

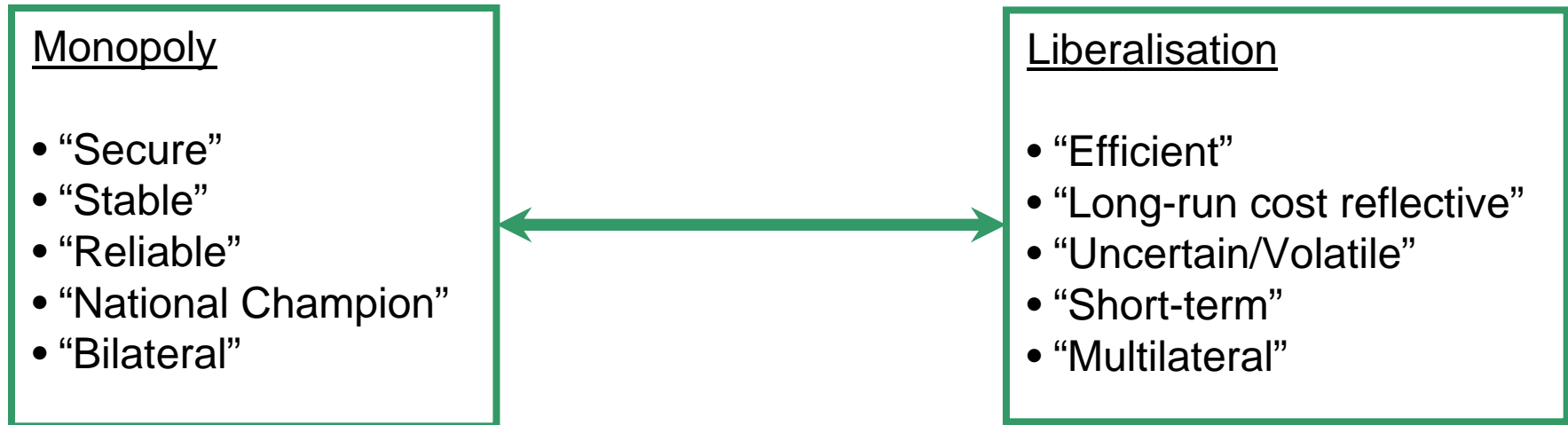


**IEA/IGU/CIEP**  
**High-Level Conference on**  
**Regulation of Natural Gas Markets**

**International Energy Agency, Paris**  
**26 January 2006**

**JOAN MACNAUGHTON CB**  
**DIRECTOR GENERAL**  
**DEPARTMENT OF TRADE AND INDUSTRY**

## Liberalised Versus Monopoly: traditional characterisation



- The above are often “terms of the debate”.
- Some terms have more resonance with stakeholders than others but:
  - Always need to be objective.
- Traditional question: where to position yourself.

## Is there need for a change in approach?

- Policy makers are asking:
  - how can we secure supply?
  - Should Governments intervene directly to influence?
    - location and timing of infrastructure investment
    - the fuel mix
    - deployment of specific technologies
- Question: is the traditional characterisation correct?
  - Are there trade-offs off between liberalisation and security?
  - Or Synergies: can liberalisation enhance security?
  - Independent Evidence suggests competition improves plant performance.

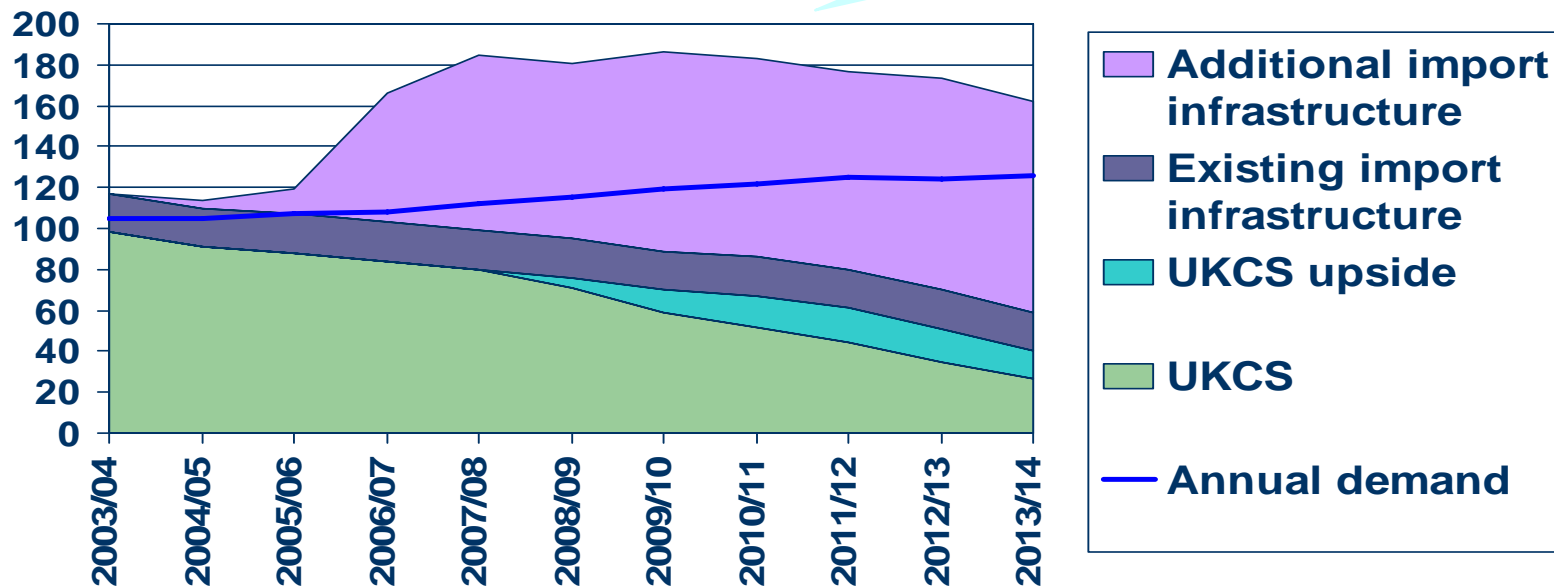
## UK Challenges

- The UK: one of the first to liberalise its gas and electricity markets.
- Successes:
  - Enhanced upstream exploitation
  - Consumer benefits
- But facing new challenges:
  - North Sea gas in long-term decline
  - Increased reliance on gas in power generation
  - International and tough domestic environmental targets.

# Private Sector Investment for future

**UK gas supply and demand balance**  
Bcm per annum

More than €20 billion of investment in import infrastructure being delivered by private sector



## Liberalisation approach: Security through decentralisation

- Market participants have different approaches and appetites for risk. This means:
  - Diversification of source (by country)
  - Diversification of route (pipe-to-pipe competition, LNG)
  - Diversification of counterparty (where possible)
- Governments do have an important role to play in setting the frameworks

## Government role

- Investment is the key - capital is private hands not in Government's.
- Private sector, acting commercially, responding to market signals.
- How can Governments and regulators help market respond?
  - Creating frameworks to address market failures
    - Incentives and penalties where signals don't exist or are weak
    - Creating markets where they are missing (ie environmental)
  - Clarity of purpose and stable policy, domestic and international.
    - No ad-hoc intervention on case-by-case basis – increases risk
  - Wherever possible promote domestically and internationally:
    - Data transparency
    - Stable regulatory frameworks
    - Open and stable investment regimes