

With many energy policy initiatives, is there still room for a competitive market?

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The energy sector is impacted by several overlapping policy objectives

- Global warming
- Security of supply
- liberalisation of energy markets



Global warming

– clear goals and many policies

Goals

- Reduced CO2 emissions
- Lower energy consumption

Policy Measures

- EU ETS
- Climate change agreements (CCL)
- Carbon reduction commitments
- EEC/ CERT
- Building regulations
- CHP target
- Renewable Energy Targets (EU)
- Renewable obligation
- Energy Efficiency Targets (EU)
- Nuclear facilitation



Security of supply

Clear goals but weak policy measures

Goals

- Diversity of supply sources for fossil fuels
- Different types of fossil generation
- Non- fossil generation

Policy Measures

- Fuel stocking directive
- Supplier exposure to cost of failure
- Energy Markets Outlook report
- Nuclear consultation – opening the door – statement of need



liberalisation of energy markets

- Clear Goals and effective policies

- Goals
 - Competitive wholesale energy markets
 - unbundling
 - Competitive retail competition
- Policy Measures
 - Independent regulator, strong competition authorities – “forced” divestment, scrutiny of mergers
 - Wholesale market design – Pool to NETA to BETTA
 - No regulation of wholesale or retail prices
 - Unbundling – British Gas; Regional Electricity Companies



Impact on Generation

Global warming measures

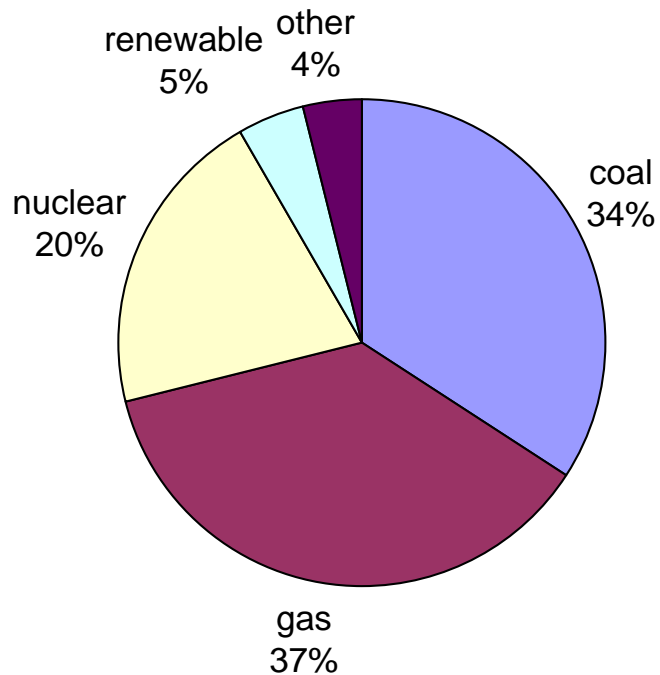
- Some 30% of electricity from renewables
- 20% from nuclear – maintain current volumes
- All new fossil generation after [2020] CCS
- 10GW of CHP

Liberalisation

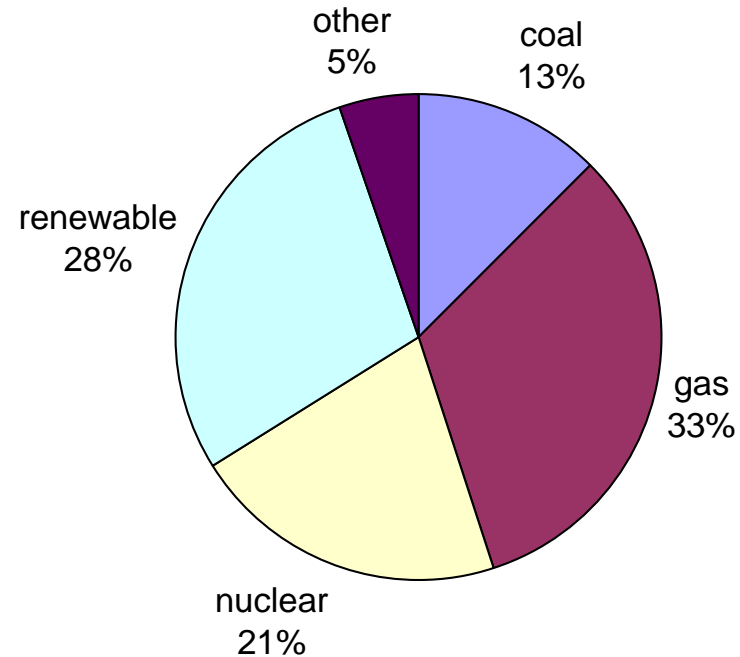
- Sets competitive generation framework
- Drives least cost solutions

Impact on Generation

2005 UK generation mix



2030? generation mix



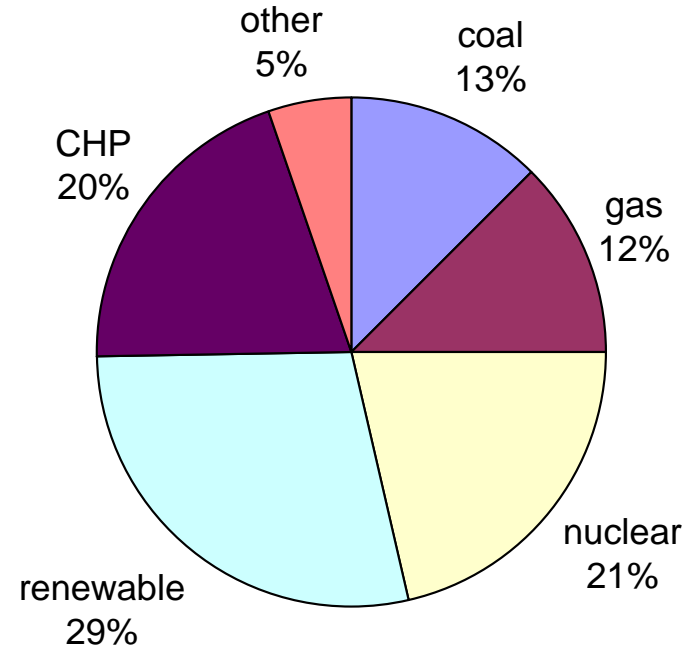
Competitive generation market
~75% coal v gas

Coal = CCS (inflexible)

Competitive generation market
~33% - gas only

Add the impact of 10GW of inflexible CHP

2030 Generation mix with CHP



The competitive market could get very small



Impact on Supply side

Global warming measures

- Market size 20% smaller (energy efficiency, CERT, CCL, etc)
- 30% of electricity from renewable sources (with cost of ROCs added)
- 20% from nuclear
- Share of CCS?
- All suppliers may have similar cost base
- Ability to differentiate customer products limited

Liberalisation

- Sets competitive retail framework

The three policies have implementations measures which both support and conflict



	Measures\Goals	Reduce CO2	Less energy use	Diversify fuel sources	Diversify generation	Non- fossil generation	Competitive wholesale mkt	Competitive retail mkt	unbundling	Comments
G W	EUETS	✓	✓			✓	x	x		Free allowances
	CCL/CERT/EEC	✓	✓					x		
	CHP target	✓	✓				x			
	Renewable energy target	✓		✓	✓	✓	x	x		
	Renewable obligation	✓		✓	✓	✓	x	x		
	Engy effy target	✓	✓	✓	✓	✓		x		
	Nuclear facilitation	✓		✓			✓			
Lib	Ind. Regulator/ competition authorities/ free market			x	x	x	✓	✓	✓	Focus on most efficient solution
	Mkt design	✓	✓	x	x	x	✓	✓		Efficient cost pass thro
	Unbundled businesses						✓	✓	✓	
	Unregulated prices	✓	✓					✓		Cost pass through



Policy interactions

- Global warming policy measures will cause the competitive markets to shrink but will aid security of supply
- Liberalisation measures make it difficult to invest in security of supply but reinforce low carbon measures
- I believe that liberalised energy markets are essential to link the “EU wide carbon market” to the customer via efficient transmission of carbon price signals



Conclusions

- Security of supply will be enhanced by global warming initiatives
- Competitive energy markets are an essential part of delivering the low carbon economy so we need to make sure they work effectively
- The best solution to the reduction in the size of individual competitive markets is to merge them to form a single European electricity market