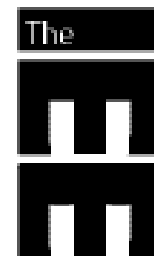


**Power Trading & Control PN
Austin Court
Tuesday 19 April 2005**



Regulatory Perspective Security in Operational Timescales

Steve Argent
Technical Adviser, Ofgem

Outline

- Ofgem – intro
- Security of supply
 - Ofgem's role
- A couple of asides
- Concluding remarks

Ofgem's Statutory Duties

Ofgem's principal duty in law is:

To protect the interests of gas and electricity consumers, present and future, wherever appropriate by promoting effective competition

Other objectives

- *“to secure that, so far as it is economical to meet them, all reasonable demands in GB ...”*
- *“to secure a diverse and viable long term energy supply”*
- + *“to contribute to .. sustainable development”* (S83 Energy Act)

Key issues facing Ofgem

- Signals and incentives for efficient long term investment
- Security of supply - both now and longer term
- European and environmental issues
- Ensuring competition benefits all customers
- Improved choice to Scottish customers (BETTA)
- Government objectives – esp. targets for renewables
- Operating in an environment of rising prices

What is security of supply?

- No set of arrangements can ***guarantee*** security of supply
 - risk assessment and cost of mitigation
- Short term
 - Supply shocks (e.g. generation unavailability / offshore failure)
 - Demand shocks (e.g. weather variation)
 - Network outages (e.g. transmission failures)
- Long term
 - Adequate networks/infrastructure (e.g. St Fergus constraints)
 - Sufficient available supplies, including flexibility (e.g. electricity generation margins, gas production, storage, LNG, interconnectors)



- Security of Supply

- No major 'supply' interruptions since privatisation
- Working with the DTI to monitor security of supply issues – *JESS* (and new Energy Act duty) and Industry Emergency Procedures (*GEIEC*)
- Britain needs *margin of generation capacity* over peak demand and Markets have responded to shortage predictions
- Network investment has continued or increased since privatisation
- Improving trend in power cuts – but notable blackouts in 2003
- + **Lessons from big international blackouts**

Security of supply relies on...

- Effective regulation
 - Natural monopoly networks
 - Competitive markets (eg, market abuse)
- Efficient system operation
- Appropriate balancing rules
- Government commitment to non-intervention in competitive markets

Ofgem's Role

- Maintain policy framework
 - Competitive markets
 - Reliance on market mechanisms
- Seek to maximise regulatory certainty
 - Continuity of policy and governance (RIAs)
 - Close co-ordination with government
 - Ofgem and government committed to non-intervention (EWP)
- Active monitoring and information provision
- Promote liberalisation of European markets

Market mechanisms deliver security of supply

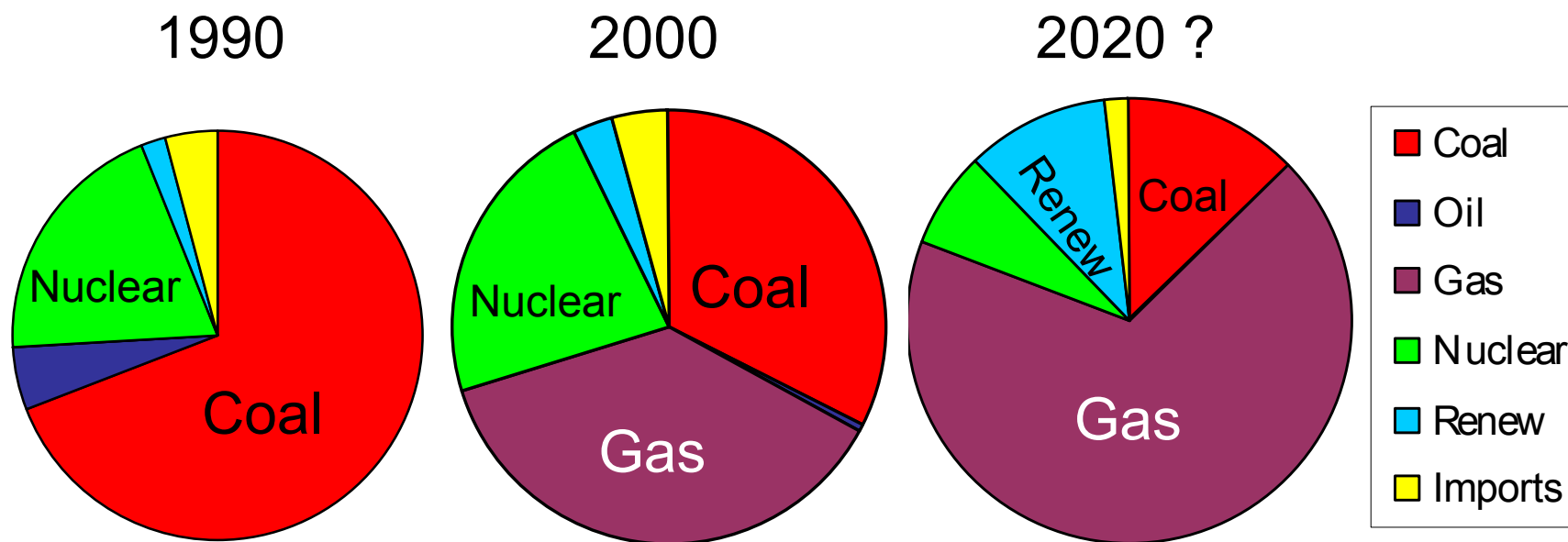
- Transparent, competitively set prices
- Market signals for new investment
- Market participants respond to spot and forward prices
 - New investment and retirements
 - Mothballing and de-mothballing
- Commercial incentives
 - For suppliers to contract for customers' demands and to manage risk on their customers' behalf
 - For generators / producers to deliver against contracts

A couple of 'asides'

- Consider changing generation plant mix
 - Impacts (positive and negative) on operational security

- Don't forget the safety net
 - UK emergency 'contingency planning'
 - Lessons from Italy

Diversity of electricity supplies



Italy 28 Sep'03



Line tripped - caused overloads on parallel circuits.

Action not taken to reduce overloads within 15 minutes.

Similar reserve and LF relay systems as in the UK, but they didn't prevent the cascade failure that blacked out Italy for many hours



Concluding remarks

- “Competitive markets are the worst way to deliver security of supply”...
- “... apart from all the alternatives”
- Ability of markets to deliver in short term demonstrated last winter
- Ability to deliver new gas has been demonstrated
- Nature of markets is “just-in-time” – hard on the nerves of Ministers and regulators but...
- ...Government and Ofgem strongly committed to non-intervention
- Ofgem will continue to monitor markets and work to address any barriers preventing the market responding

+ future security factors

- Effective markets – consistent and free of intervention
- Forward trading with visible prices
- Greater demand side participation?
- Use of energy storage opportunities
- Change - Innovation and expectations?
- Planning and consents risks/timescale
- Security implications of environmental measures?
- Skills availability and risks - a UK concern and wider?

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