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energy debate

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The Ofgem Seminars 2005

Europe and Energy: a Forward Look

Thursday 3 March 2005

Chairman: Sir John Mogg

Speakers: Andris Piebalgs, European
Energy Commissioner

Mr Mike O'Brien, Minister for
Energy and E-Commerce

Jorge Vasconcelos,
President, Council of European
Energy Regulators

Sir Roy Gardner,
Chief Executive, Centrica

Venue: The Ofgem Atrium, 9 Millbank,
London SW1P 3GE
(Location map enclosed)

Time: Seminar 16.00 - 18.00
Followed by reception

RSVP: **Lisa Taylor** by **Tuesday 1 March**
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*Please note that there will be **limited seating** available*

*Please advise Lisa Taylor of any **special requirements** you may have*



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The energy agenda is constantly changing, raising new issues and challenges. That is why Ofgem has launched its new series of seminars under the umbrella title, 'Powering the energy debate'.

The first of these seminars – 'Europe and energy: a forward look' – was held on Thursday 3 March. Ofgem Chairman, Sir John Mogg, led an impressive panel including the EU Energy Commissioner, UK Energy Minister, Chief Executive of Centrica and the Chairman of the European Energy Regulators' group.

About 150 people attended the event at Ofgem's Millbank headquarters and the four main presentations were followed by a lively question and answer session. Key points made by the speakers at the seminar are detailed below.

The second seminar to be held at the end of May, will pose the question: Can the market deliver a sustainable energy policy?

Europe and Energy: a Forward Look

Thursday, 3rd March, 2005

Summary of key points from panel presentations

Panel: Chairman: Sir John Mogg, Chairman, Ofgem
Andris Piebalgs, EU Energy Commissioner
Mike O'Brien MP, Energy Minister
Sir Roy Gardner, Chief Executive, Centrica
Jorge Vasconcelos, Chairman, Council of European Energy Regulators

In his opening remarks, Sir John Mogg noted the **clear benefits that liberalised markets have brought to British consumers** in terms of quality of supply, service and price. He warned that if liberalisation of the **European energy markets continues at a "stuttering pace"**, there will be negative consequences for consumers, both in Britain and Europe.

Andris Piebalgs, the new EU Energy Commissioner, began by highlighting the **importance of an integrated competitive European energy market** to meeting the key objectives of competitiveness, security of supply and sustainable development. He warned that without a competitive energy market, **energy-intensive industry might end up leaving Europe**.

In the Commissioner's view, **the existing Directives could be sufficient to achieve this goal, provided they are properly implemented**. Prices have fallen by 15 per cent since the Directives were passed and levels of switching are increasing in most EU countries.



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However, **real and effective competition does not exist in many parts of the EU**, which means that more needs to be done. That is why the Commission is currently **taking enforcement action** against the 12 Member States that had not yet transposed the Directives. The Commission will later be looking out for any instances of incomplete transposition.

The Commissioner said that it is too early to say whether or not a third package of reforms is needed, as some people are suggesting. **Markets have begun to open and, if this continues, there could be real change across the EU.** He wants to see how the Directives are implemented first but, unless there is a move away from national markets to an integrated EU market, he feels that they will not have succeeded.

Later in 2005, the Commission will look to see how markets are developing, without drawing conclusions on a 'third package' but with the aim of stimulating serious debate and a decision in 2006. **Any third set of legislation must be really necessary and it must be the last package.**

He then pointed to the recognition in the Directives that there needs to be **a regulator in each Member state** as a key success. He said that the future lies in the hands of national regulatory authorities as only they can ensure the promotion of competition. **Joint action by the regulators would be the most effective way of achieving this.**

Overall, he is confident that there will be a **single, integrated competitive market across Europe** - not because action is not needed, but because the determination exists to see it through.

Mike O'Brien MP, the UK Energy Minister, began by noting the **"unique" situation in which the UK found itself, with the Presidency of the G8 and of the EU approaching** - and that climate change and energy would be key issues for those presidencies.

He said that the UK faced two challenges. The first, faced by the whole world, is climate change which clearly needs to be addressed on an international basis.

The second challenge is that the UK is set to become a net energy importer. While this is not a problem in itself, he said, **it does mean that Britain will have to look at security of supply as a main determinant of policy.** One way of promoting security of supply is through diversity, which is why the relationship with the EU is important, and **he welcomed the steps being taken to secure an open market.**

The UK needs an energy market in Europe which can be accessed and used effectively. The decision to liberalise has been enormously important. But, while there has been substantial progress, more is needed, with a number of countries still lagging behind.

He also welcomed **independent regulation across Europe despite the fact that independence and full powers have not yet been developed fully.** In Germany, the regulator is just getting up and running and is dealing with the EU's largest market.

He finished by **reiterating the UK's commitment to developing a sustainable energy policy** and welcomed the Commissioner's commitment to energy efficiency, which, Mr O'Brien felt, has not been given enough emphasis.

Sir Roy Gardner, Chief Executive of Centrica, began by affirming his strong belief in the benefits of a functioning competitive market. **A competitive market will benefit the UK as there is a need to be able to source and transport energy in an open market, he said.**



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Competition will also benefit UK companies like Centrica, he added. **At the moment around 20 million households in Britain are supplied by French or German companies.** None in France or Germany is supplied by British companies - and they have very few commercial customers. This had not been for want of trying.

Sir Roy's view of the current position in continental gas markets was "a little bleak". He pointed to the conditions that new entrants will need to enter the market. These are: the ability to buy and sell in a transparent wholesale market, fair access to pipes and storage, no cross-subsidies or predation by incumbents, confidence in independent regulation and no state-sponsored "national champion".

He highlighted the fact that **market concentration is made worse when the grid is also owned by a major supplier.** There is a need to focus on unbundling and there may need to be mandatory 'ownership unbundling', he warned.

Sir Roy echoed Sir John when he said that **the current pace of liberalisation is too slow and too patchy.** But he is confident that progress can be made, reporting that he has **detected real resolve in the Commission.** The full market review was encouraging, he said, and there is now a need to ensure the existing Directives are implemented in full by all Member States. Sir Roy added that **independent regulation is a key building block of effective liberalised markets.** It will need determination to tackle non-compliance, he said, but by working together, obstacles can be overcome to ensure that competition goes from theory to reality.

Jorge Vasconcelos, the Chairman of the CEER, began by noting that **liberalisation across Europe has been influenced by the experience of the UK** and the fact that Ofgem strongly supported CEER is essential for success.

Ofgem was active in developing the EU model whose main characteristics are: **freedom for investors in production and trading, a regime of regulated network access and the right for consumers to choose suppliers.**

Europe is the largest integrated energy market in the world, he said, and the Directives have provided a **consistent legal framework, the most advanced of its sort in the world, and there is every reason to be proud of this.**

But everything is not perfect, and people wonder whether the market can deliver. Mr Vasconcelos's answer was yes but it will be dependent on a number of things. The Directives have to be implemented as soon as possible. **There also needs to be an intermediate structure between this and the proper functioning of the market,** based on a regulatory framework which ensures that a converged market will be one integrated market, not a series of national markets.

That is what the European regulators' group is now developing together with the Commission. **Effective monitoring mechanisms and a more consistent application of competition law are also key factors for success.**

Mr Vasconcelos felt that **some are guilty of three common over-reactions:** to say that markets don't work at all and that there is a need to go back to central planning; to say that it could work, but then, as soon as there is a problem, to say new legislation is needed; and to say that there is a need for new bodies and further self-regulation.



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Mr Vasconcelos was convinced that **a truly integrated and efficient energy market would deliver and was strongly committed to showing that, through co-operation, this was the case.**

Following the presentations, there was a **lively exchange of views** in the question and answer session. **Issues raised** included mandatory unbundling, energy efficiency, the current GB price hikes, future gas supplies, investment, jobs in the industry and the effects of market concentration and mergers.

Sir John concluded the event by noting that the **lifetime of the current European Commission would see some major challenges.**

He said that Ofgem **welcomes the Commissioner's view of the gas and electricity markets** and would contribute as much as possible. The approach of avoiding new legislation and **the emphasis on independent regulation were also welcomed.**

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Highlights from

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Above: Energy Minister, Mike O'Brien

