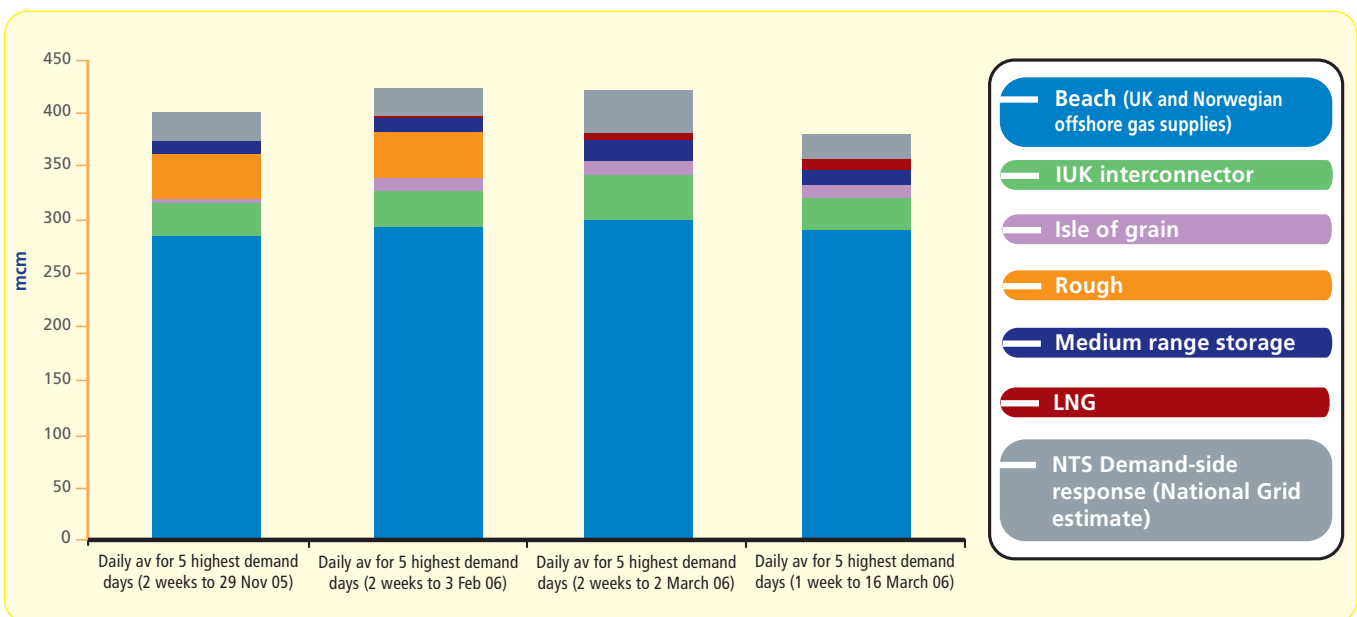


Winter 2005/2006 - Experience to date

During this winter, there have been testing conditions in the gas market, including the loss of 10 per cent of gas supplies after the closure of the Rough gas storage facility in February. The market has also seen erratic flows of gas through the interconnector pipeline. This factsheet looks in detail at how the market has risen to these challenges.

Winter 2005-2006 - an overview



Winter 2005-2006 - How the market responded to four cold snaps.

- November cold snap:** gas storage was used heavily because beach (UK and Norwegian offshore gas supplies), interconnector and the Isle of Grain were not delivering the expected amounts of gas. This combined with unseasonably cold weather caused spot prices to peak at 155p/therm and average 105p/therm over the top 10 demand days during this period.
- January cold snap:** supply sources performed more in line with expectations over this period. The spot price was averaging 70p/therm over the top 10 demand days.
- February cold snap:** Rough gas storage facility was closed following a fire on February 16. The market responded well increasing supplies, particularly from the interconnector and other storage facilities. Wholesale spot gas prices averaged 78p/therm.
- March cold snap:** low temperatures combined with the continued closure of Rough and lower than expected volumes of gas particularly from beach supplies and the interconnector. This led to National Grid issuing its first Gas Balancing Alert (GBA) - see overleaf for more details. Wholesale spot gas prices averaged 105p/therm and over the 10 top demand days reached a high of 195p/therm.

Gas Balancing Alert (GBA) – 13 March

On March 13, National Grid issued the first GBA. This was in response to high gas demand and lower than expected supplies particularly from the interconnector, beach and the continued closure of Rough.

The market responded to these signals with large users, particularly gas-fired power stations, turning down demand and suppliers drawing on gas in short and medium range storage. This ensured that the system was kept in balance with supply meeting demand.

Ofgem's action this winter

When gas supplies were lower at the beginning of winter than expected, Ofgem took action to provide the market with an explanation.

Interconnector

Flows from the interconnector this winter have not always been in line with prices. Ofgem estimates that this could have added around £1 billion to GB wholesale gas prices. If this is repeated through next winter it could add a further £3 billion to GB wholesale gas prices.

Ofgem asked the European Commission to investigate when the interconnector flows did not relate to price differences between GB and the European market. Ofgem hopes the European Commission will publish its findings of its investigation as soon as possible.

GB offshore

Ofgem worked with the regulator of the offshore industry, the Department of Trade and Industry, to understand beach supplies this winter. On occasions when supplies did not meet expectations this was due to short-term production problems.

Isle of Grain

Ofgem was also concerned about how unused capacity at the Isle of Grain LNG terminal was being offered to third parties - the so called 'use it or lose it' arrangements. National Grid Grain, BP and Sonatrach confirmed that they would put in place new arrangements.

GBA/Market rules

Ofgem, in liaison with the industry and customers at the Ofgem chaired Demand Side Working Group, helped introduce the GBA in time for this winter. The GBA is designed to provide a signal to the market that more gas is needed to keep the system in balance.

Ofgem also worked to introduce detailed changes to market rules to incentivise gas shippers to balance their positions.

Lessons learnt from this winter

Reliability of European imports

Why have imports through the interconnector not been in line with price?

Without transparent information about the European gas market, it is very difficult to explain flows through the interconnector.

Is it lack of pipeline capacity?

In November interconnector flows were low, despite high GB prices, yet in February the interconnector flowed close to full capacity. This does not seem to suggest that there are pipeline capacity issues.

Is it due to lack of gas ?

It is difficult to understand without transparent information on gas flows and storage stocks. However, the interconnector had delivered on a number of occasions throughout the

winter, but has not delivered on some days when GB gas prices have been much higher than those in Europe.

A further possible explanation is that the GB gas quality restrictions are potentially acting as a barrier to some gas being delivered to the GB market.

Trying to understand the situation in Europe - lack of transparency

Trying to get information on gas storage, gas supplies and capacity is very difficult for Ofgem and GB gas customers. They may well be plausible reasons why gas is not available but none of the major gas companies have come forward with an explanation.

How Britain compares to Europe in terms of transparency

In Britain, information on gas flows and storage gas levels are published, and there are moves to make this information available as close to real time as possible. However, in Europe information on gas flows is sometimes not published until a year later and some operators do not publish storage information.

Quick wins for next winter

Transparency

European companies could provide much more information about their storage levels and the operation of the European gas market. In Ofgem's view, companies with a substantial number of GB customers could be better at publishing this information which would help ease the pressure on GB wholesale gas prices and help GB customers.

Ofgem will also be working with National Grid to improve further the information available on their website on the gas market. Ofgem is also minded to approve a change to industry rules which will allow the onshore market more information about the workings of the offshore industry.

Demand-side

Ofgem is continuing to work with the customers to identify any further barriers that might prevent companies from providing a demand-side response.

Gas quality

Ofgem is also asking National Grid to consider whether there are any possible quick wins to blend gas to potentially increase European imports.

Overall objective

Europe

Ofgem wants to work with the Commission, UK Government and other European regulators to press for the introduction of more competition in the European energy market.

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