

National Grid's Winter Consultation Report



In September 2006, Ofgem published National Grid's annual Winter Consultation Report.

This followed the publication of a first consultation document in May and a consultation update in July.

The report contains analysis of the supply and demand backgrounds in the gas and electricity markets under a range of winter weather conditions. It is not a National Grid forecast for what will happen, but rather a reflection of the views expressed from around the industry throughout the consultation process together with our own analysis

The report does feature a gas supply 'base case', which represents the collective 'best view' of the industry. However, given the significant uncertainties, this should not be interpreted as a firm prediction of the gas supply position.

Roles in the Energy Market

Providing enough gas and electricity to meet customer demands is the responsibility of **suppliers, shippers** and **generators**.

The structure of the markets and the monitoring of companies' conduct are the responsibility of **Ofgem**.

National Grid has two main responsibilities:

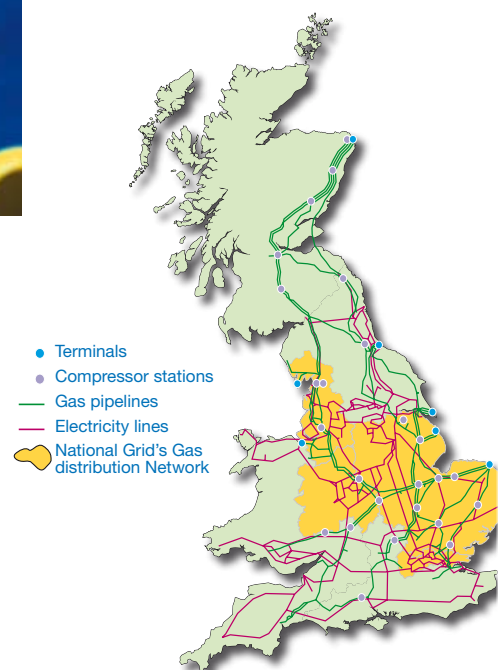
- for ensuring there is adequate and reliable network capacity to meet anticipated transportation requirements
- for the fine tuning of the balance between supply and demand in both gas and electricity

Gas

Assuming similar weather to 2005/06, our latest forecasts would suggest gas demand levels slightly (by around 5 million cubic metres a day on average) lower than last winter, driven by price increases.

Gas supplies from the UK Continental Shelf continue to decline, although a number of new infrastructure projects are projected to start importing new gas this winter. The base case is that gas supplies for the final quarter of 2006 could be similar to that seen for the same period last year, but supplies for the first quarter of 2007 could be significantly higher than the same period last year (even prior to the Rough storage incident on 16 February).

The gas market therefore has the potential to be less tight than last winter, provided the level of gas through the new importation infrastructure is sufficiently close to the base case assumptions (and, of course, subject to the weather).



The uncertainties around the levels of gas imports are a consequence of the complex interactions between the UK gas market and the European and LNG markets.

Projected New Sources of Gas Supply this Winter

- the Langeled pipeline from Norway connecting at Easington in Humberside
- the second upgrade of the Belgian Interconnector
- the BBL pipeline between Bacton in Norfolk and Balgzand in The Netherlands
- Excelerate Energy's LNG project at Teesside

Sources of gas (excluding storage) – the 2006/07 base case assumptions

Supply source	2006/07 Base Case (million cubic metres)	
	Oct – Dec	Jan – Mar
UK Continental Shelf	240	240
Norway	48	48
IUK (Belgium)	25	40
BBL (Netherlands)	0	20
LNG imports	13	13
Total	326	361

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Storage

No major changes in storage capacity are expected for this winter although the Humbly Grove facility, which was commissioned last winter, will be operational throughout the winter for the first time.

Britain's largest storage facility, Rough, became unavailable last winter after the incident on 16 February 2006 but has been refilling since early June and full withdrawal capability is expected to be available by 1 October.

Electricity

The outlook for the electricity market in 2006/07 appears less uncertain than that for the gas market, and is broadly similar to the position last year. The August update for National Grid's Seven Year Statement showed a headline "plant margin" – the surplus of generation over forecast peak demand – of 22%, compared to 21% this time last year.

Last winter was characterised by coal-fired power stations providing "baseload" power (generating continuously), with gas-fired power stations providing the marginal capacity (meeting only the peaks in demand). A similar pattern is anticipated this winter.

Report indicated an equal probability of a milder than average or colder than average winter, with a slightly higher probability than normal of an average winter. The statement also notes a signal that the winter may become colder in relation to average temperatures as the season progresses.

Our analysis indicates that if the winter is average or milder than average, little or no demand-side response would be required. Our analysis of severe winter conditions indicates that even in a 1 in 50 cold winter – last seen in 1962/63, there would be sufficient gas to maintain supplies to domestic and other non-daily metered customers (e.g. small and medium sized businesses). There would, however, be a requirement for a significant demand-side response from Daily Metered customers, such as large industrial users and gas fired power stations.

The projected level of electricity generation is sufficient to meet demand, although in a 1 in 50 winter this is assuming there is not an unusually high level of power station breakdowns and sufficient non-power generation gas demand response is provided such that adequate gas-fired generation remains available.

Demand-side response explained

Simplistically, a 'demand-side response' refers to gas consumers (but typically meaning large industrial users) using less gas. This could mean generating companies using other fuels instead of gas. It could also mean industrial users seeing a commercial opportunity and selling their gas at a higher price than they paid for it, or just a decision to reduce the use of gas to avoid paying high prices.

National Grid no longer has the right to use interruptible contracts to balance supply and demand, only to resolve constraints on the transmission system.

The weather

Weather is of course a key factor in determining energy demand.

The Met Office's forecast issued on the same day as the Winter Consultation



For further information

National Grid's Winter Consultation Report is available at <http://www.nationalgrid.com/uk/Gas/TYS/outlook>

For the latest information on the gas supply and demand position throughout the winter, visit our Daily Summary Report at <http://www.nationalgrid.com/uk/Gas/Data/dsr>

Near real-time and historic data about the electricity Balancing Mechanism is available at http://www.bmreports.com/bwx_reporting.htm

The DTI website now contains dedicated pages on winter energy supply. These include links to various other useful sources of information. Visit: <http://www.dti.gov.uk/energy/winter-supply/page32154.html>

Ofgem published a covering letter alongside the Winter Consultation Report: <http://www.ofgem.gov.uk>

Who is National Grid?

National Grid is one of the world's largest utilities, focused on delivering energy safely, reliably and efficiently. We own and operate gas and electricity networks in the UK and US. We also have a number of businesses operating in related areas such as metering, interconnectors and wireless infrastructure for broadcast and telecommunications.

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