



Promoting choice and value  
for all gas and electricity customers

# Can the GB gas and electricity markets deliver security of supply?

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*"..... dynamic markets on their own are not enough for a successful energy policy. The changed assumptions compared to the 1980s pose challenges on sustainability, security and affordability which markets on their own cannot be guaranteed to solve."*

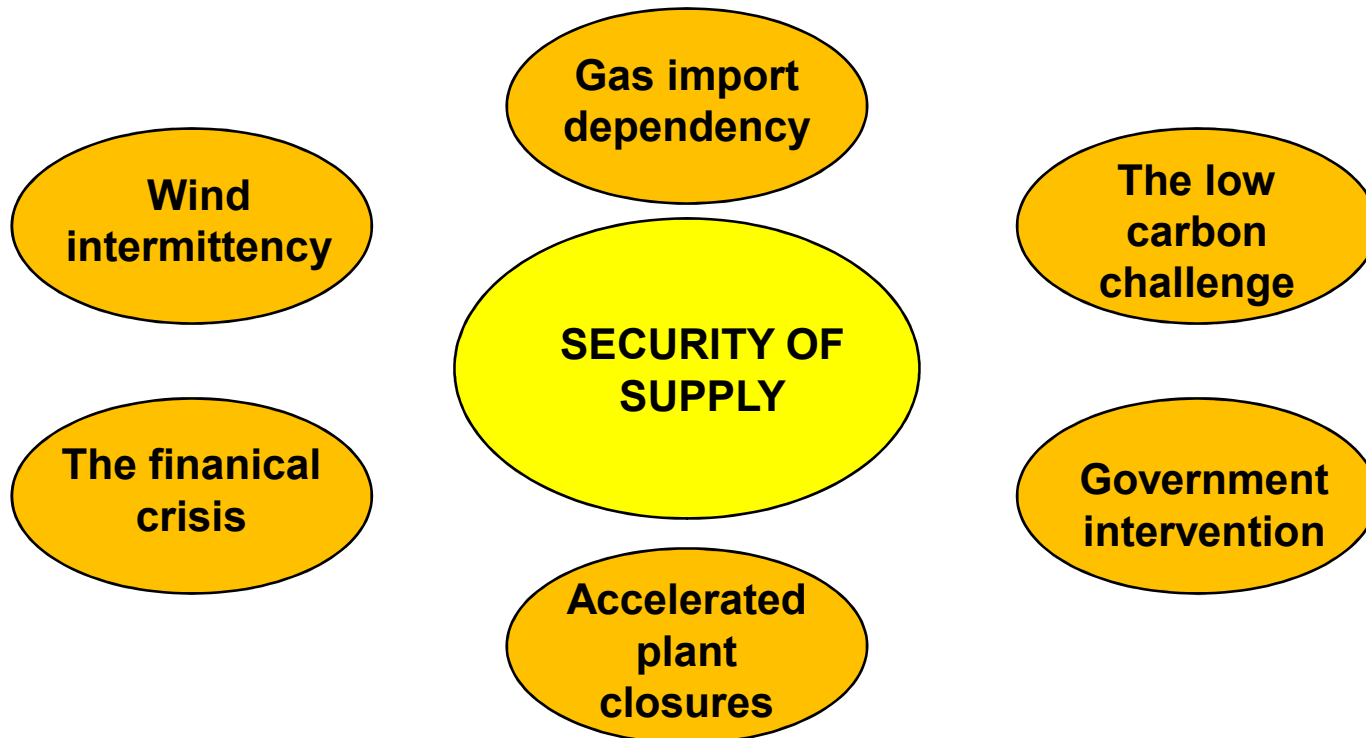
**Ed Miliband, Secretary of State for Energy and Climate Change, Imperial College, December 2008**

*"...the era of heavy reliance on companies, competition and liberalisation must be reassessed. The time for market innocence is over."*

**Malcolm Wicks, Special Representative of the Prime Minister, August 2009**

***The role of energy markets is being reassessed across the political spectrum***

## We also believe there is a strong case for revisiting old certainties



*In January 2009, Ofgem launched Project Discovery – a fundamental review of how GB markets can deliver adequate security of supply*

## Three more interesting questions.....

**There is no *fundamental* reason why properly designed markets cannot deliver security of supply. But .....**

- Do our **current market arrangements** deliver the correct incentives?
- Even if they do, are there **practical reasons** why markets can't deliver security of supply by themselves?
- Can GB arrangements ensure security of supply when they are **dependent on global gas markets**?

***These are the key questions being asked in Project Discovery***

# 1 – Appraising current market arrangements

## The existing arrangements have served us well, but

- We know existing markets aren't perfect
- We expect these "flaws" to matter more in the future
- Also, Government schemes impact on incentives

***The trend is for the Government to address issues through greater intervention***

## 2 – Practical limitations on markets

### **Even if we address all issues, there are practical limitations to energy markets**

- GB markets have always had to accommodate practical limitations
- Individual market participants may make bad mistakes
  - Lessons from the financial crisis
- Social considerations
  - Universal access, fuel poverty, vulnerable customers

***Smart metering offers opportunities to address many of these constraints***

## 3 – Dependence on global markets

### We are no longer an energy island

- International markets do not always behave commercially
  - e.g. Russia/ Ukraine
- Gas market liberalisation in the EU
- Emergency arrangements

***As interconnection increases, the same issues may grow in importance in electricity***

## Project Discovery

### Ensuring GB energy markets are fit for purpose

- We will appraise the scale of the challenges facing GB energy markets
  - Scenario analysis to be published shortly
- We will seek to answer the key questions on whether GB markets will/ can deliver
- If needed, we will propose pragmatic reforms for ensuring *adequate* supply security
  - Initial proposals around the turn of the year
- We will engage in the wider debate on energy policy
  - The process will be open and there will be full consultation

***Ofgem has approached Project Discovery with a fully open mind, guided by consumer's interests and other aspects of sustainable development***

The background of the slide is a composite image. On the left, there are rows of solar panels under a bright sun. On the right, a hand is shown holding a white document. At the bottom, a gas burner is visible, emitting a blue flame. The overall theme is energy and customer service.

*ofgem*

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