



Competition is working in Gas

Britain's wholesale and retail gas markets are amongst the most competitive energy markets in the world. Competition has brought greater choice and value to customers and relatively 'light touch' regulation with respect to storage and third party access (TPA) exemptions have brought investments and new entrants to the GB market. Virtual hub trading with entry-charging as seen in GB is now the favoured model for newly liberalising markets across Europe.

Facts

- Customers change their supplier frequently. Over 75%¹ of domestic customers have changed supplier at least once and the annual average churn rate is over 16%¹ which is comparable to other markets traditionally considered to be highly competitive such as general insurance.
- Competition has ensured that GB domestic gas customers benefit from some of the lowest prices in Europe².
- Wholesale market liquidity is high – the ratio of traded volumes to delivered volumes at the National Balancing Point (NBP) is typically around 10.
- New players continue to enter the market with 20 new shipping licences granted in 2009
- Most of these new entrants are trading organisations and their transactions have further enhanced wholesale market liquidity..
- Infrastructure investment over the last 10 years has resulted in a five fold³ increase in import capacity including the Bacton-Balzan (BBL) interconnector, and the Milford Haven and Grain liquid natural gas (LNG) terminals. There has also been investment in a number of storage facilities.
- The National Transmission System (NTS) transports over 60%⁴ of Britain's non transport energy needs.
- The cost of the NTS however represents less than 2%⁵ of customer bills
- The Department of Energy and Climate Change (DECC) estimate that by 2020 the renewable heat incentive will increase domestic customer bills by 14% and business customer bills by 20%⁶.

Key Messages

- Competition in the GB wholesale gas market works well.
- The Gas Forum believes entry-exit regime with NBP (virtual hub) trading is a key success of the GB regime.

¹ Ofgem Energy Probe, 2008.

² European Commission Energy Portal energy price statistics www.energy.eu/#Domestic

³ Editors notes, DECC Press Release on Gateway storage project, 16 February 2010.

⁴ Digest of UK Energy Statistics (DUKES) 2009. Primary energy including transport is about 40%.

⁵ Ofgem Press Release, Household Bills Explained, August 2009.

⁶ DECC estimate, February 2010.

- Investment in storage LNG import terminals and interconnectors has been aided by the relatively light touch regulatory regime.
- More prescriptive regulation (e.g. the introduction of storage licences and fewer TPA exemptions) and frequent, poorly targeted interventions will increase regulatory uncertainty and dent investor confidence. This may ultimately restrict gas made available to the GB market leading to an overall increase in wholesale prices.
- Government and regulatory authorities must be careful to avoid unnecessary intervention that may distort the existing highly competitive wholesale and retail gas markets. For example policies that purport to prevent undue price discrimination could reduce innovation and choice for customers if suppliers are less able to differentiate their products and services.
- Ofgem should regulate to ensure that there is adequate flexibility in the system so that available gas supplies can be brought to market when needed. A policy seeking to ensure every last penny spent on the gas transmission system is efficiently spent may lead to unnecessary constraints on the system increasing wholesale prices. If 'just-in-time' investment in infrastructure becomes 'just-too-late' investment, the cost to customers arising from higher wholesale prices would be significant.
- Similarly, any loss of required system flexibility arising from the sale of NTS pipelines for re-use for transportation of carbon dioxide) should be replaced with new system capacity elsewhere, so as not to restrict gas from being brought to market.
- Placing obligations on suppliers to put in place particular contracts or use specified amounts of storage capacity to meet their domestic customer gas demand would distort the wholesale market. The cost of the renewable heat incentive (RHI) to customers could be significant and could increase the numbers of households in fuel poverty.
- The increased burden of 'carbon taxes' on industry is likely to result in the 'export' of jobs.
- Gas may be seen as a 'soft target' for funding RHI compared to other non renewable fuels. For example different treatment of gas compared to coal will inevitably undermine the relative competitiveness of gas.