

Press Release

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OFGEM PUBLISHES A COMPREHENSIVE REVIEW OF BRITAIN'S ENERGY SUPPLIES

- Project Discovery is Ofgem's most comprehensive review of Britain's energy supplies
- Today's initial report outlines the challenges for Britain's energy industry
- To secure energy supplies and meet carbon targets investment of up to £200 billion is needed
- This means customers could face potential price rises to fund this investment

Energy regulator Ofgem has today highlighted the challenges to Britain's gas and electricity supplies. Chief among these challenges are a growing exposure to a volatile global gas market and power stations nearing the end of their life.

Ofgem has drawn up four energy scenarios to assess the energy security risks over the next 10-15 years. They reveal a range of potential risks to supplies when exposed to shocks. Further, Ofgem identifies the need for investment of up to £200 billion in power plant and other infrastructure over the next ten years to secure both energy supplies and climate change targets. The need for this investment arises at a time of volatile world energy prices and Britain's increasing dependence on gas imports.

Ofgem chief executive Alistair Buchanan said: "Our scenarios suggest that Britain faces a tough challenge in maintaining secure supplies whilst at the same time meeting its climate change targets. However, there is still time to act. Ofgem will be putting forward proposals in the New Year based on today's consultation to ensure that Britain's energy industry can meet the challenges ahead."

Ofgem's four scenarios highlight a number of risks:

- Britain will face significant levels of gas imports, in particular for gas power plants to replace lost nuclear and coal-fired capacity. This increases our exposure to uncertainties in the global gas market, supply disruptions and potential price increases.
- Significant changes in the way in which we generate and consume power may be needed to manage the variability associated with increasing reliance on wind power.
- Given the massive levels of investment needed, there is a high likelihood of rising consumer bills, especially if oil and gas prices continue their underlying rise since 2003.

"These are big challenges. Consumers are already enduring high energy prices," said Mr Buchanan. "This is why we are consulting with consumer and environmental groups, the academic community and industry to ensure any policy proposals we make are grounded on the best evidence available. Early action can avoid hasty and expensive measures later."

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Notes to editors

1. Scenarios:

Ofgem has drawn up four energy scenarios of the next 10-15 years to assess the risks for energy security. In the four scenarios there are reductions in carbon emissions of between 12% and 43% (from 2005 levels) and increases in energy infrastructure investment of between £95 billion and £200 billion. However the four scenarios would result in increases in domestic energy bills of between 14% and 25% by 2020 (from 2009 levels) – with the possibility that wholesale price spikes could lead to an increase in domestic energy bills of up to 60% in the interim. Gas import dependence increases in all four scenarios but in two of them imports stabilise from the middle of the next decade.

The scenarios are as follows:

Green Transition: Under this scenario there is a rapid economic recovery and a significant expansion in investment in green measures. Domestic renewables targets are met and energy efficiency measures are effective. GB gas demand falls but electricity demand increases due to greater use of electric vehicles and heat pumps. The effect on domestic consumer bills is an increase of 23% by 2020.

Green Stimulus: There is a slow recovery from the recession and restricted availability of finance. Governments around the world implement green stimulus packages to achieve environmental goals and boost economic activities. High carbon prices and government policies support investment in renewables, nuclear and carbon capture and storage. The effect on domestic consumer bills is an increase of 14% by 2020.

Dash for Energy: Global economies bounce back strongly but security of supply concerns prevail over meeting environmental targets. As a result GB renewables targets and the Government's carbon budgets are missed. Competition between countries for energy resources results in tight gas supplies and high fuel prices. Planning and supply chain constraints prevent new nuclear plant from becoming operational before 2020. The effect on domestic consumer bills is an increase of more than 60% by 2016 before falling back.

Slow Growth: The recession continues resulting in investment in gas and electricity infrastructure being considerably lower than before the credit crunch. Low gas and electricity prices coupled with low carbon prices reduce incentives to build nuclear and renewable power plant. This results in an increasing dependence on imported gas for new gas-fired power stations. The effect on domestic consumer bills is relatively low in early years but an increase of 22% by 2020 as conditions tighten.

2. Winter energy supplies 2009/2010.

National Grid's forecasts for this winter show that gas and electricity supplies are likely to be adequate, with a substantial reserve margin in electricity.

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. The Authority's powers and duties are largely provided for in statute, principally the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002, the Energy Act 2004 as well as arising from directly effective European Community legislation.

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