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The GB gas market

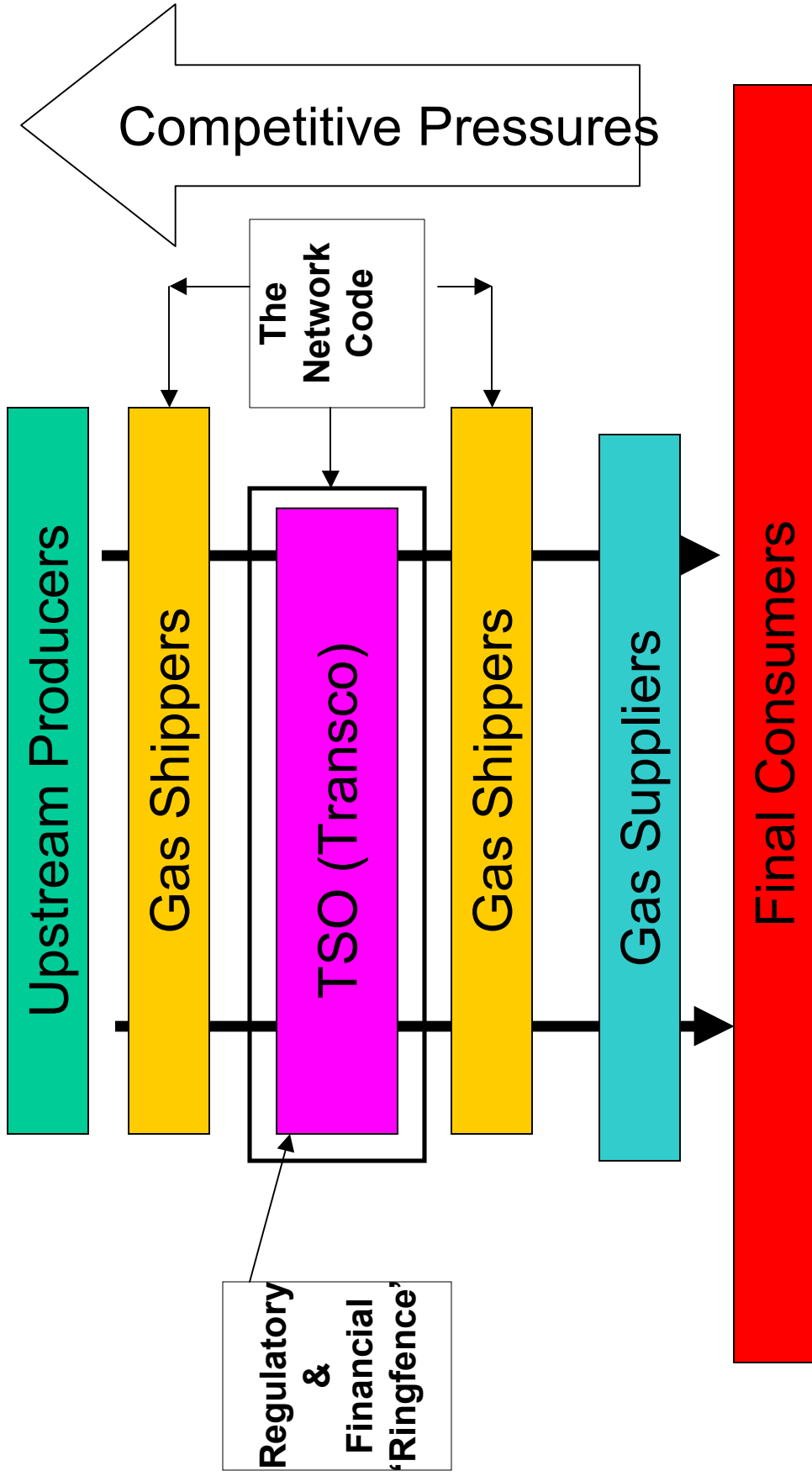
Key drivers towards a liberalised gas market: the British experience

Outline

- The British industry structure
- Key characteristics of British system
- Key effects of British system
- General conclusions



Gas industry structure



Regulated third party access

- Licence obligation to establish a ‘Network Code’ to ‘facilitate competition’
 - Provides standard and pre-defined terms for ‘use of network’ ‘Common carriage’
- Prevents discrimination between ‘system users’ and abuse of monopoly power

Vertical separation of TSO

- Separation of monopolistic (Network services) from competitive activities (supply).
 - Financial 'Ringfence'.
 - Ensures TSO can finance its activities:
 - Operating
 - Developing and maintaining
 - Rate of return
- Prevents cross-subsidy to (competitive) activities

Energy arrangements

- Benefits of National Balancing Point:
 - Liquid and Competitive energy market
 - Specialisation:
 - Trading activity vs Shipping activity
 - Physical (gas flows) vs Financial (contractual flows)
- Efficient pricing of gas (production costs)
- Prices responsive to demand/supply

Capacity arrangements

- Move toward:
 - defined output measures (capacities)
 - defined capacity rights, which:
 - are allocated by valuation (pay-as-bid auction)
 - can be traded on secondary markets
 - bestow rights and impose obligations on owner

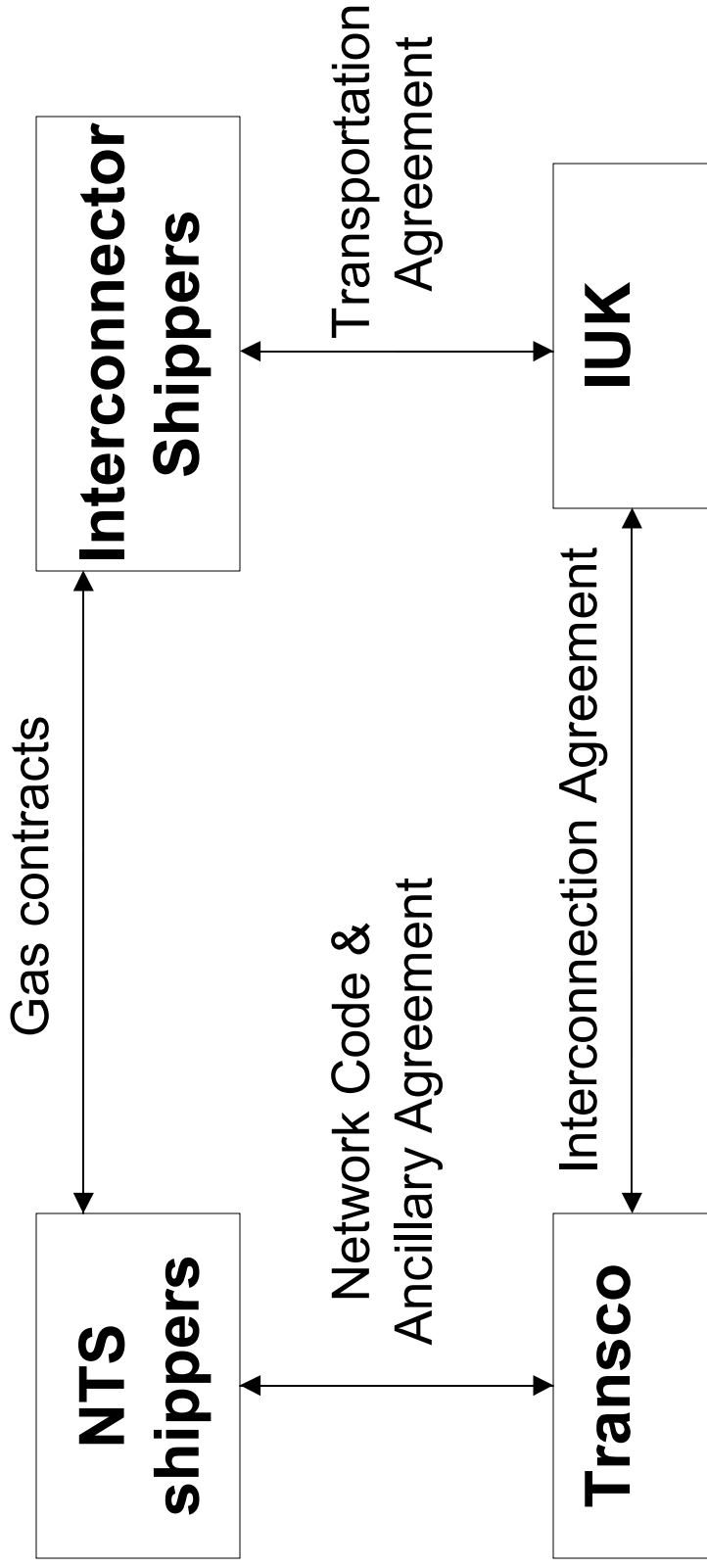
→ Market pricing of transport capacity

GB gas interconnectors

- Transco owns and operates the NTS (high pressure network), which;
 - NTS is connected in Northern Ireland and Eire and to Belgium.
- The respective interconnection agreements combine ‘Network Entry and Exit Agreements’ which cover;
 - gas quality and site specific issues etc.



Interconnector Contractual relationships



General conclusions

- Approach: Competition where possible, regulation where not.
 - Network Code promotes competition
 - National system balancing → National ‘Hub’
 - Enhanced consumer choice and product innovation
 - Upward competitive pressure → minimises ‘market power’ at all stages