

11<sup>th</sup> September 2001

The Energy Review Team  
Performance and Innovation Unit  
Cabinet Office  
Admiralty Arch  
The Mall  
London SW1A 2WH

Dear Sir

### **PIU Energy Policy Review**

The Gas Forum welcomes the Energy Policy Review and the opportunity to comment on the scope and challenges of the Review. As you are aware, the Gas Forum represents a wide range of participants in the gas market including producers, shippers and suppliers. While our individual members will no doubt respond in detail on the Review, the Forum would like to comment on the principles behind the review.

Energy policy over the last decade has focused on the development and facilitation of competitive markets. This has brought major benefits to the UK in terms of cost efficiency of the energy industry and has considerably improved the level of service to customers, at the same time as delivering a real reduction in energy prices to customers. While it is right to re-evaluate the role of markets and Government in the context of the key challenges highlighted in the Review, this evaluation must be considered against this successful background.

With this in mind, the Gas Forum believes that the challenges should, and will, be addressed by the competitive market. Any direct intervention of Government to shape the market in order to achieve specific objectives will, by definition, distort the market and could produce unpredictable results. Accordingly, the emphasis on market forces should be guiding principle on which Energy Policy should be based. However, Government has a role in providing clear guidance to the regulators of the industry to ensure changes proposed for the energy market are consistent with the Government's wider goals and objectives.

Based on this approach, the Gas Forum's view on each of the key challenges is as follows:

**Managing future conflict with environmental objectives** – The environmental benefits of gas are well rehearsed and have already made a significant contribution to the emission reduction targets for the UK. It is recognised there is strong link here with increasing energy demands and the potential sources of energy (and its security) to support this demand but the Gas Forum believe that gas, as a clean fuel, can have a continuing role to play to meet environmental objectives. We also foresee renewable

sources of energy and demand management making an important contribution in this regard. In addition, innovation, an integral characteristic of competitive markets, is likely to be a critical ingredient to meet the required environmental objectives.

**Ensuring continued security and diversity of energy supplies** – The introduction and development of energy competitive markets over the last decade have not reduced the security of supply in the UK. Indeed, the market is now more diverse than it has been in past, when power generation was dependent on coal as a source of power. However, it should be recognised that the diversity of energy supplies, either fuel type or source of reserves, is merely a function of the need for secure supplies of energy. Where we do have concerns is with regard to aspects of the regulatory regime that may not be consistent with longer term security; in particular we believe that the Government will need to ensure the regime encourages a pro-investment climate in the UK. The development of wider competitive markets in Europe will also be necessary to advance security of supply. For this reason, it is important for Government to continue its strong support for the rapid liberalisation of energy markets on the continent.

**Managing potentially conflicting policy goals for energy prices** – Artificially raising energy prices would undermine the basis of the competitive market and potentially deprive customers of the true benefits of competition. As such, it should be the market that determines energy prices and regulatory involvement should be limited to where the market structure itself is incompatible with the equitable determination of those prices.

While this response only comments on the high level principles behind the Review, I hope this is a useful contribution to the debate on the development of Energy Policy. Gas Forum members will continue to participate in the debate individually but please do not hesitate to contact me, should you wish to discuss further.

Yours sincerely

**Itret Latif**  
**Chairman**  
**The Gas Forum**