



Promoting choice and value  
for all gas and electricity customers

# Energy Markets Outlook – an update for DSWG

17 September 2007

GB Markets, Ofgem

## Roles & Responsibilities

### Government

#### Security

- Network planning standards
- Physical security
- European Union & foreign policy

#### Environmental Policy

#### Stability & Certainty

### Regulator

#### Energy

- Market rules
- Market structures
- Market surveillance
- System Operator incentives

#### Network

- Non-discriminatory access
- Price controls
- Investment Incentives

### System Operator

- Residual energy balancing
- Reserve holding
- System management
- Transparency and information provision

### Markets

#### Energy

- **Deliver investment**
- **Manage risk**

#### Networks

- Deliver investment funding

**The regulatory framework should enable competition and allow markets to deliver**

## Regulatory Framework & Security of Supply

No set of regulatory arrangements can *guarantee* security of supply

A black diamond-shaped graphic with the text "Key elements include" in white, centered within it.

Key elements  
include

Sufficient **energy** (generation/production/storage) to meet peak demands in the short term and provide long term sustainable supply

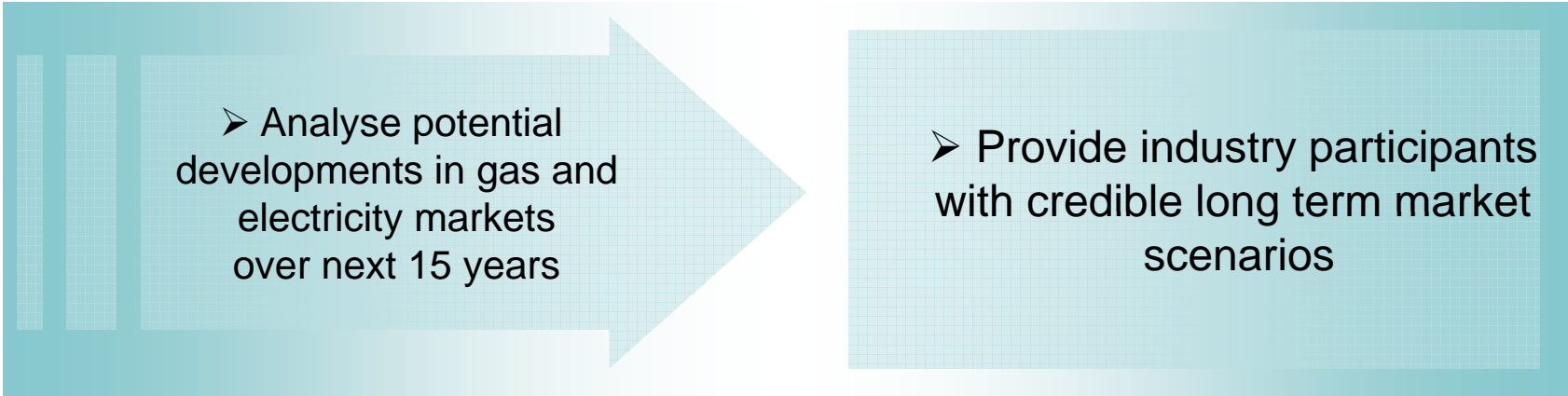
Sufficient **network** capacity (pipes and wires) to transport energy to customers and long term capacity investment

**Information is vital for assessing risks to security of supply and for costing of mitigating strategies**

## Ofgem and Government Working Together: Energy Markets Outlook (EMO)

### Energy White Paper commitment to

*“a new energy market information and analysis service from this autumn” that “will be jointly run by DTI and Ofgem”*

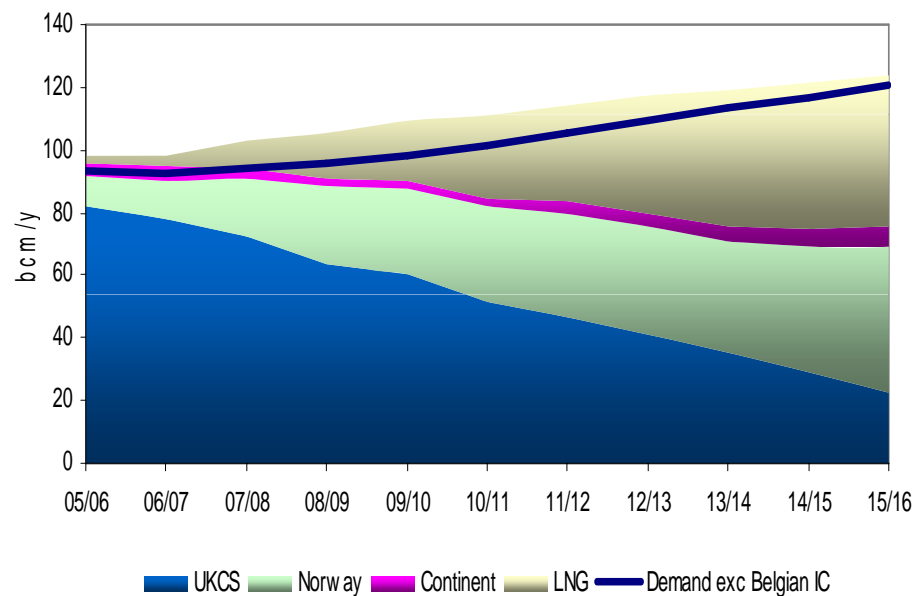
A diagram showing the flow of the Energy Markets Outlook (EMO) service. It consists of two light blue rectangular boxes with a grid pattern, connected by a large, light blue arrow pointing from left to right. The left box contains the text '➤ Analyse potential developments in gas and electricity markets over next 15 years'. The right box contains the text '➤ Provide industry participants with credible long term market scenarios'.

➤ Analyse potential developments in gas and electricity markets over next 15 years

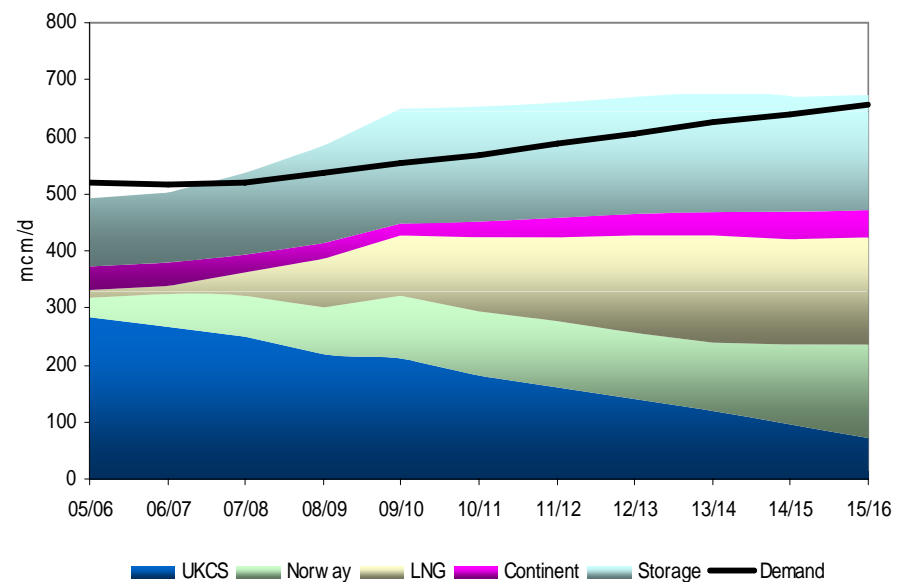
➤ Provide industry participants with credible long term market scenarios

➤ **First annual report to be launched in the autumn**

## Gas Supply - a Market in Transition



Base case GB annual supply 2005-2015



Base case GB peak supply 2005-2015

Source: National Grid Ten Year Statement 2006

**Increasing reliance on imports of piped gas and LNG as domestic production continues to decline?**

## Gas Challenges and Risks

### Security of Supply

#### Challenges

- Declining UKCS production / flexibility
- Increasing global energy demand?

#### Implications

- Increasing import dependence
- Increased storage / import capacity requirement
- Increasing pressure on prices

#### Risks

- More price volatility?
- Demand and supply balance more sensitive to global events/ politics/ extreme weather?
- Timely delivery of sufficient supply capacity to meet demand?
- Quality of gas supply?

# Electricity Challenges and Risks

## Security of Supply

### Challenges

- Plant Closures
- Nuclear decommissioning
- Increasing global energy demand?

### Implications

- 20 GW of new generation capacity required by 2020
- Increasing global competition for primary generation fuel

### Risks

- Ability of market to provide for timely delivery of sufficient supply capacity
- Impact of potential constraints on market delivery of new capacity
  - Planning?
  - Economics?
  - Network?



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