



Promoting choice and value
for all gas and electricity customers

Can the GB gas and electricity markets deliver security of supply?

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"..... dynamic markets on their own are not enough for a successful energy policy. The changed assumptions compared to the 1980s pose challenges on sustainability, security and affordability which markets on their own cannot be guaranteed to solve."

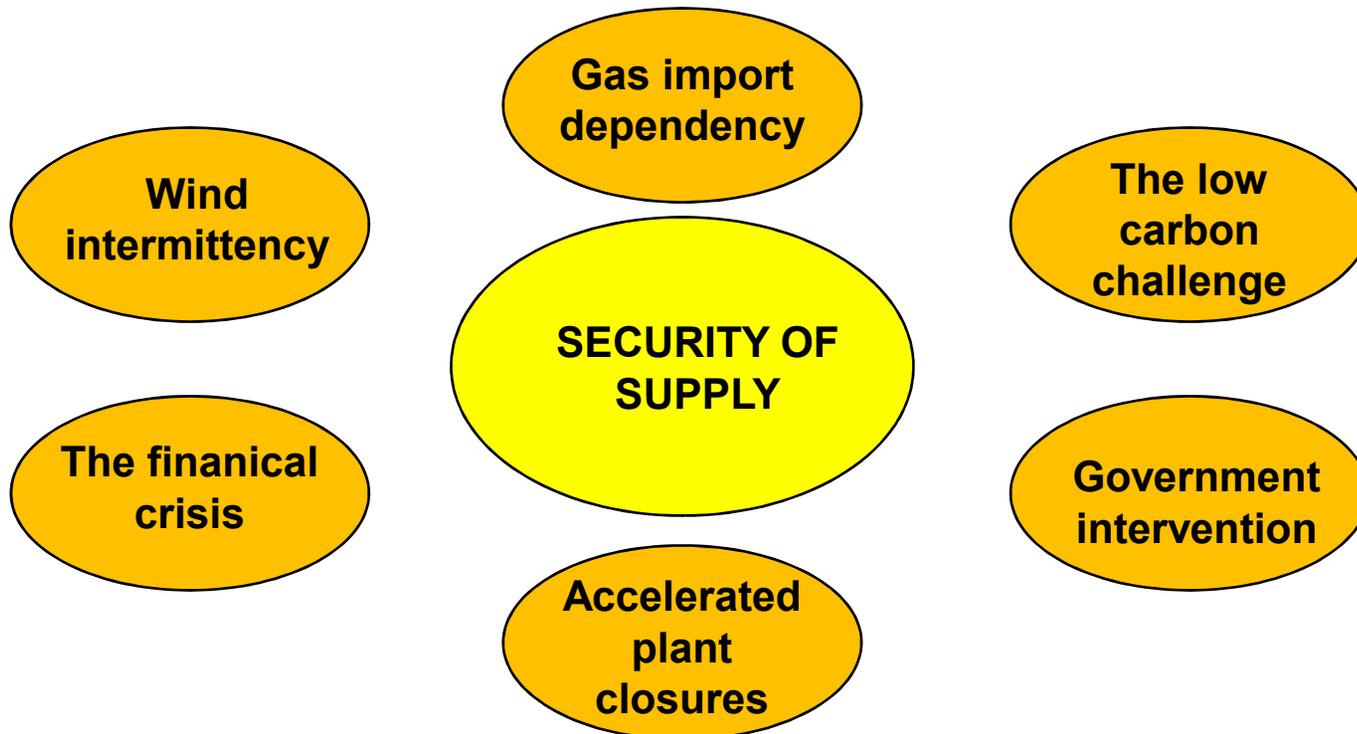
Ed Miliband, Secretary of State for Energy and Climate Change, Imperial College, December 2008

"...the era of heavy reliance on companies, competition and liberalisation must be reassessed. The time for market innocence is over."

Malcolm Wicks, Special Representative of the Prime Minister, August 2009

The role of energy markets is being reassessed across the political spectrum

We also believe there is a strong case for revisiting old certainties



In January 2009, Ofgem launched Project Discovery – a fundamental review of how GB markets can deliver adequate security of supply

Three more interesting questions.....

There is no *fundamental* reason why properly designed markets cannot deliver security of supply. But

- Do our **current market arrangements** deliver the correct incentives?
- Even if they do, are there **practical reasons** why markets can't deliver security of supply by themselves?
- Can GB arrangements ensure security of supply when they are **dependent on global gas markets**?

These are the key questions being asked in Project Discovery

1 – Appraising current market arrangements

The existing arrangements have served us well, but

- We know existing markets aren't perfect
- We expect these "flaws" to matter more in the future
- Also, Government schemes impact on incentives

The trend is for the Government to address issues through greater intervention

2 – Practical limitations on markets

Even if we address all issues, there are practical limitations to energy markets

- GB markets have always had to accommodate practical limitations
- Individual market participants may make bad mistakes
 - Lessons from the financial crisis
- Social considerations
 - Universal access, fuel poverty, vulnerable customers

Smart metering offers opportunities to address many of these constraints

3 – Dependence on global markets

We are no longer an energy island

- International markets do not always behave commercially
 - e.g. Russia/ Ukraine
- Gas market liberalisation in the EU
- Emergency arrangements

As interconnection increases, the same issues may grow in importance in electricity

Project Discovery

Ensuring GB energy markets are fit for purpose

- We will appraise the scale of the challenges facing GB energy markets
 - Scenario analysis to be published shortly
- We will seek to answer the key questions on whether GB markets will/ can deliver
- If needed, we will propose pragmatic reforms for ensuring *adequate* supply security
 - Initial proposals around the turn of the year
- We will engage in the wider debate on energy policy
 - The process will be open and there will be full consultation

Ofgem has approached Project Discovery with a fully open mind, guided by consumer's interests and other aspects of sustainable development

The background of the slide is a composite image. On the left, there are rows of solar panels under a bright sun. On the right, a hand is shown holding a white document. At the bottom, a blue gas burner is visible. The overall theme is energy and customer service.

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