

A blue-tinted background image showing a close-up of electrical equipment, possibly a switchgear or control panel, with various components and wiring visible.

Balance between Market and Regulation: UK Experience and Accelerating European Developments

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Current UK Situation

- Competitive wholesale and retail markets
 - Hub trading at NBP
 - Prices set by market forces
- Ex ante regulation mainly restricted to monopoly networks
 - Growing trend to regulate competitive markets regulated by competition law
- Growing dependence on imports
 - But substantial private investment in new infrastructure
- All of above potentially affected by Europe:
 - UK gas import dependency
 - Arbitrage through interconnectors affects prices
 - Primacy of EU Directives/Regulations
 - Regulatory role for European Commission

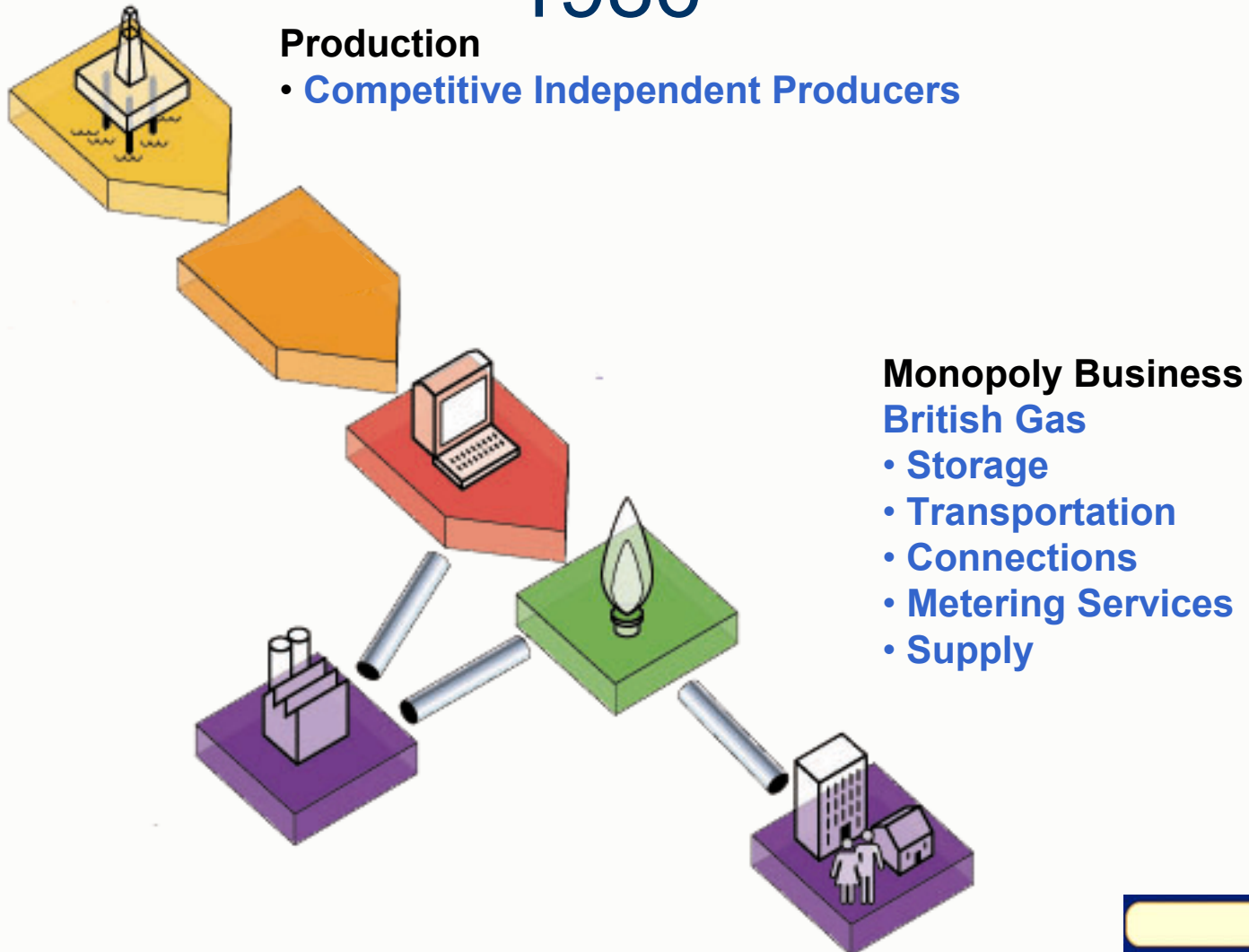
UK regulation: the beginning

- Gas industry privatised in 1986
 - One vertically integrated supply company (British Gas)
 - Offshore regulated by Ministry under separate regime
- Regulator (Ofgas) created
 - Primary duty to protect customers, where appropriate by promoting competition
 - Timetable for customers to choose supplier (in 1992 - 1996)
 - Retail Price controls
 - Network regulation

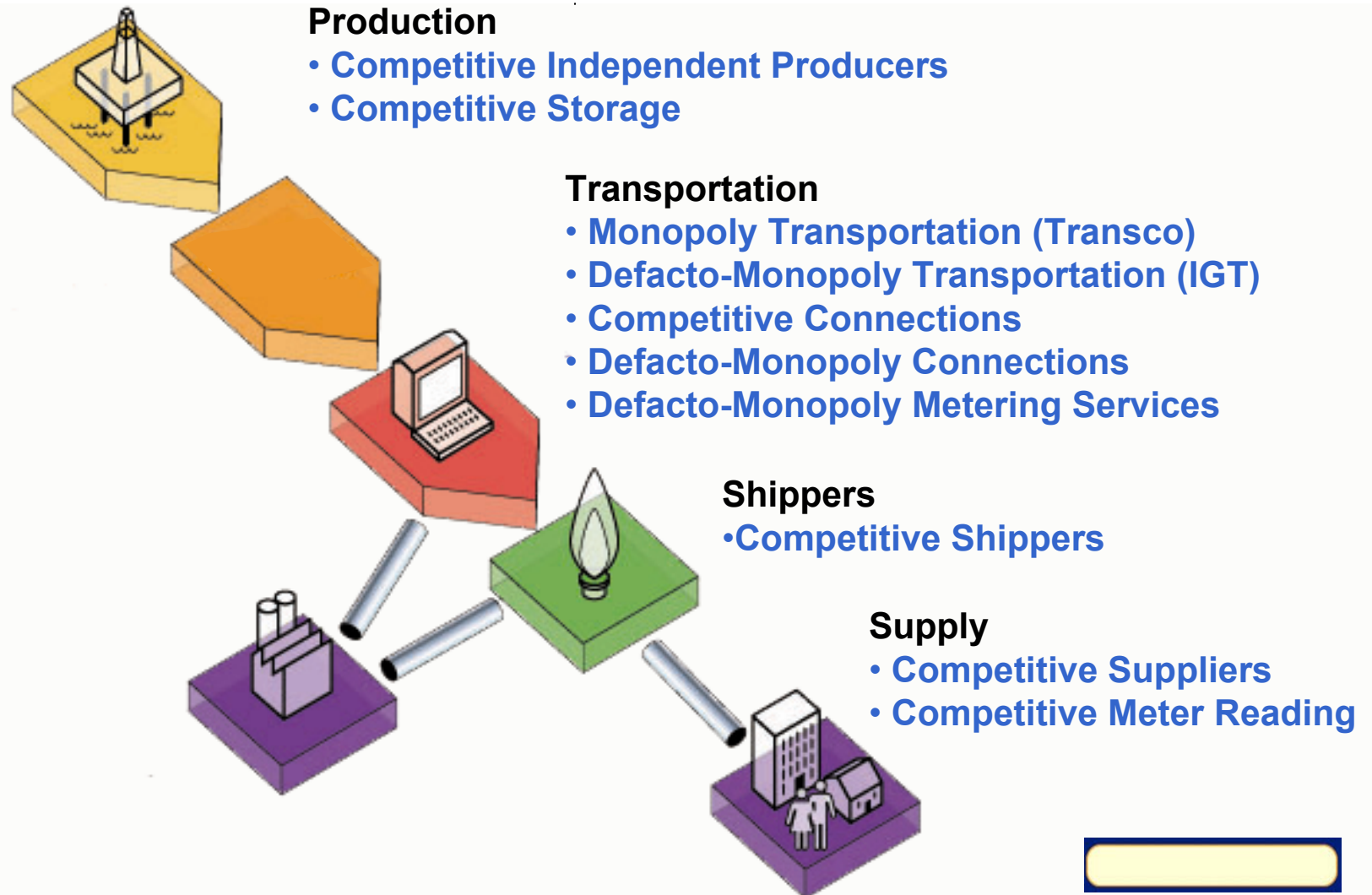
UK Regulation: key events

- 1992 British Gas referred to Monopolies and Mergers Commission.
- 1996 BG demerged into Transco (monopoly networks provider) and Centrica (competitive supply business)
- 1996 Network Code introduced. Basis for competitive market rules
- 1997 market fully open to competition
- Background of falling gas prices

The impact - gas supply chain: pre-1986



The impact - gas supply chain: 2001



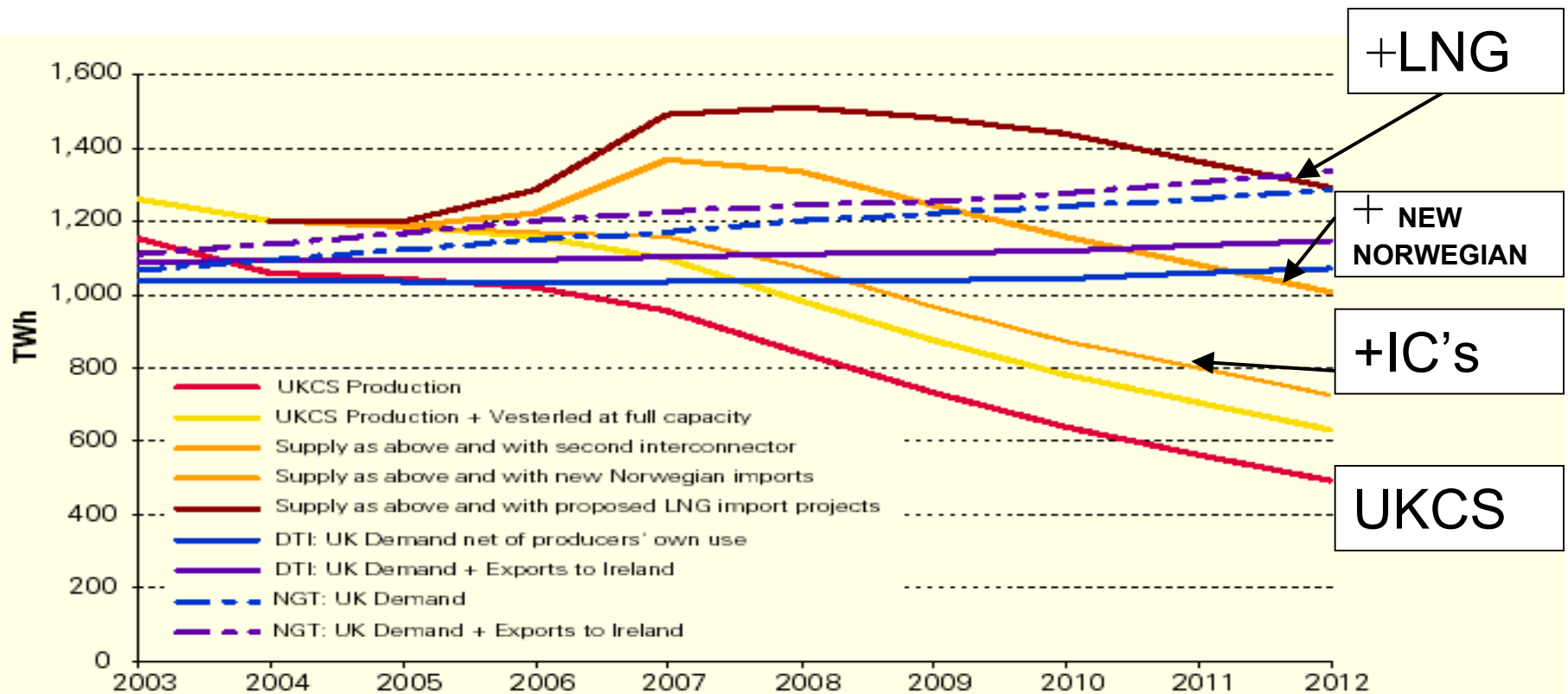
The Lessons

- Industry structure is important to competitive gas markets
 - Separation of competitive activities from monopoly networks
- The regulator can play a constructive role as a catalyst to competitive market outcomes, but its not easy
- Regulation of competitive markets does not have to be heavy handed
- There is a continuing natural role for regulators in oversight of monopoly networks

UK: Looking forward

- More challenges remain:
 - Growing UK reliance on imported gas
 - Greater interaction with European markets
 - Accelerating pace of European regulation

Supply by import source



Source: JESS Nov 2003

Security of supply

- Diversity important for SoS
- Imports of LNG and North Sea (Norway and Netherlands) and other piped gas transited across continental Europe
- EU regulation of new LNG terminals critical
- EU liberalisation leading to effective access to transit routes key to UK security of supply

Interaction with Continental Gas markets

- UK gas price rises in October 2004 – effects felt through interconnector
- Gas quality a European issue – a particular problem for UK

New EU legislation

- Gas Directive
 - full market opening by 2007
 - regulated third party access to networks
 - legal unbundling of networks
 - independent regulatory authority required in every Member State
 - Regulation facilitates Cross Border Trade

Proposed EU Gas Regulation

- Provides further necessary steps for effective access to transportation networks
 - Recognises certain minimum standards and rules for network access (e.g. levels of transparency, capacity allocation and congestion management)
- Establishes process (comitology) to propose further guidelines as necessary

EU Gas Regulation (II): Role for European Regulators

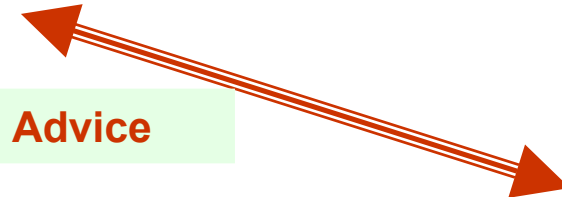
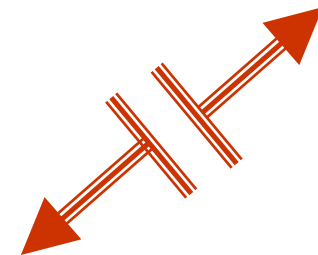
- Ofgem member of Council of European Energy Regulators (CEER)
- CEER established as formal organisation (budget and voting rules)
- Commission has established by Decision the European Regulators Group for Electricity and Gas (EREG)
- EREG to advise Commission under comitology process

Gas Regulation (III): Comitology

Council of the European Union



European
Regulators
Committee for
Electricity
and Gas



European Commission



Comitology
Process



Completing Single Market in Gas (I): CEER vision

- CEER's medium-term vision: gas-to-gas competition through development of regional hubs (TSO, country or regions (e.g. North and South France))
- Hubs can help to manage price and volume risks:
 - Better matching demand and supply and balancing needs and risks of upstream and downstream players
 - Objective, credible and transparent energy price references
 - Incentives and signals in place to allow efficient market driven investment

Completing Single Market in Gas (II)

- Network Access issues:
 - Tariff and capacity regimes that promote secondary markets, liquidity and trade (entry-exit systems)
 - Incentives for timely and efficient investment/system operation
 - Effective/compatible balancing regimes
 - Access to storage/flexibility services
- Market structure/competition issues:
 - Consolidation and market dominance
 - Ensuring effective unbundling
- Gas quality issues

Conclusions

- UK experience shows that regulators can play an important role in creating competitive markets
- Regulators will have a continuing role in oversight of monopoly networks
- Markets are dynamic and regulatory responses are sometimes needed to changing situations – such as moves to greater European liberalisation
- CEER vision of market model for Europe would deliver secure and competitive gas supplies to customers

A large, central version of the ofgem logo, with the word "ofgem" in white lowercase letters on an orange rounded rectangle. The background of the slide features a blue-tinted image of electrical components, including a three-pin plug and a meter, with the word "ofgem" faintly visible in the background.

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Promoting choice and value for all
gas and electricity customers