British Energy

Winter to Date – The British Energy View
23 January 2008

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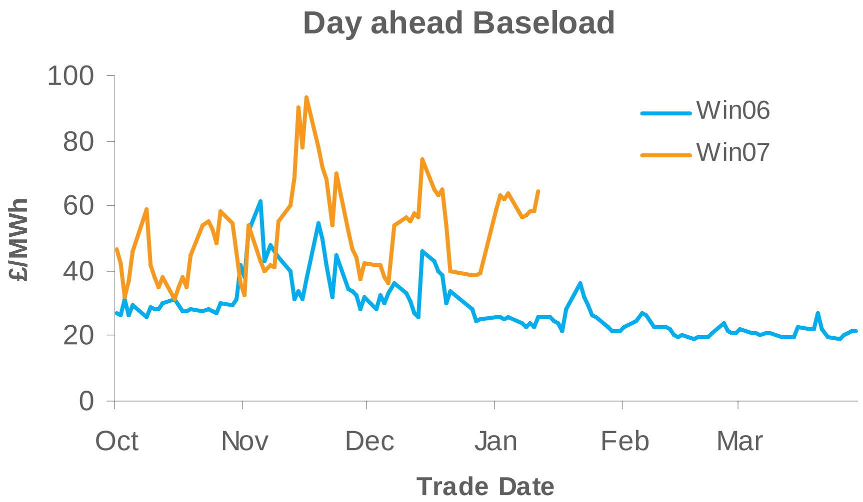
Overview

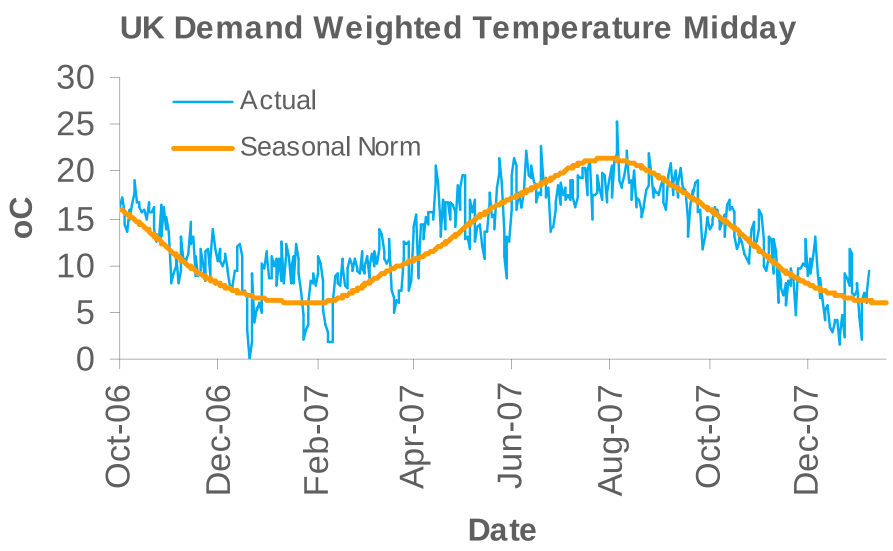
> UK prompt power prices
> Major drivers
  > Temperature
  > Generation Margin
  > Gas
  > LCPD
> Looking forward

Day-ahead Baseload prices



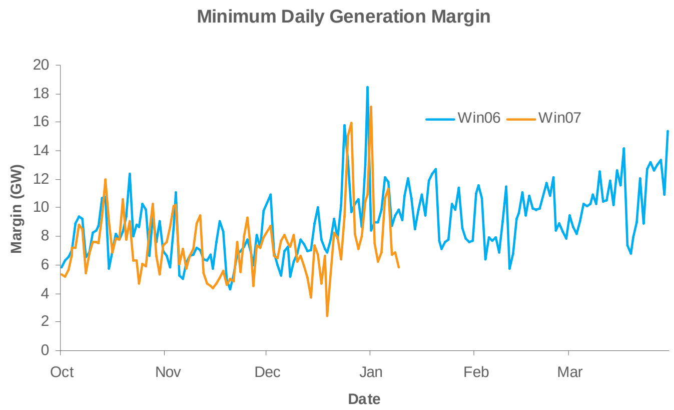
- Power prices this winter are dramatically different from last winter
- Average winter day-ahead price to date is in excess of £50/MWh compared to just over £30/MWh last year
- What drivers are causing the difference?
- Potential candidates include
  - Temperature
  - Generation Margin
  - Fuel prices

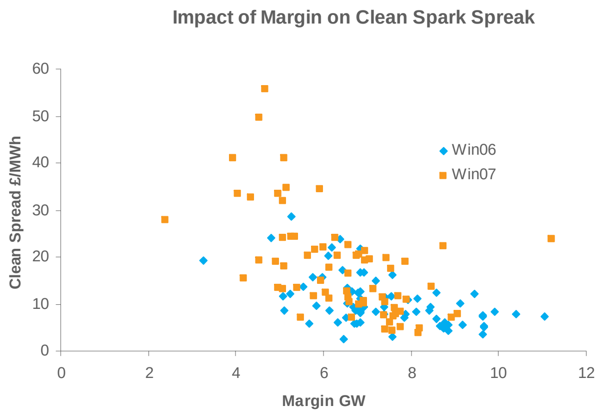
Temperature



- The average temperature in winter 06-07 was 1.34C above the 1971-2000 seasonal normal
- The average temperature in winter 07-08 has out-turned 0.08C below the 1971-2000 seasonal normal
- Will produce a difference in
  - Electricity demand
  - Gas demand

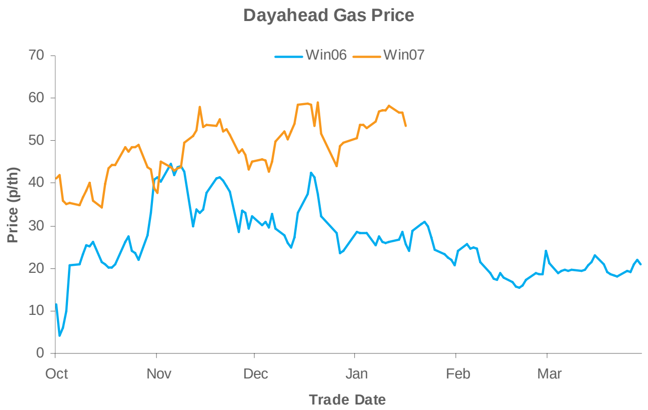
Generation Margin

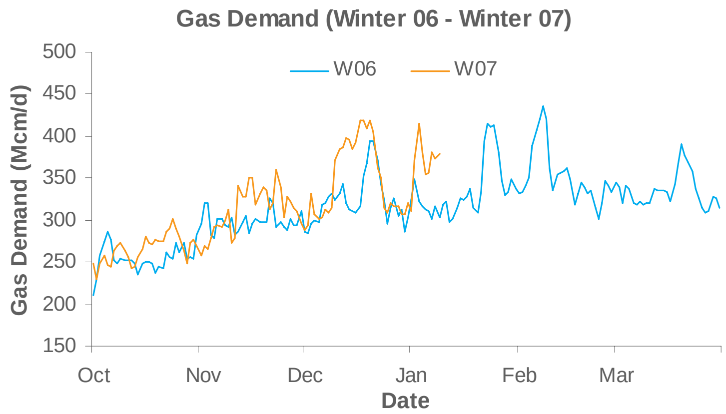




- Margin at peak has been on average 800 MW less this winter than last
  - Demand on average is up by just over 1.05GW
  - UK supply is up by over 750 MW
  - French IC flow reduced by around 500 MW
- Primary driver for change is colder weather
- Gas remains marginal plant in winter
  - Impact of margin on price can be examined by examining clean spark spread
- Clean spark has averaged £17.75/MWh this winter to date compared to £9.40/MWh for same period last year
  - Generation Margin around 5GW more frequently this winter
  - Clean spark spread more sensitive to tight margins this winter

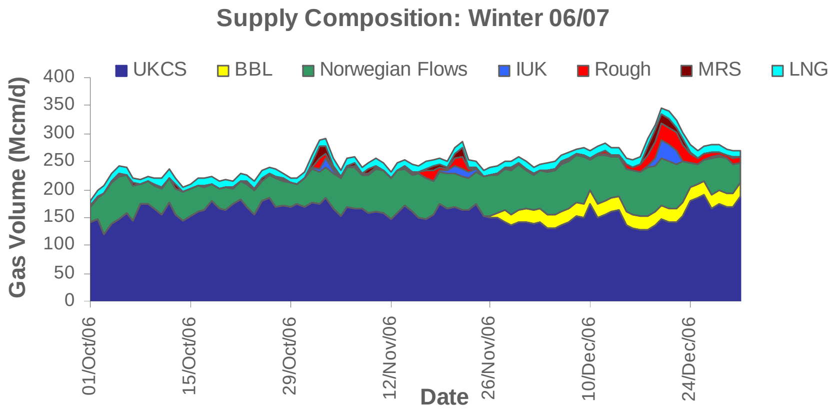
Spot Gas Prices

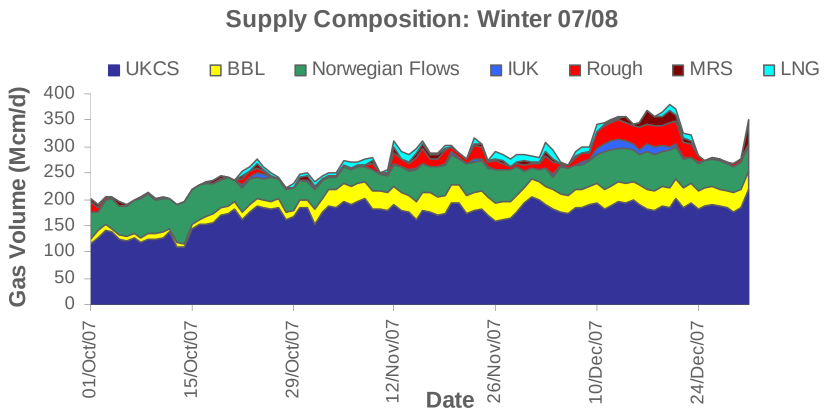




- Spot gas prices averaged 47.7p/th this winter to date compared to 29.6p/th for the same period last year
- Gas prices have consistently traded above the last traded Q4 07 price of 40.5p/th
  - Feature of the gas market across the year, with forward prices underestimating the spot outturn
  - Will it continue for balance of winter?
- Average demand Win07 to date is 313mcm/day compared to 294mcm/day for same period last year

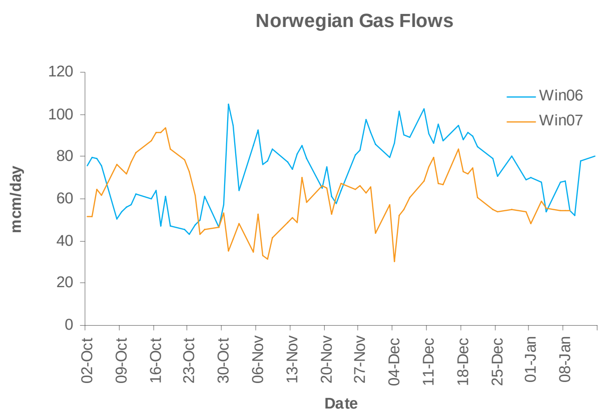
Gas Supply

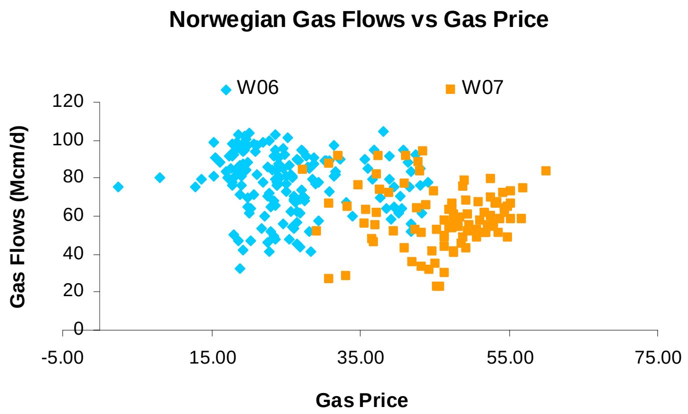




- Increasing uncertainty surrounding the UK's depleting indigenous gas supplies
  - Problems at Bacton and Barrow
- Low IUK imports despite the significant premium the NBP has over the EBP
  - Continent generally unwilling to release gas from storage in Q4
- Strong flows through BBL
- Significant withdrawals from UK gas storage to balance supplies (max withdrawals of 45mcm/d)
- Lower Norwegian gas imports and uncertainties surrounding flows
- Lower LNG imports

Norwegian Gas Flows





- Commissioning of the Langeled pipeline in Oct 2006 increased potential gas imports into the UK
  - But gas capacity doesn't necessarily equal gas flows
- Sustained heavy Norwegian gas flows in Win06 despite the fall in prompt prices
  - Excess UK supply
  - Day-ahead traded to a low of 4p/th in October 2006
- Imports from both Langeled and St Fergus have been unpredictable this winter
  - Average flows of 65.7mcm/day in Q4 06 compared with 51mcm/day in Q4 07
- Delays in Ormen Lange commissioning
  - Expectation of 20-30mcm/day by end Sept
  - Output only reached 12mcm/day in Oct 07
  - Flows suspended in Nov 2007 following a gas leak at one of the compressors
- Production at Kvitebjorn was reduced and then subsequently closed in May 2007
  - Capable of delivering between 18-20mcm/d
  - Returned last Thursday
- Norwegian oil production reduced
  - Reduction in associated gas production

Global LNG

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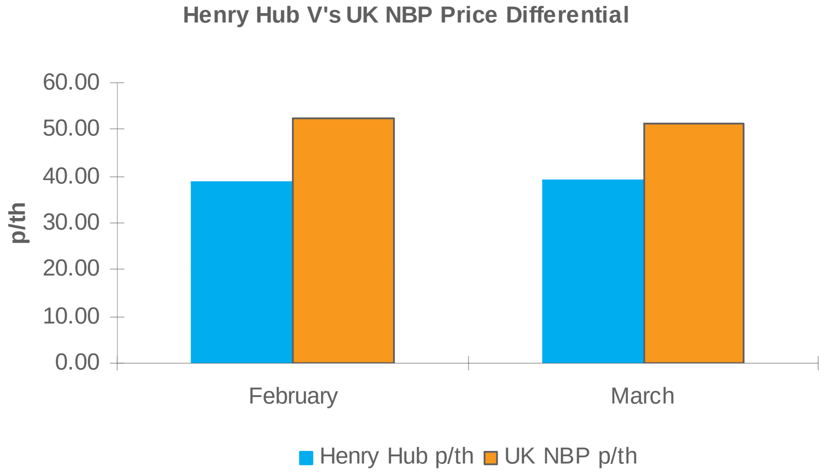

- Two new LNG import terminals at Milford Haven due on line this winter have been delayed
  - South Hook (29mcm/d) and Dragon LNG (16mcm/d)
- UK NBP at a 13p/th premium to the US making it an attractive destination for LNG cargos
- Isle of Grain terminal was not fully utilised in Q4 07
  - BP & Sonatrach only delivered 7 cargos this winter
  - Slots offered to the secondary market were left un-utilised
  - Last year all slots were utilised despite lower NBP prices
- High Asian demand following earthquake damage to Tepco's 8.2GW Kashiwazaki Kariwa nuclear reactor
  - Paying a premium to the UK for cargos to be diverted (between $14-16/MMBtu)
- High European demand for LNG due to low hydro levels
  - Currently 33.4% full (lowest levels since Nov 2005)

Large Combustion Plant Directive

- LCPD came into force on 1 January
  - Places environmental constraints on fossil fuelled generation capacity
  - Must meet emissions targets or ‘opt out’
  - Approximately 11GW of plants has opted out and will be restricted in the number of hours they generate
- Still too early to determine running patterns from opted out plant
- Interesting running for plant where fitting of FGD is delayed
- Aberthaw – returned to service this week
  - Should be no constraints on running for remainder of winter
- Fiddlers and Ferrybridge – running focussed around block 5
  - Running could be limited until the end of April
- Rugeley – running baseload
  - Is flexibility limited due to low NOx coal?

Drivers on remainder of winter

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- UK Gas Market
  - Uncertainty surrounding Norwegian gas flows
  - European demand
  - LNG imports
- Coal
  - Prices are high
  - Coal plant likely to become marginal towards end of winter – driver of power prices
- Weather
  - Sustained periods of cold, dry and still weather will affect supply/demand
- LCPD
  - How will running patterns for opted out plant develop?