

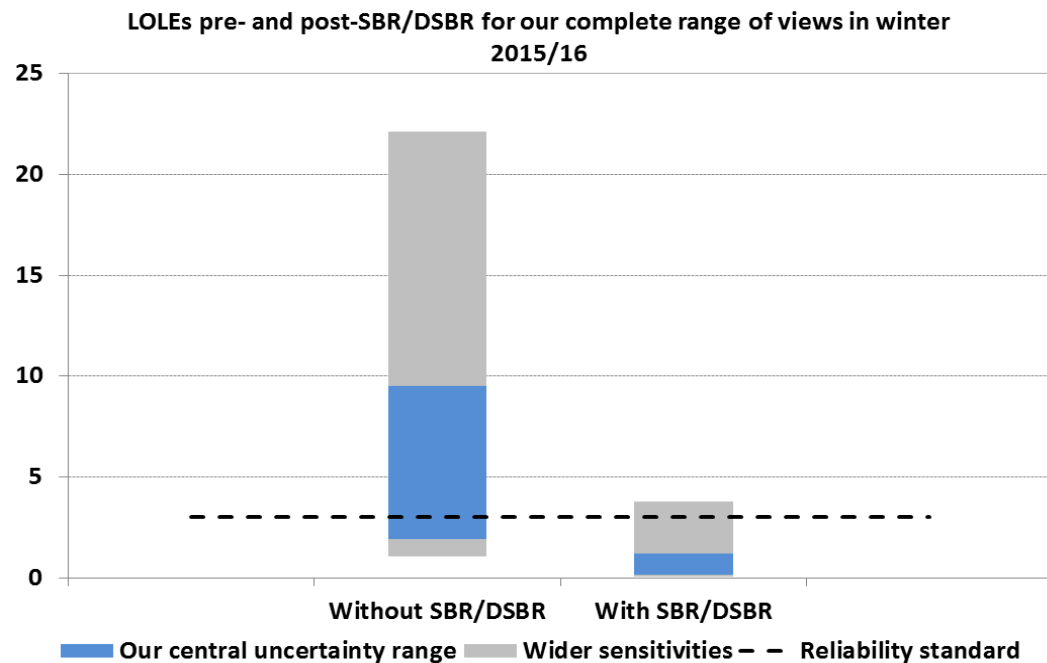
**Winter 2015/16**  
Winter Outlook Seminar 2015

**Emma Kelso**  
15 October 2015

ofgem

- Electricity:
  - National Grid has the tools to manage the system.
  - Market response should reduce the likelihood of NG having to use the SBR/DSBR to balance the system.
  - Ofgem minded to approve extension of New Balancing Services for winters 16/17 and 17/18 to tackle uncertainty.
- Gas:
  - Healthy market outlook. Winter prices are at their lowest since 2009.
  - GB has a diverse range of supplies.
  - The LNG market appears to be loosening with lower demand from Asia and increased supply from Australia.
- Our wholesale market reforms in gas and in electricity are aimed at enhancing security of supply and promoting a well-functioning market. We are focussing on monitoring the impact of market reforms and market response.

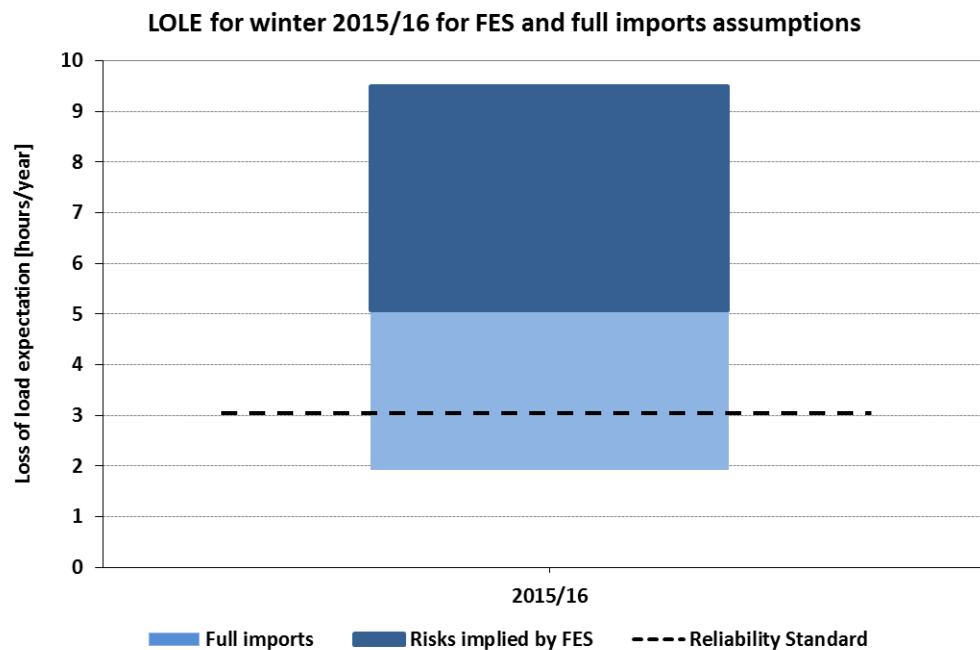
- Electricity Security of Supply Report 2015 covers the outlook for winter 2015/16
  - The New Balancing Services will significantly decrease risks to supply for winter 2015/16 to within the Reliability Standard in a wide range of credible scenarios



- There is significant uncertainty beyond this winter.
- We see a lot of opportunity for the market to respond, for example through higher continental imports and increased plant availability.

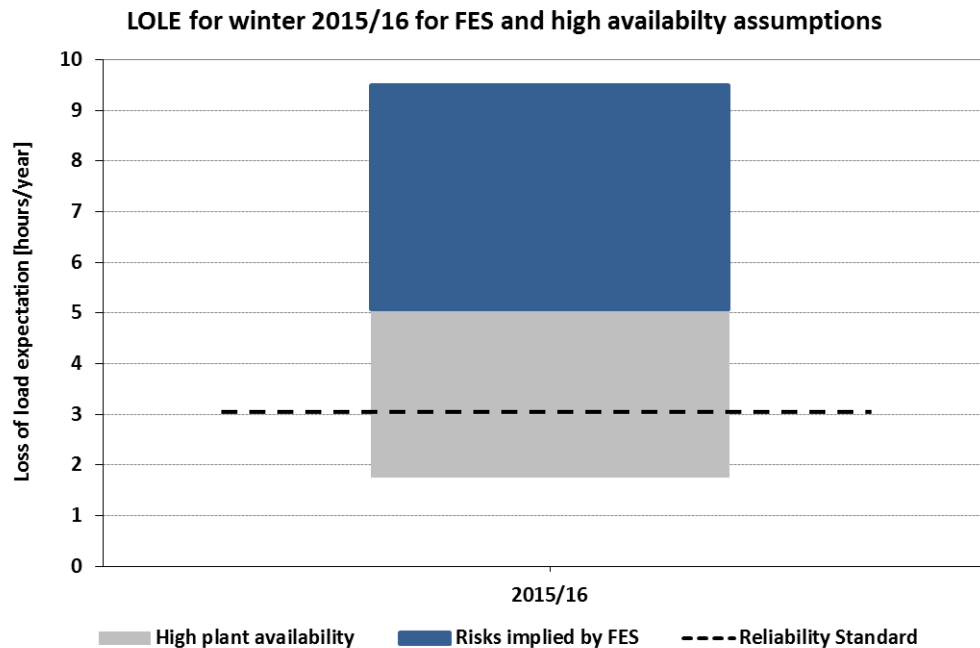
# Market response: Interconnectors

- National Grid's Future Energy Scenarios (FES) assumes net imports of around 1.1 GW.
- Significant opportunity for interconnectors to respond to the projected tighter situation. There is uncertainty, but:
  - the GB-continent price differential has increased in recent years
  - France and the Netherlands are well interconnected with other EU markets
  - there is evidence that flows are going in the efficient direction more frequently since day-ahead market coupling in NW Europe



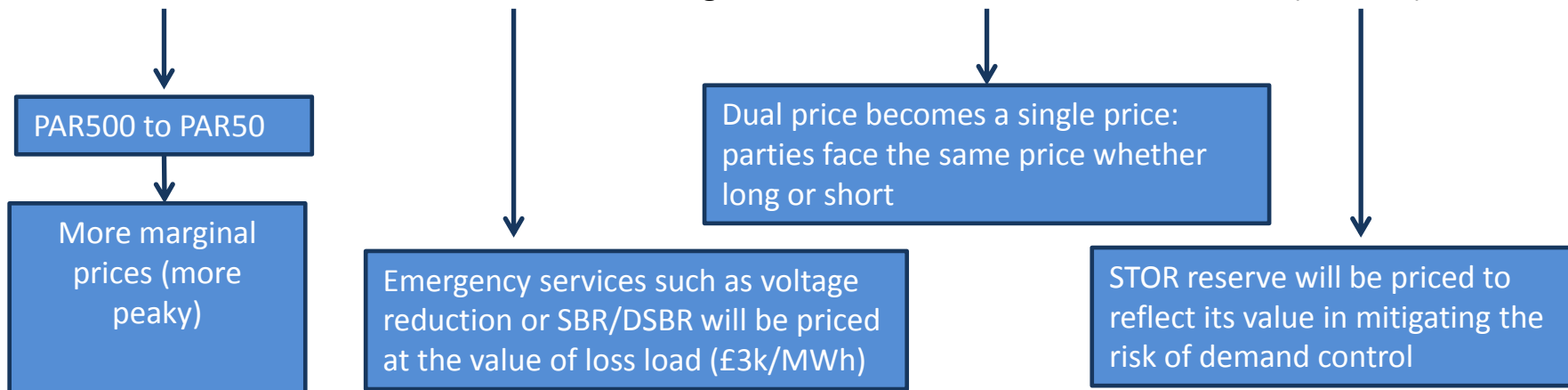
# Market response: Plant availability

- The FES de-rating factors for conventional generation are based on the historical performance of plant during the past seven years when margins were healthy. But with a tighter situation in the coming winters, it is likely that market signals will give generators significant potential to respond.
- We see the opportunity to achieve availability towards the top of the range achieved in recent winters - CCGT and nuclear plant availability at 89% compared to 87% and 82% respectively in the FES.



## Ofgem's EBSCR reforms sharpen incentives for the market to respond

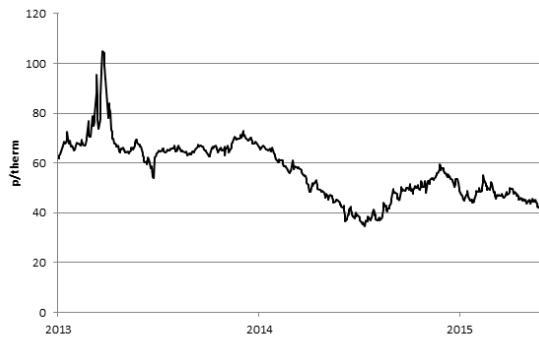
- Reforms ensure cash out prices more closely reflect the cost to the consumer of imbalance so provide industry with an incentive to balance that more closely aligns with the consumer interest
- Phase 1 of EBSCR reforms to cash-out arrangements comes into effect this winter (Nov 5<sup>th</sup>):



- Industry response to the new EBSCR incentives can strengthen security of supply through multiple routes:
  - striking demand side reduction contracts
  - striking options with peaking plant
  - investments in forecasting or reliability

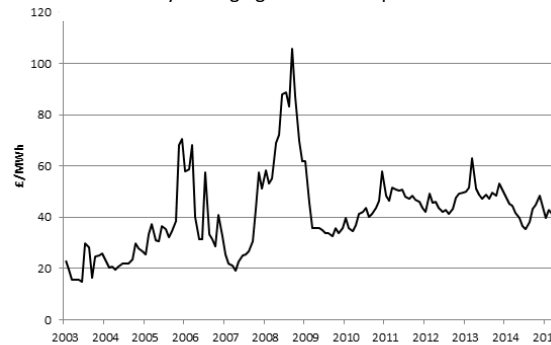
- Focus is on monitoring and understanding impact of our reforms such as the 'Secure & Promote' for liquidity. We also have a suite of wholesale market indicators:

Daily average gas wholesale prices 2013-2015



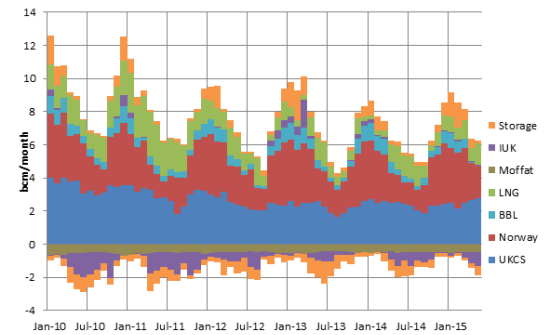
Source: ICIS

Monthly average gas wholesale prices 2009-2015



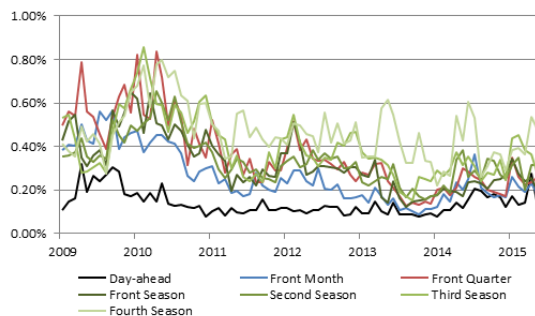
Source: ICIS

Detailed gas supply breakdown Oct 09 - Nov 15



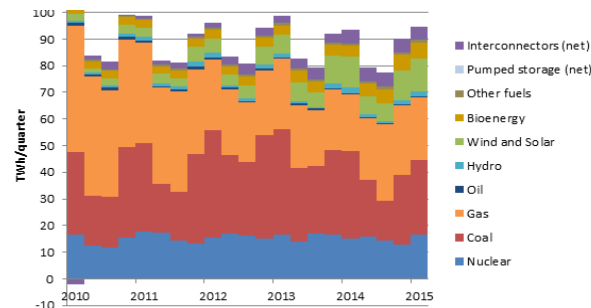
Source: National Grid, Ofgem analysis

Gas bid-offer spreads 2009-2015



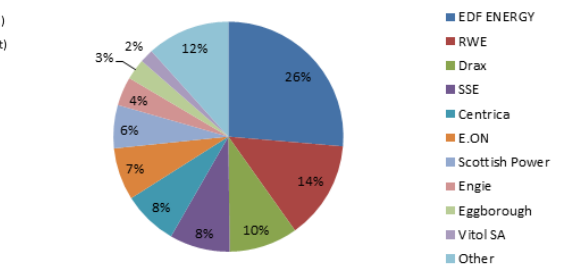
Source: ICIS, Ofgem analysis

Electricity supply breakdown 2009-2015



Source: DECC Energy Trends

Electricity shares of generation output 2014



Source: Elaxon, NETA Reports, Ofgem analysis

- <https://www.ofgem.gov.uk/monitoring-market/wholesale-market-indicators>
- We are interested in your feedback on these indicators

The GB gas market has repeatedly shown it can deliver gas security even during the highest ever demand (2010) and with unexpected infrastructure failures

- Lower GB storage stocks compared with last winter. Partially due to reduced storage capacity at Rough and lower incentives to inject gas for winter use (i.e. lower summer spreads).
- But storage accounts for only a small percentage of supply. GB has a diverse range of gas supplies, including domestic production, interconnector flows, and LNG.
- The global LNG market appears to be loosening with lower demand from Asia and increased supply from Australia. It is likely that GB will see more LNG cargoes this winter.
- The Gas SCR Cash-out reform was implemented 1 October 2015. This should increase incentives on shippers to ensure demand is met and strengthen price signals in an emergency.
- Overall, healthy security of supply outlook for GB but we remain vigilant and continue to monitor the market with DECC and NGG.



- Electricity: National Grid has the tools to manage the system this winter. There is significant opportunity for market response to reduce the likelihood of having National Grid having to use the SBR/DSBR to balance the system.
- Gas: Outlook is healthy, with low prices and an abundance of LNG.
- We will monitor how the market responds to the security of supply outlook and developments over this winter 2015/16.
- Our wider wholesale monitoring work continues, including monitoring the impacts of our reforms.

**Ofgem is the Office of Gas and Electricity Markets.**

**Our priority is to protect and to make a positive difference for all energy consumers. We work to promote value for money, security of supply and sustainability for present and future generations. We do this through the supervision and development of markets, regulation and the delivery of government schemes.**

**We work effectively with, but independently of, government, the energy industry and other stakeholders. We do so within a legal framework determined by the UK government and the European Union.**