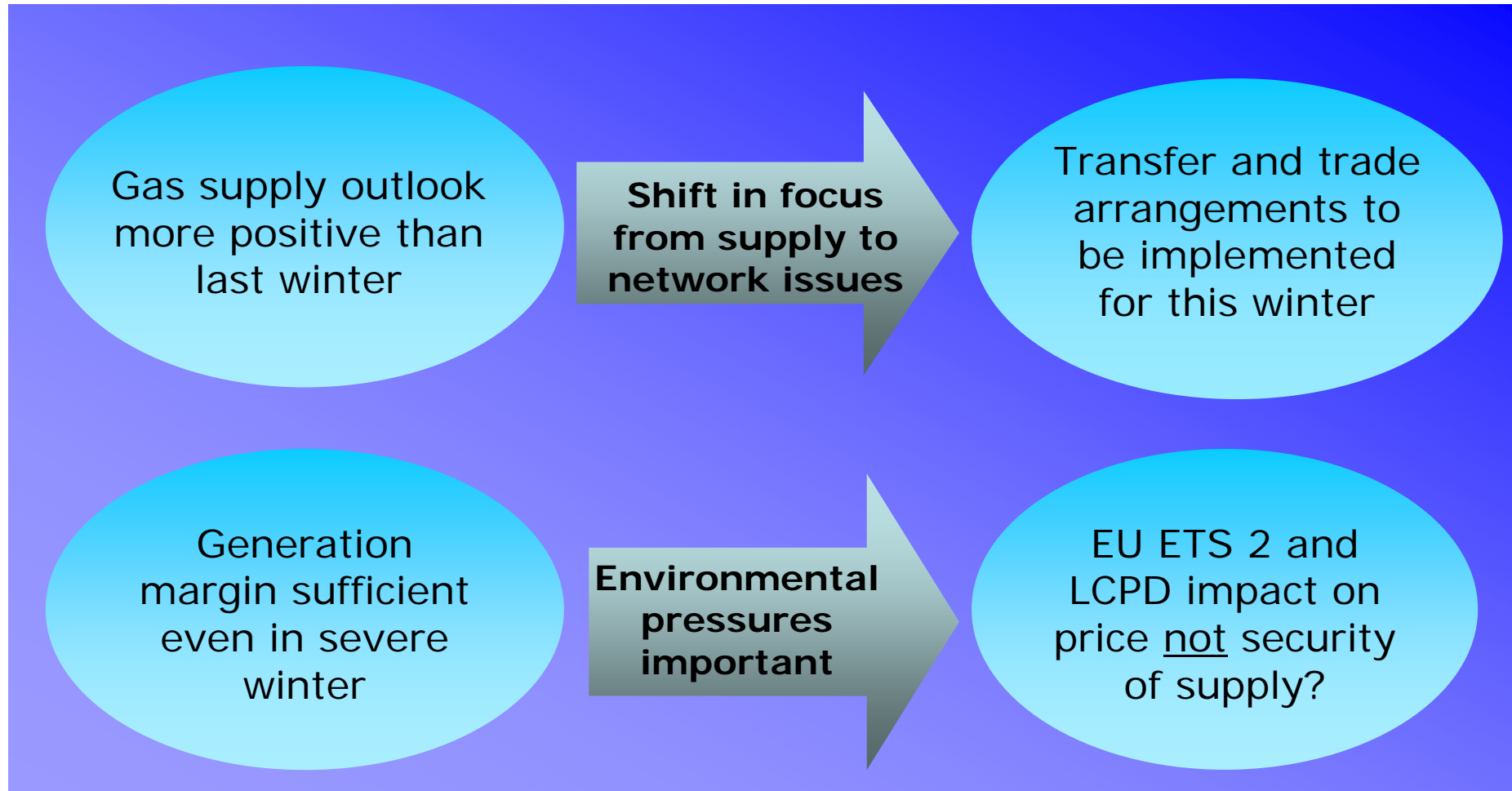
Promoting choice and value
for all gas and electricity customers

Winter Consultation 07/08

Philip Davies
Director, GB Markets
27 June 2007

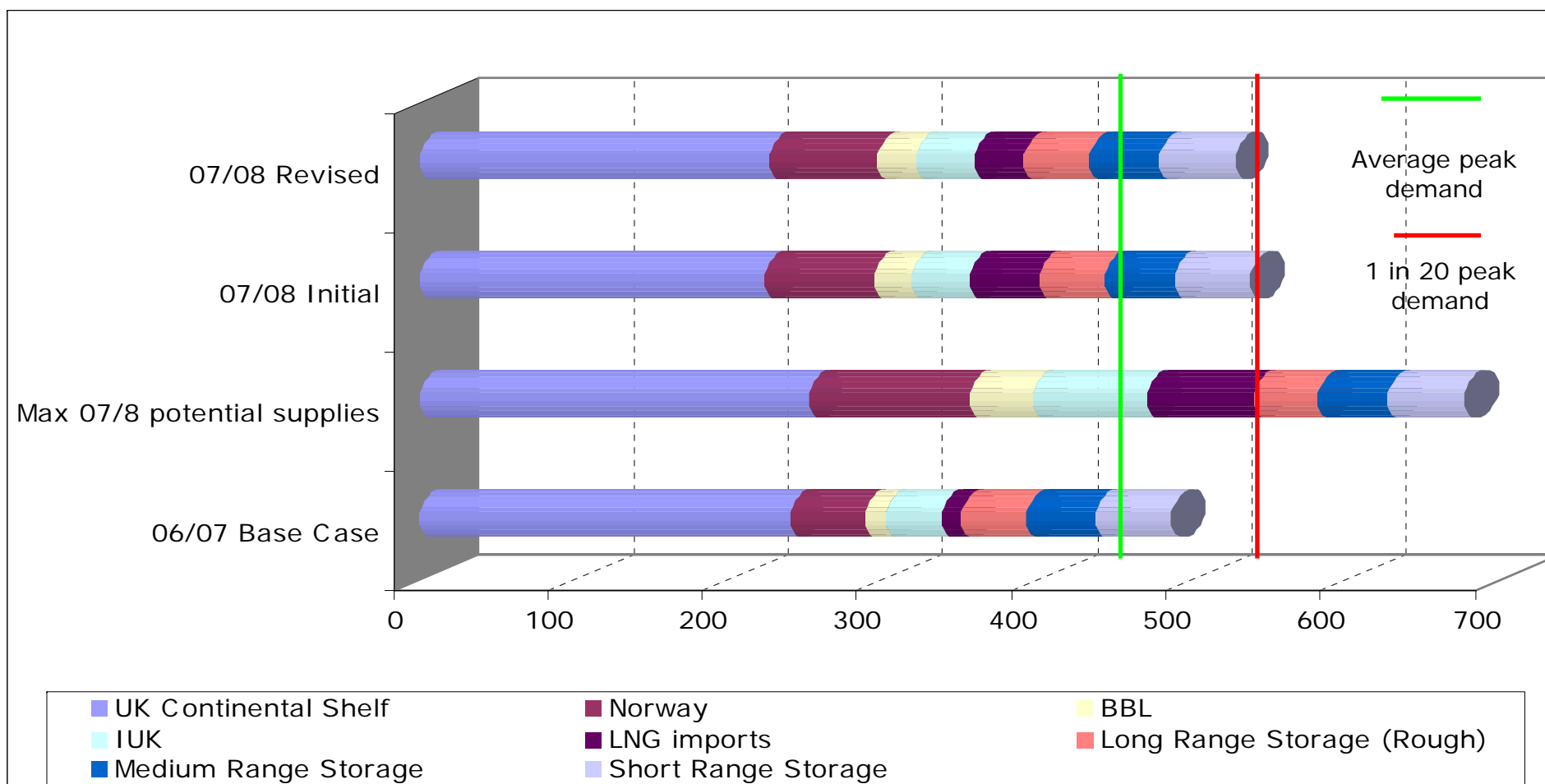
Summary

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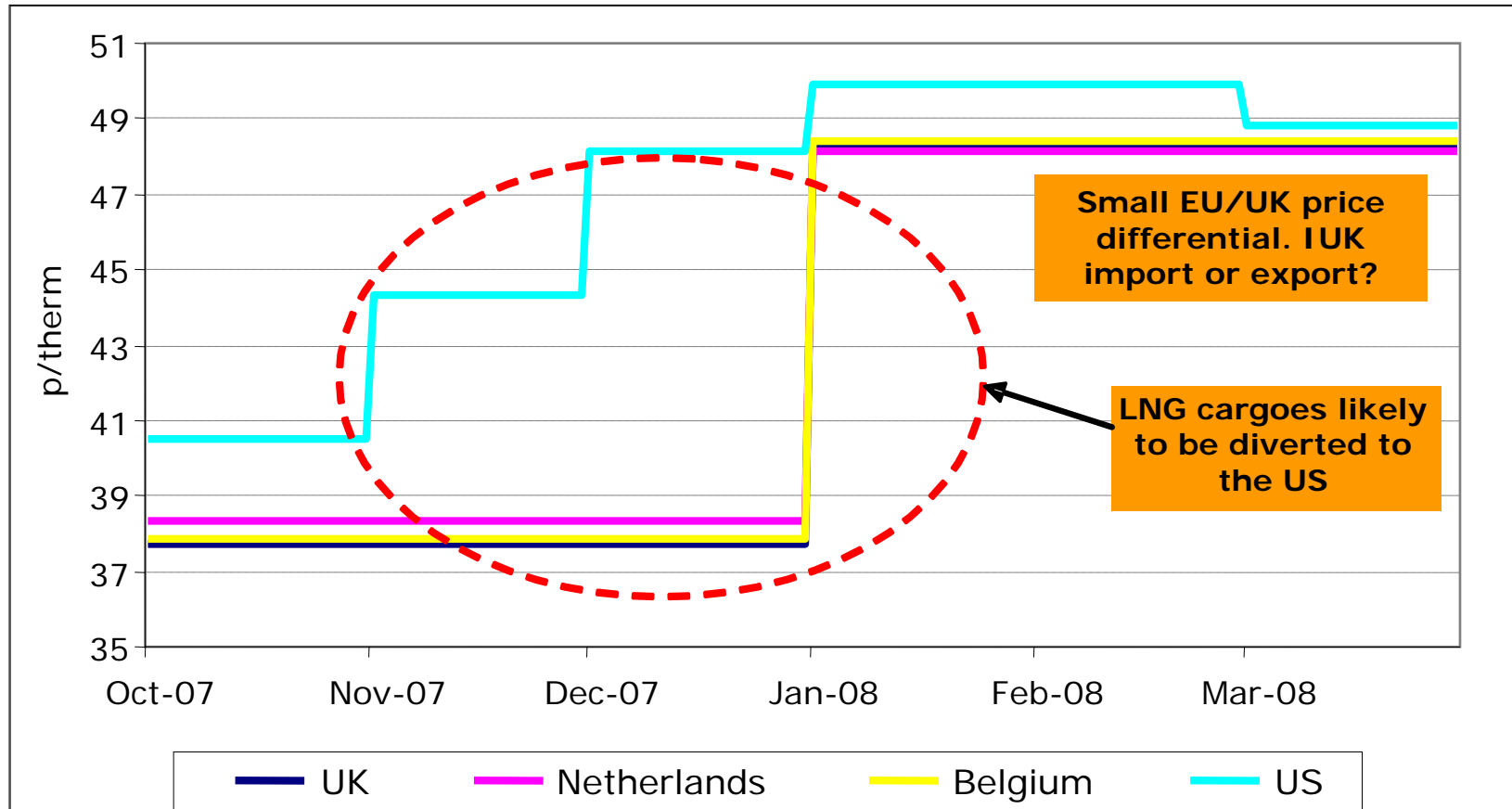
Gas Supply

Outlook more positive than 06/07



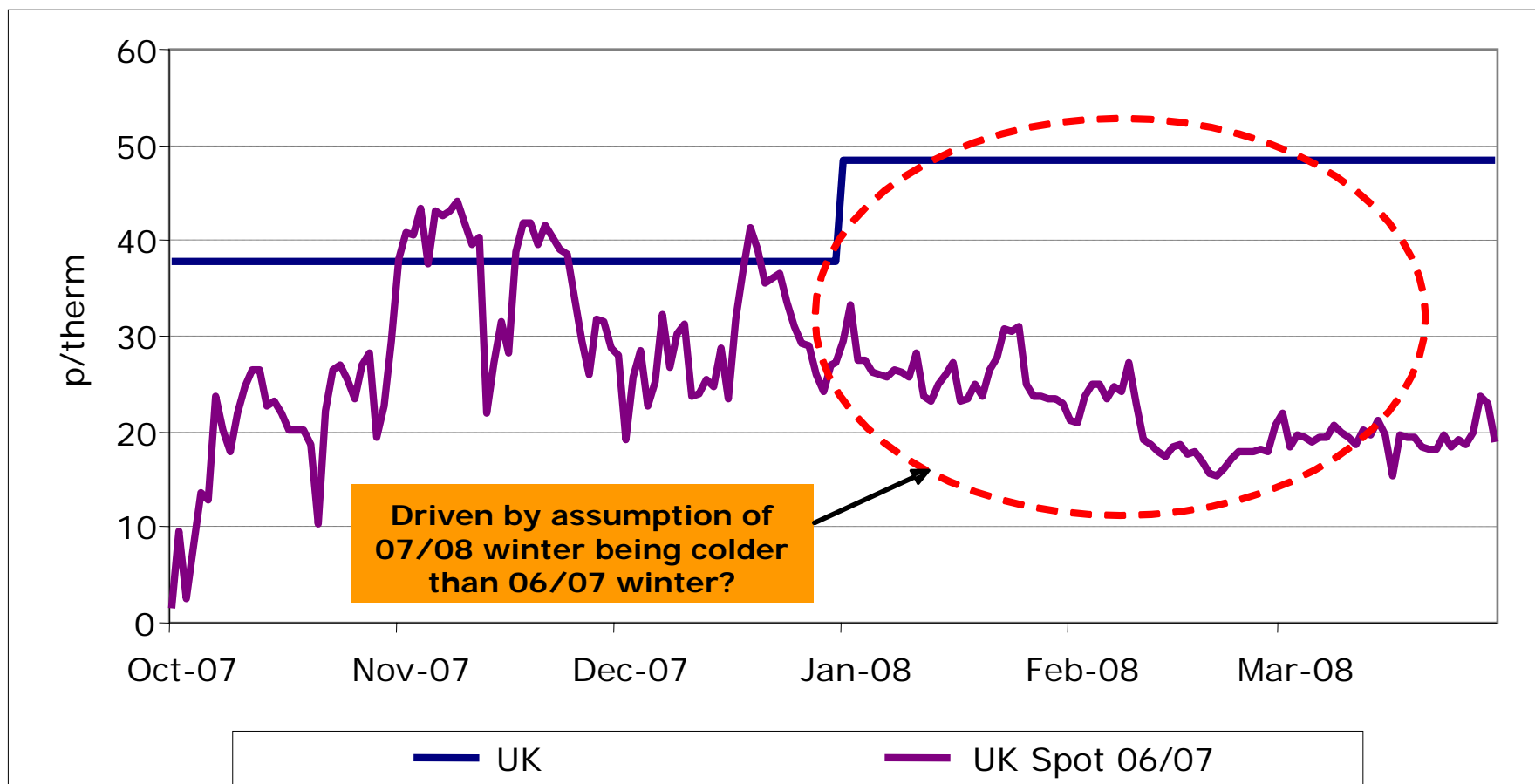
NG view revised down 10mcm/d but remains more positive than winter 06/07 outlook

Gas – EU and global interactions



European and global markets increasingly important for GB

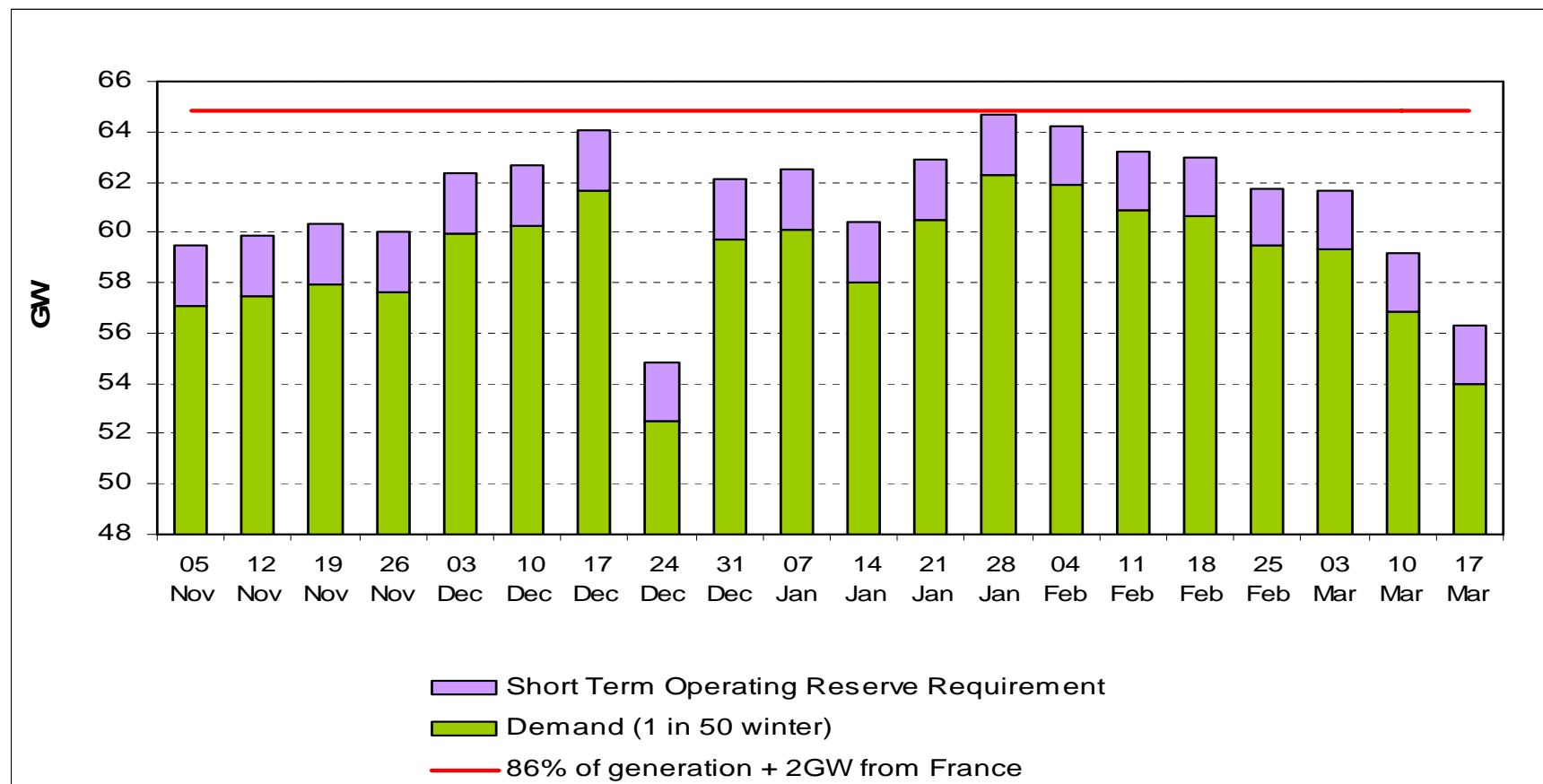
Gas – weather key factor for demand



Initial Met Office forecast for Dec-Feb to be released mid-July

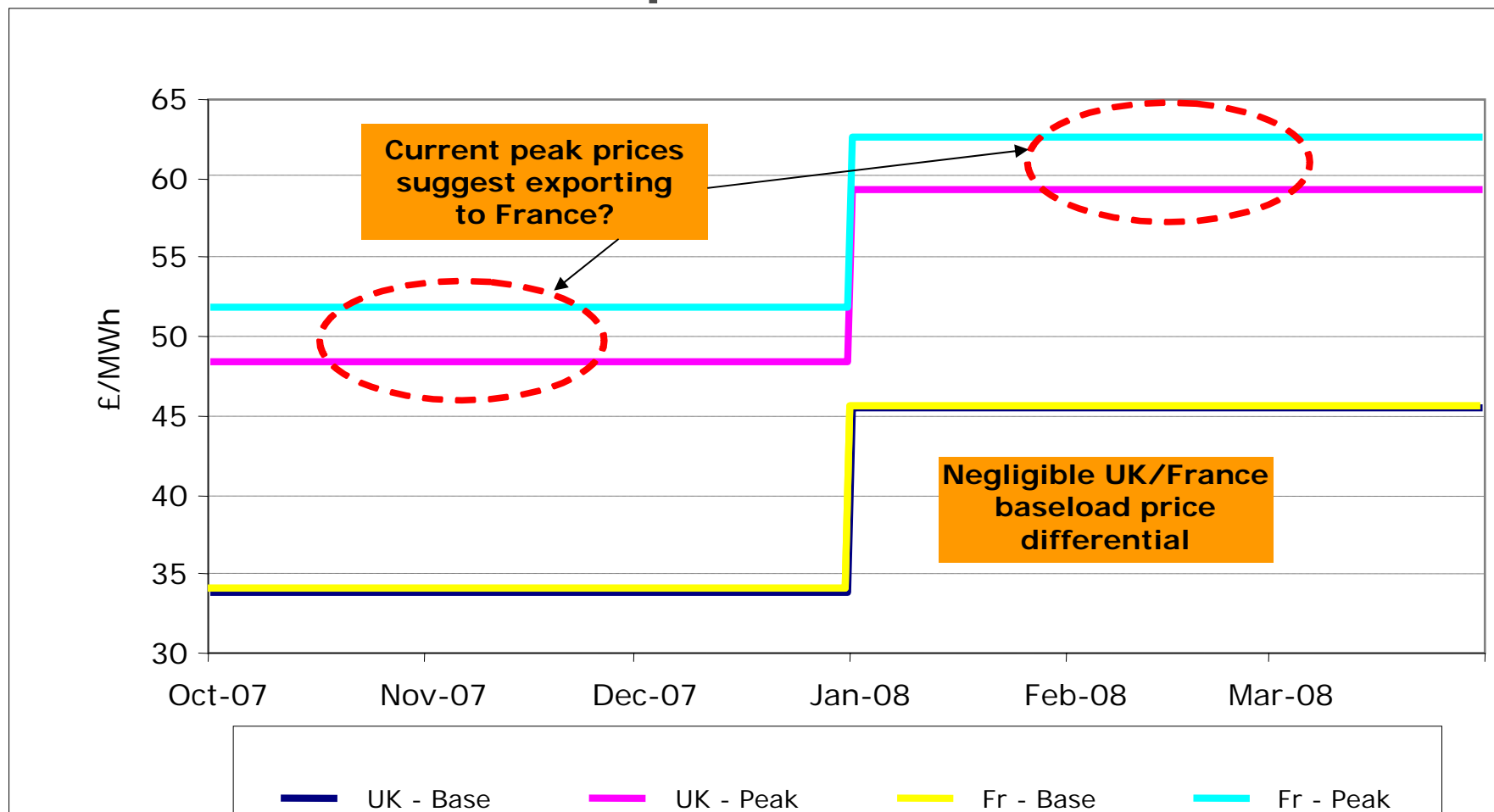
Electricity supply

Electricity margin sufficient in severe conditions



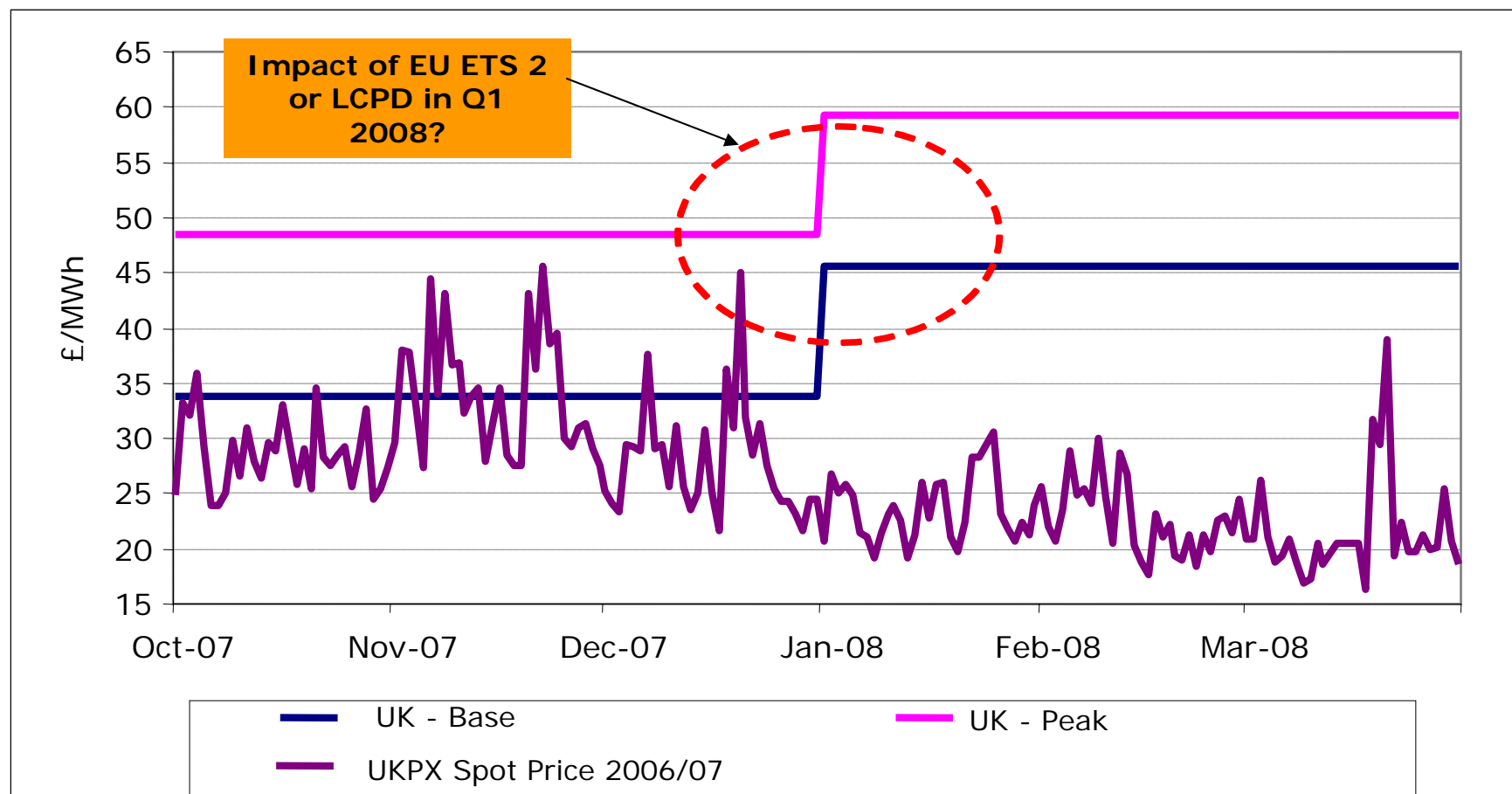
Will imports from France materialise under severe conditions in GB?

European interaction



Your views on French-UK interconnector flows for this winter are important

Environment interactions



EU ETS 2 and LCPD expected to impact price NOT security of supply?

Large Combustion Plant Directive

**What
does it
mean?**



- Restricts around 12 GW of coal and oil generation to run for 20,000 hours from 1 Jan 2008 to 2015
- 1hr of allowance used up whether 1 unit (500 MW) or 4 units (2 GW) run

Implications



➤ *Volume effect*
Generators will want to get revenue for 4 units rather than 1



➤ *Price*
Opportunity cost for generators, so price may reflect expectation of prices to 2015



- No impact on security of supply- generators will still be available to run... but at what price?
- Effect may be higher price spikes in BM

Gas network capacity

Background

Existing regime gives long term investment signals to NGG about where additional capacity is needed on the NTS

Shorter term arrangements are required to ensure capacity can respond flexibly to shipper demand

Need capacity to be available at the terminals where shippers wish to land gas

Pattern of gas supplies and imports to GB is constantly changing

Demand for entry capacity at each terminal can change quickly

Transfer and Trade arrangements to be implemented for this winter

Entry Capacity - NG's role and obligations

National Grid

- Licence and statutory obligations to ensure all physically available capacity is released to shippers
- Commercial incentives to maximise capacity offered
- Work with industry to deliver Trade and Transfer obligation signed up to as part of TPCR

Commercial tools at NG's disposal to manage capacity constraints

- Ability to sell additional firm and interruptible capacity before or on each gas day
- Entering into forward or options contracts to "buy back" capacity

Ofgem

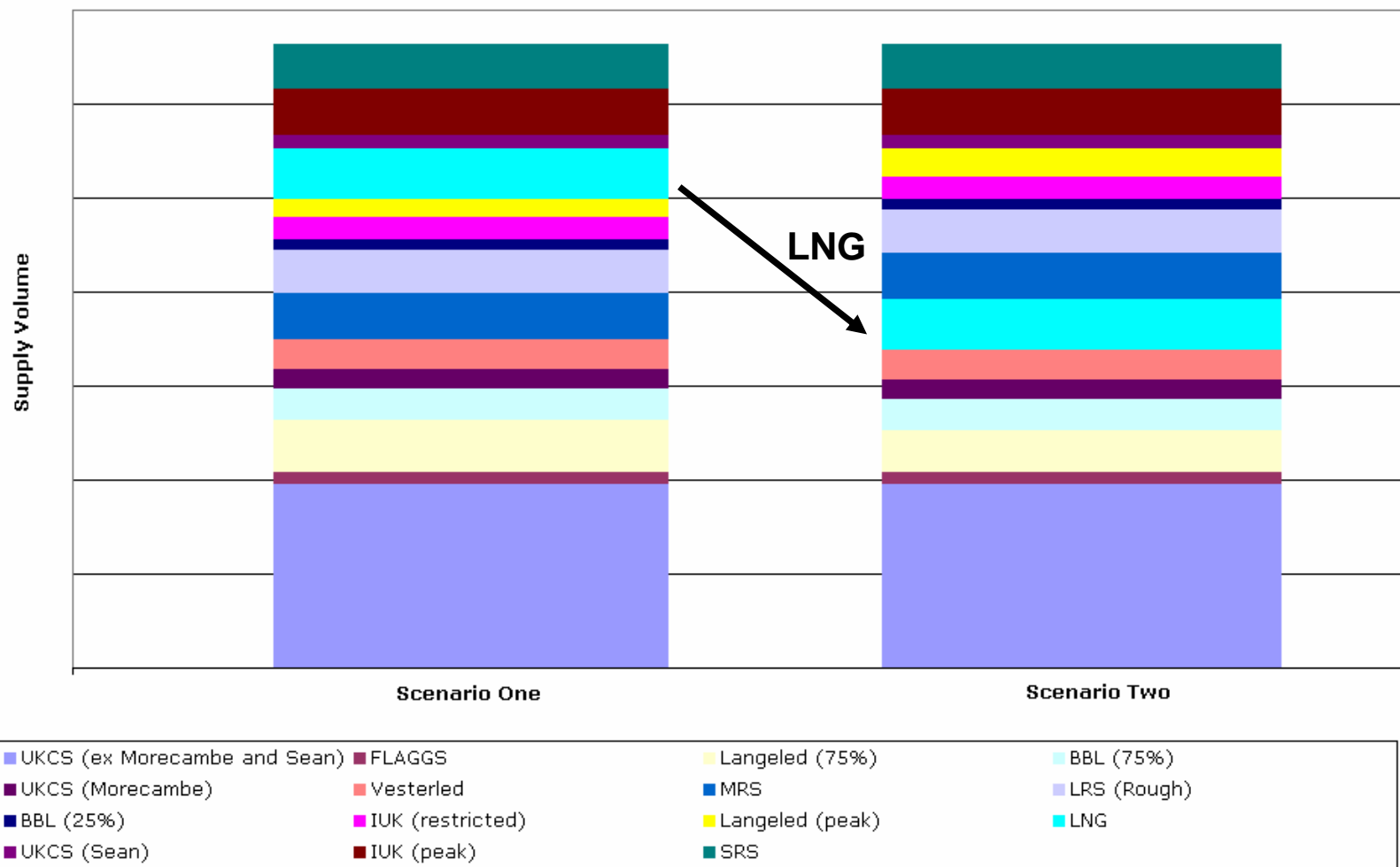
- Monitor NG
- Investigate and take action where necessary

Scenario analysis of system constraints

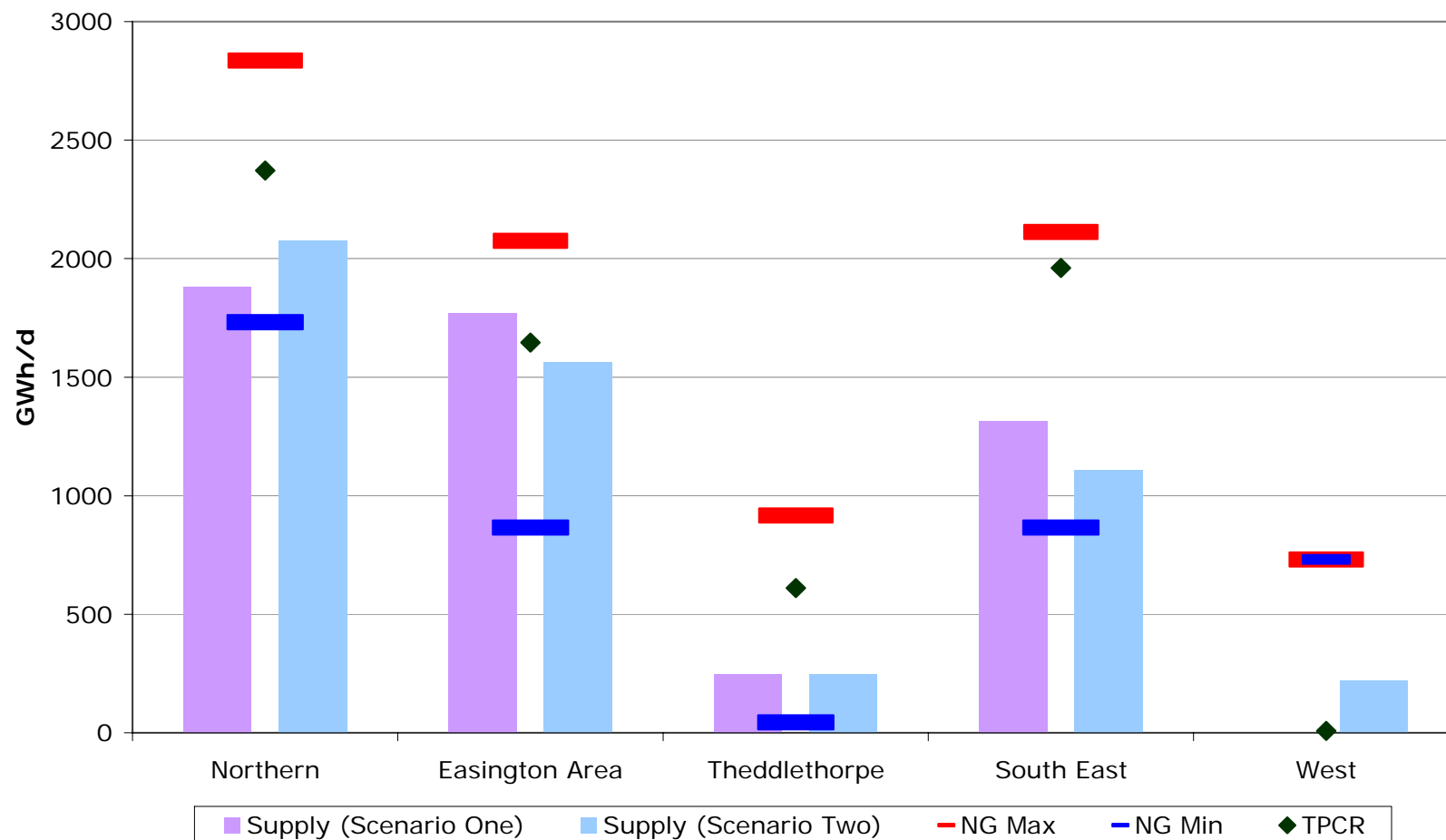
- A merit order was used to determine which supply sources would be used to meet 3 different levels of demand
 - A merit order for each scenario was constructed as follows:
 - 1) observed outturn flows during winter 06/07
 - 2) falling global LNG prices
- Supply totals for each zone, have been
 - compared to TPCR baseline, and
 - Compared to the max and min zonal capability data provided by NG

This analysis is purely illustrative and should not be relied on in making commercial decisions

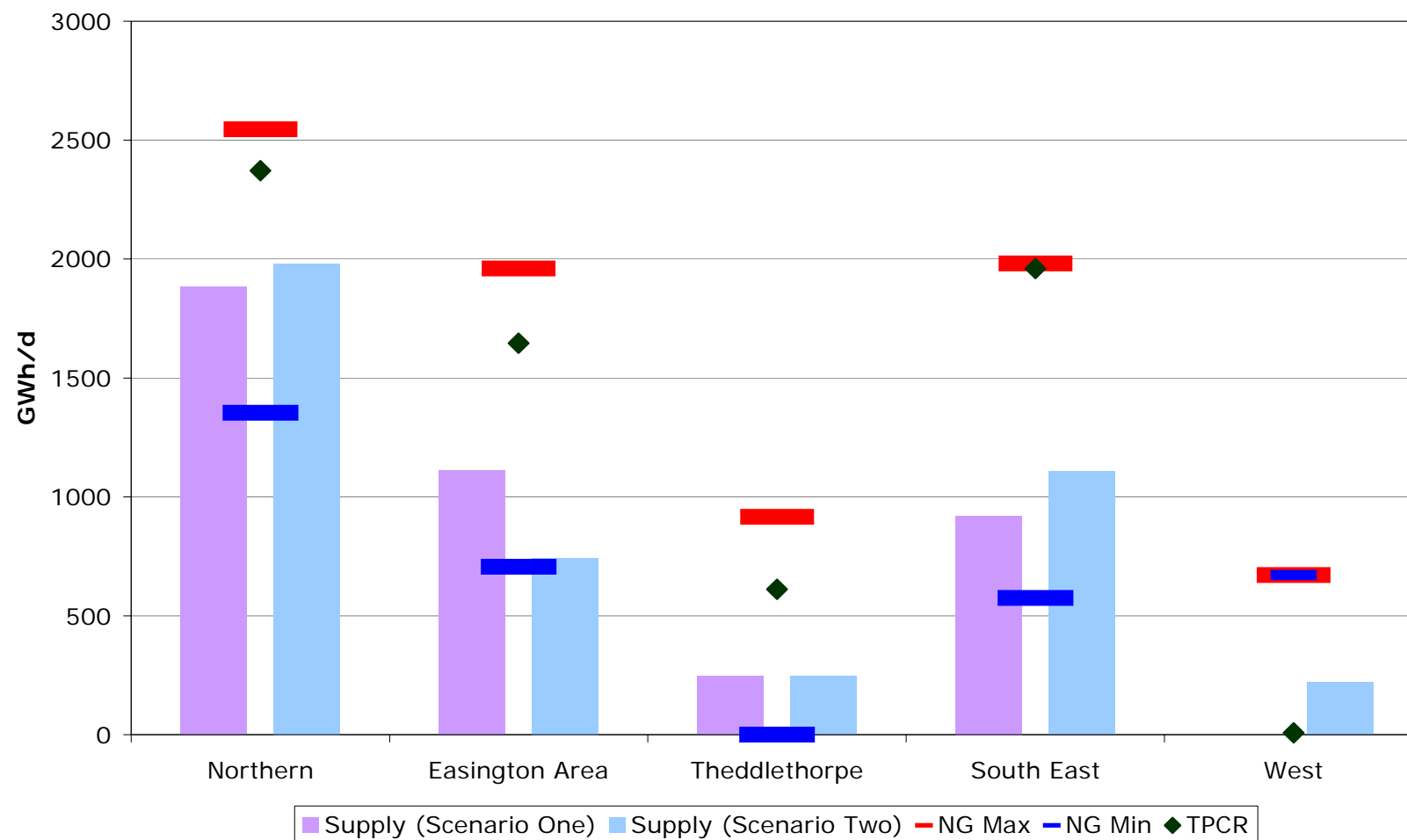
Merit order scenarios



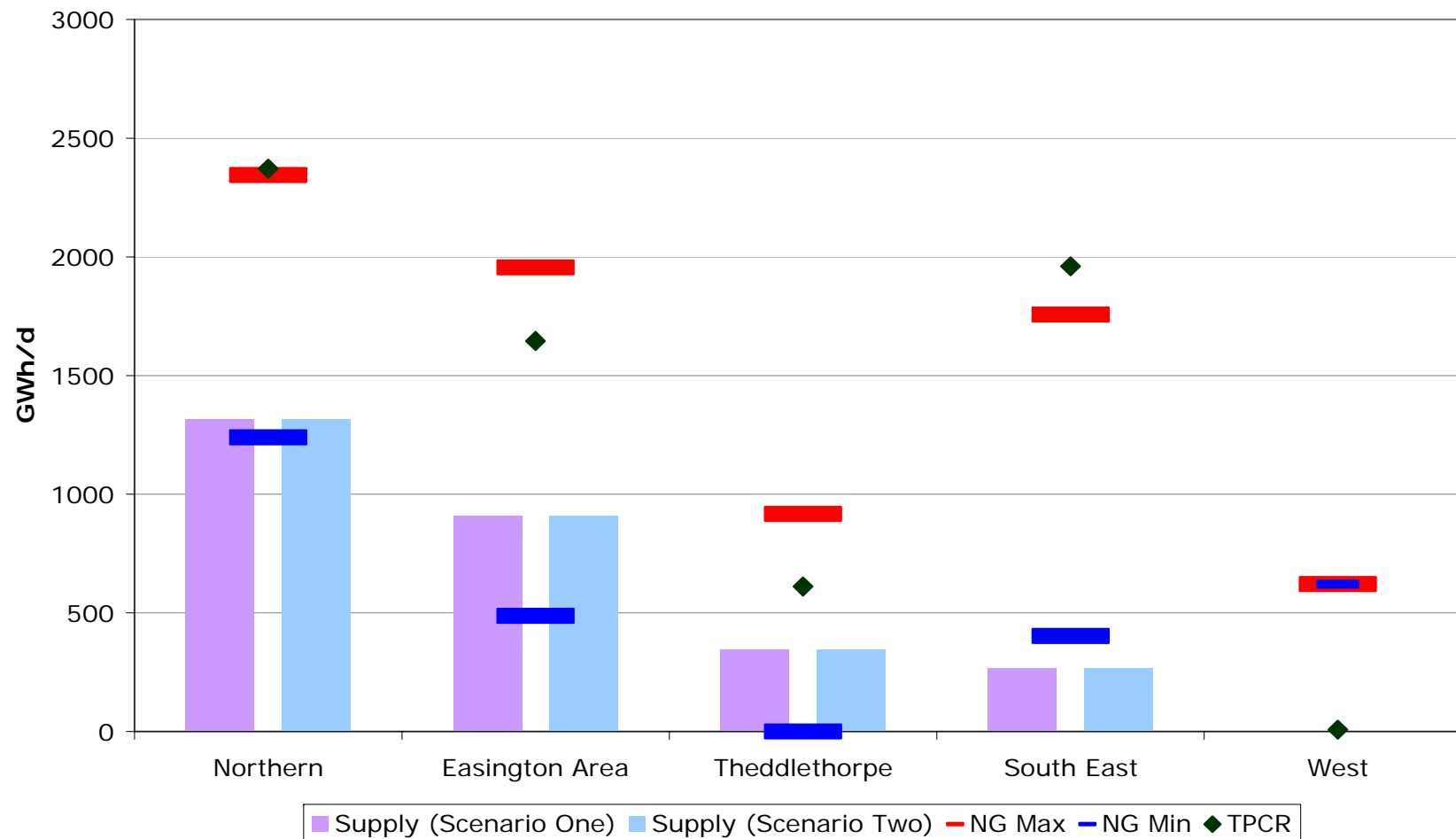
High Demand



Medium Demand



Low Demand



Other policy developments

Government and European Energy Policy

➤ **The Energy White Paper indicates the Government's commitment to using markets and independent regulation as the cornerstone of energy policy:**

- *"independently regulated, competitive energy markets, are the most cost-effective and efficient way of delivering our objectives"*
- *"effective markets will ensure that the world's finite resources are used in the most efficient way and ensure that we make the transition to a low carbon economy at least cost. Further liberalisation of EU energy markets is an important part of this"*

➤ **The EWP lent a lot of support to reducing our use of energy through demand-side measures:**

- *"the starting point for our energy policy is to save energy"*
- Are we already seeing the impact of environmental concerns? Peak electricity demand forecast for winter 07/08 is 0.5 GW lower than for winter 06/07.

European "Third package" of liberalisation legislation due 26 September 2007

Energy Markets Outlook (EMO)

- **Energy White Paper commitment to**
 - *"a new energy market information and analysis service from this autumn" that "will be jointly run by DTI and Ofgem"*
- **Analyse potential developments in gas and electricity markets over next 15 years**
 - provide industry participants with credible long term market scenarios
- **First annual report to be launched in the autumn**
- **Stakeholder engagement will be key**
 - Consultative process

EMO provides a long-term complement to the Winter Outlook process

What Ofgem is doing

SO Review

- Full review of electricity and gas SO functions and incentives
- Need for multi-year incentive schemes to increase long-term investment
- Consultation in July

Distributed Generation

- Potential to increase security and reliability of supply
- Ensure fair treatment in network operation/regulation

GB Markets

Cash out Review

- Wide ranging review in 2007
- Aim to simplify current arrangements
- Industry input key (Mods P211/212)

Gas Quality

- Potential supply constraint
- Market participants need to consider need for investment
- July update document

European Outlook

European Transmission System Operators (ETSO) Winter Review for 2006/07

Lessons learned

- Weather conditions (past and expected) should be the key consideration in developing the ETSO Winter Outlook Report
- Unplanned outages and changes to maintenance periods drive variation between forecast and actual capacity on the day
- Co-operation between TSOs and operations is crucial to manage power shortage situations
- National balance cannot be approached in an isolated manner

Key risks
for 07/08

Weather

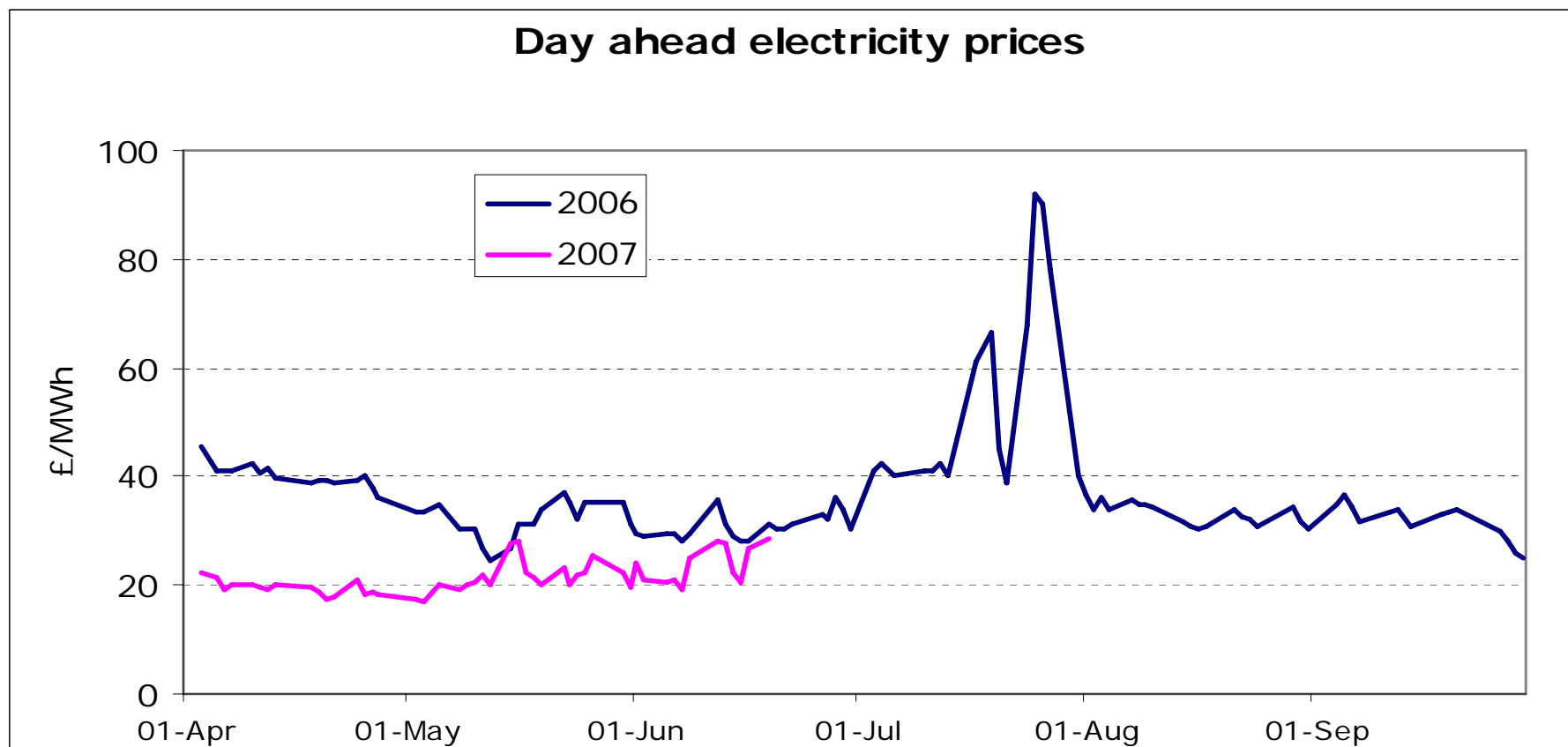
Unexpected
outages

Levels of wind
generation

Reliance on
cross-border
exchanges

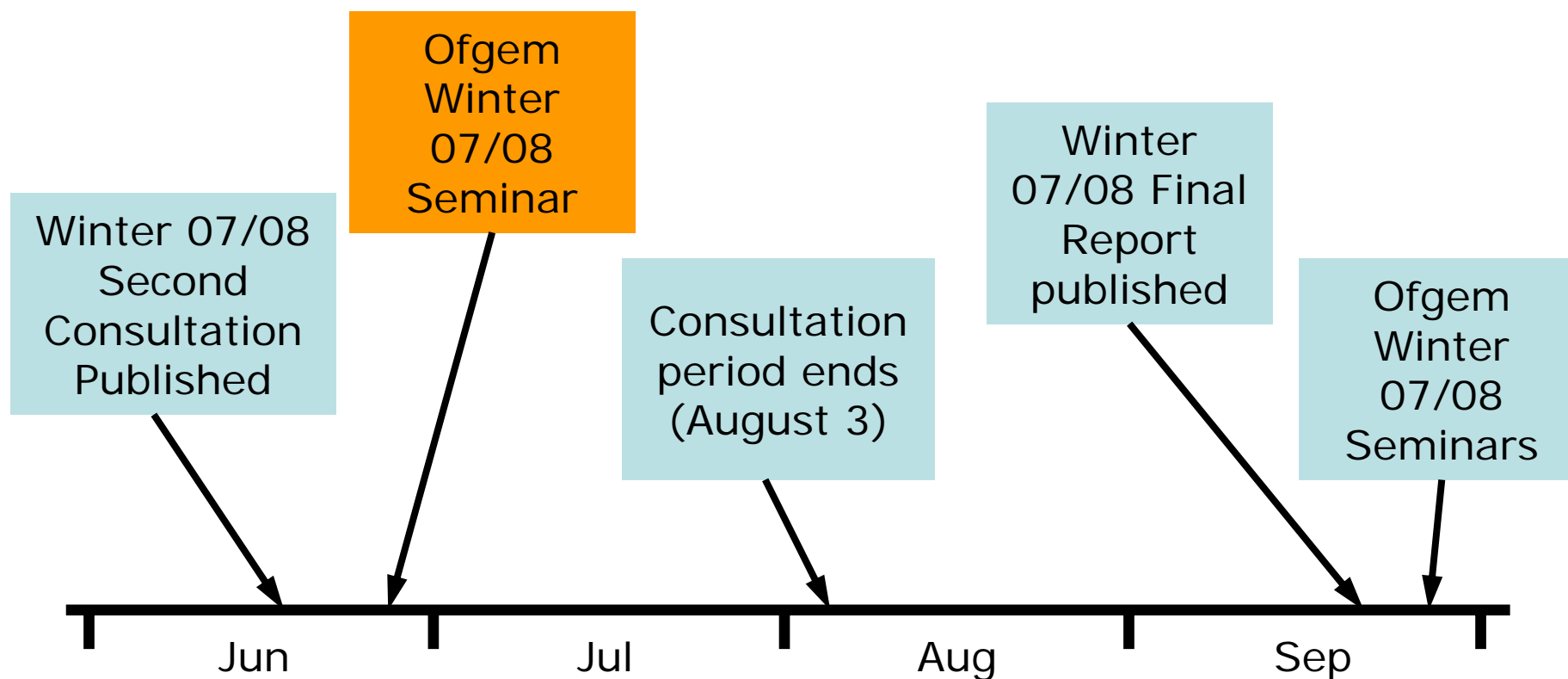
Summer 2007

Summer 07 – good news so far



**Current information suggests a calm summer 07 period
BUT should bear in mind the events of summer 06**

Next steps





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