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OFGEM WELCOMES EUROPEAN COMMISSION DETERMINATION TO CREATE A COMPETITIVE ENERGY MARKET

British energy regulator Ofgem today (Thursday) welcomed the European Commission's (EC) determination to create a competitive European energy market. Ofgem was responding to the EC's preliminary report into European energy markets, which outlines possible solutions to clear away the barriers that are preventing the establishment of a competitive energy market. The Commission's final report is expected later in the year.

Ofgem Chairman Sir John Mogg, gave the European regulators' response to the report in his capacity as President of the Council of European Energy Regulators. He said: "Today Commissioner Kroes outlined for the first time the barriers preventing a truly competitive European energy market emerging and spelt out how much this harmed European customers and competitiveness. The Commission's detailed report provides hard hitting analysis that will justify clearly the urgent action needed to deliver a competitive European energy market.

"This task will not be easy as it is likely to face stiff resistance from major European energy companies. Ofgem will give its full support and will call on the Commission to show the necessary political will to tackle these issues head on. The European regulators, including Ofgem, are already working with the Commission to establish effective competition through a series of initiatives to improve transparency and create regional markets in Europe."

Sir John also stated that Ofgem is particularly concerned because British customers are paying a high price for the lack of effective competition in the European Energy market.

"British customers paid nearly £1 billion more for their gas this winter notably because of the failure of the Belgium-UK Interconnector pipeline to import at its full rate. If this happens again next winter, British wholesale prices could be up to £3 billion higher.

"Where the report has found evidence of market abuse, we welcome the Commission's commitment to pursue such cases urgently and vigorously. This will send a clear signal to all European energy companies that such behaviour will not be tolerated."

Ofgem is still unclear whether European companies could have exported more gas to Britain this winter. So far no one has provided a satisfactory answer. Even if companies could not have sold more gas to Britain, the lack of transparency in the continental market on pipeline deliveries on a day-by-day basis continues to drive market sentiment and forces up British gas prices.

Ends

Notes to editors

1. **The European Commission's report** identifies a number of key barriers to competition and some possible solutions. Such as:

    - breaking up large vertically integrated energy companies in all member states is seen as vital for competition in Europe to develop. For example, storage facilities and pipe and wire networks need to be unbundled from supply companies. This has already happened in Britain.
    - access to capacity on the gas and electricity networks needs to be made easier and the process more transparent. This would help companies seeking to export gas to Britain, and
    - the amount of information on the market needs to be increased to allow more robust competition. The Commission is proposing strengthening transparency obligations through regulation or competition law.

    Unbundling the gas pipeline and storage facilities from European energy companies would make it easier for companies to import gas to the UK.

    Greater transparency will allow the market to anticipate correctly the flow of gas through the Belgium-UK Interconnector and ease pressure on UK prices.

    Ofgem is determined that the UK should not be penalised for unfair market practices in Europe and it is already working with other regulators to resolve the problems by setting out important guidelines on issues such as transparency and gas storage.

2. **Interconnector pipeline**

    For the last five years British customers have paid more for their gas as Britain has exported its surplus gas to Europe where gas prices have been higher due to a lack of competition. This higher European price has set the gas price in the UK. Now when UK reserves have declined and more gas needs to be imported from Europe there have been problems with the low levels of imports through the interconnector even when UK prices have been higher than on the continent.

    This winter has seen tighter gas supplies in Britain as most of the major importation schemes to replace the decline in UK gas reserves are due to come on stream from next winter onwards. This has meant that flows from the interconnector have had a big influence on wholesale gas prices. In November the capacity of the pipeline was doubled so it could import 48 mcm into Britain.

    When Britain experienced a cold snap in late November and wholesale gas prices rose from around 30-40 pence a therm to £1.65 a therm the interconnector on average only flowed at 50 per cent of capacity. As this lack of gas was having a big impact on UK prices Ofgem asked the EU to investigate the low levels of imports. The two main explanations have been put forward: either there was a lack of capacity in Europe to flow the gas to the UK or European companies were keeping their gas in storage rather than export it to Britain.

This month the interconnector has flowed at 90 per cent of its capacity on some days despite prices being about 55p/therm and only slightly above European levels. This suggests that there is enough capacity in Europe to get the gas to the interconnector pipeline. Lack of transparency means there is no way of finding out why more gas did not flow earlier in winter or if some of the gas kept in storage could have been exported to Britain earlier this winter. This is why Ofgem is calling on big suppliers like Eon, Distrigas, and Gaz de France to publish how much gas they have in store and their assessment of how much gas they need in store to manage domestic security of supply. This information has been published well ahead of the winter by National Grid Gas for a number of years in the UK.

This lack of transparency is also driving market sentiment and forward gas prices for next winter. When the interconnector failed to flow at full rate in November, forward gas prices for the rest of this winter shot up as traders and suppliers were concerned that the interconnector wouldn't flow at full rate later in the winter. Forward prices for next winter have also increased rapidly as traders and suppliers remain unsure about how much gas will flow through the interconnector next winter as there is no reliable information from European suppliers and experience this winter has been hard to understand.

4. **CEER / ERGEG**

Sir John Mogg, was elected President of the Council of European Energy Regulators (CEER), and appointed Chairman of the European Regulators' Group for Electricity and Gas (ERGEG) in December 2005.

The Council of European Regulators (CEER) has 26 members comprising the independent national energy regulators from Member States of the European Union (EU) and European Economic Area (EEA). Its overall aim is to facilitate the creation of a single competitive, efficient and sustainable internal market for gas and electricity in Europe.

The European Regulators Group for Electricity and Gas (ERGEG) acts as an advisory group to the European Commission. Membership is limited to the EU regulators but regulators from candidate countries and the European Economic Area hold observer status.

3. Ofgem is the Office of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority, the regulator of the gas and electricity industries in Great Britain. Ofgem's aim is to bring choice and value to all gas and electricity customers by promoting competition and regulating monopolies. The Authority's powers are provided for under the Gas Act 1986, the Electricity Act 1989 and the Utilities Act 2000.

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