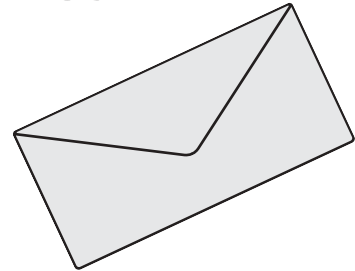


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European gas market growth leads to need for more regulation

Gary Worby, Chief Executive of EnergyQuote, explains the issues facing Europe's gas market, and how the regulators can make it more transparent and competitive.

European wholesale markets are largely illiquid and supply competition is strictly limited. And with price volatility not only on the rise but here to stay, according to a recent Fitch Ratings report, a strong regulatory framework is needed to steer Europe – here and on the mainland – through the complexities of gas' development into a globally traded commodity.

Market liberalisation has created an intimate relationship between traded energy markets and security of supply in increasingly gas-hungry Europe. But as Ofgem implied in its gas price probe report, several obstacles continue to block a transparent and competitive gas market on the continent.

For the UK, soon to become a net importer, the need for a firm regulatory hand on the continent is increasing as it finds itself more closely integrated into a wider market. But as long as the fundamental commodity driver is the oil price, this situation will continue to create immense problems in what is a much less mature set of national markets with much structural rigidity.

There is also a tendency among policy makers to

assume there is more competition in gas trading and supply than is actually the case, and the third benchmarking report from the European Commission earlier this year shows overall a much bleaker picture for gas competition than electricity.

Ofgem's recent probe into high UK gas prices and the subsequent renewed gains in that market suggest that the UK, Europe's most robust gas market, is also entering a new phase, where price drivers are

changing. With a strengthening of the links to European gas comes a heightened exposure to the oil price linkages, making it essential that barriers to competition in the wider European gas market are tackled.

There exist a number of obstacles to trading and effective competition on the European stage that are likely to endure if there is no concerted corrective action. Prominent among those obstacles is the fact that, for most players, it is simply not possible to buy gas in large quantities as incumbent players have tied up most economic supply, and a position of ample supply presently prevails. Without

pressure from the European Commission on member states to pursue much more significant gas release programmes than hitherto, this problem is likely to remain. Even with access to increased volumes of gas, suppliers may not have access to willing customers.

Many incumbents still hold long-term contracts

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