House of Commons

Trade and Industry Committee

Security of Gas Supply

First Report of Session 2005–06

Volume I

HC 632-I

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Volume I

Report, together with formal minutes and oral evidence

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The Trade and Industry Committee

The Trade and Industry Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department of Trade and Industry.

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Committee staff

The current staff of the Committee are Elizabeth Flood (Clerk), David Bates (Second Clerk), Grahame Allen (Inquiry Manager), Clare Genis (Committee Assistant) and Joanne Larcombe (Secretary).

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Footnotes

In the footnotes of this Report, references to oral evidence are indicated by 'Q' followed by the question number. References to written evidence are indicated in the form 'Appendix' followed by the Appendix number.

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1 Introduction

1. The concerns this winter about gas prices and supplies are not new. During the summer and autumn of 2004, the UK witnessed rapid and substantial increases in the wholesale price of gas. This resulted not only in significant increases in retail gas prices for both domestic and industrial and commercial ('I&C') customers, but also, because about 40% of electricity generation in England and Wales is gas-fired, in rising electricity prices too. Our predecessors decided to undertake an inquiry into the effects of the price increases on all types of energy customers, and in particular to try to determine whether the rises were a temporary response to short-term supply problems or were the start of a long-term increase in UK energy prices.

2. Our predecessors reported in late March 2005.[1] Their main conclusions were that:

— over the 2004/05 and perhaps the following two winters, the UK would be in the uncomfortable position of having a relatively small surplus of gas over normal winter demand;

— because supply could not be increased measures might have to be taken to decrease demand—which meant that customers with interruptible supply contracts might find their gas supply temporarily suspended;

— it was urgent to build the infrastructure to enable adequate supplies to be imported into and stored in the UK to meet any shortfalls from the UK Continental Shelf;

— there was a serious shortage of companies willing to sell gas in the wholesale market when prices were high;

— without further real (not just cosmetic) liberalisation of the European gas market, the wholesale market in the UK would malfunction: it would continue to be difficult for buyers to access adequate supply and, because of this and other distortions caused by the mismatch between the liberalised market in the UK and the more rigid contractual arrangements on the Continent, there would be a tendency for prices to diverge significantly. The Committee therefore welcomed the European Commission's announcement of inquiries into competition within the European gas and electricity markets, to be completed by the end of 2006;

— The effect of the price increases on customers was significant. The Department of Trade and Industry ('DTI') was placing heavy reliance on I&C customers changing their buying practices: avoiding the traditional approach whereby most customers renewed their annual contracts in October, and purchasing gas on short-term markets when forward prices seemed excessive. The Committee thought that this was going to be difficult for companies, especially the SMEs whose interests the DTI had pledged itself to take particularly into account.

1 Twelfth Report from the Trade and Industry Committee, Session 2004-05, *Fuel Prices*, HC 279 (hereafter '*Fuel Prices*')

— As a result, the Committee believed it was time for the Government to re-examine the operation of the Climate Change Levy, and in particular to consider the scope for reducing it to help UK industry during its present difficulties.

2 Continuing concerns

3. Price spikes have continued to take place in both the spot and the forward markets for gas, with prices in July 2005 reaching the heights that they did in October 2004—despite the fact that gas prices are usually lower in summer because of decreased demand.[2] Forward gas prices for the first Quarter of next year (Jan–March 2006) were, at the beginning of September, still at about 70 pence per therm, which was the peak reached in October 2004 for forward prices for the First Quarter of 2005.[3] In November 2005, prices reached highs of well over £1.00 per therm on both the spot and the forward markets.[4] In other words, as the previous Committee suspected, peaks are becoming not only more frequent but also higher on each occasion. However, gas available on the spot market has often traded for significantly less than the forward price paid by customers for the same period.

4. Because of the continuing concerns over the availability and the price of gas on the wholesale market, in September 2005 we decided to conduct a short follow-up inquiry building on the work of our predecessors, focussing on whether the supply situation in the coming winter was likely to be about the same, better or worse than predicted in February this year; and, if worse, what the consequences would be, and what the Government's and Ofgem's[5] responses to the problem should be.

5. We received Memoranda from 24 organisations and companies, most of which reiterated the evidence received by our predecessors. Worries about the adequacy of gas supplies had increased; the wholesale market was still lacking in liquidity, with gas customers (especially those needing to buy large quantities of gas) having little or no choice of supplier; the extra information provided by NGT about supply had not yet significantly improved the transparency of the market; and, though new import facilities were being built and brought into operation, it was still far from clear that significant extra imports would materialize in practice.[6] In particular, large I&C customers were even more concerned than they were at the start of the year about the likelihood that gas supplies to them would be interrupted in the event of severe weather, in order to maintain supplies to households and smaller industrial and commercial consumers.[7] We received evidence that this concern was already influencing decisions by multinationals about investing in the UK.[8]

2 See *Mail on Sunday*, 26 June 2005 p. 1, and *The Guardian*, 7 October 2005, p. 27: 'Shutdown fears as gas prices rocket' and 'Manufacturing falters as energy supplies slump'

3 See Graph 4 in Addendum 1 to Ineos Chlor's Memorandum (Appendix 14)

4 See other press cuttings

5 Ofgem is the Office of Gas and Electricity Markets, the independent regulator of these sectors.

6 Appendices 3,5,6,14 and 20

7 See, for example Appendix 14, paras 4.11-4.13, Appendix 5 paras 18-20. I&C customers often have contracts in which, in return for a somewhat lower unit price for fuel, they agree to allow their supply to be interrupted in certain circumstances.

8 Appendix 6, para 5

6. The fact that supply would be very tight this winter was confirmed by National Grid's Final Winter Outlook Report, published on 5 October 2005.[9] Applying a set of assumptions about delivery of gas from the UK Continental Shelf, imports through the Interconnector and the Isle of Grain LNG facilities, and storage capacity, National Grid concluded that:

> "over the winter period, even in 1 in 50 cold weather, there will be sufficient gas to maintain supplies to domestic and other non-daily metered customers. Furthermore, in average weather conditions, only modest demand response may be required from the daily-metered sector.
>
> "However, significant demand-side response will be required if colder than average weather is experienced or gas deliveries are below our base case levels. For example, in [a 1 in 50 cold winter[10]], the required demand side response could increase to around 3.7 billion cubic metres ('bcm'), which would be equivalent in scale to over 60 million cubic metres per day for around 60 days. If Great Britain were to experience a repeat of 1985/86 weather—the last very cold winter, statistically around 1 in 10 cold—our base case assumptions suggest a demand-side response of 2.2 bcm." [11]

Ofgem explained that, for a 1 in 50 winter, this meant a reduction in demand of about 13% of maximum daily demand for 60 days would be necessary;[12] while for a 1 in 10 winter, demand would have to be reduced by just under 10% for about 40 days.[13] In both cases, Ofgem expected about 50% of the reduction in demand to come from electricity generating companies (principally through their switching fuels), but the other 50% would have to come from I&C customers with interruptible contracts.[14]

7. We decided to take oral evidence only from the regulator, Ofgem, and from the Minister for Energy. Both assured us that there was no question of interruption of gas supplies to households or smaller I&C customers; and, based on NGT's Winter Outlook Report, they were confident that there was sufficient spare capacity in the electricity generating sector for electricity suppliers to be able, if necessary, to switch from gas to other fuels in order to meet expected electricity demand.[15] They conceded that supplies of gas from the UK Continental Shelf had continued to decline at a faster rate than anticipated, leaving a larger shortfall to be made up from imports; but the DTI noted that the extra infrastructure needed to supply the UK with gas imports was being built more or less to the expected timetable (delays in some facilities have been offset by earlier completion of others).[16]

9 Available on Ofgem's website at www.ofgem.gov.uk/ofgem/whats-new/archive. National Grid publishes an annual forecast of the likely availability of gas and electricity supplies for the following winter. This year, it also published in May a consultation paper outlining two supply scenarios as a basis for discussion and comment, and its final report draws on the responses it received.

10 Where national temperatures average about -2°C over a month and +2°C over a further two months

11 National Grid, Winter Outlook Report 2005, Summary, paras 16-17

12 60 mcm/d out of a maximum daily requirement of 450 mcm. Though we also note Centrica's assertion that the majority of customers with interruptible contracts are on agreements that allow supply to be interrupted for a minimum of 45 days: Appendix 4, para 6.3.

13 40 mcm/d out of a maximum daily requirement of 450 mcm

14 Q 2

15 Qq 5-7 (spare capacity)

16 Appendix 7, paras 8-12

However, neither could be certain that the new import facilities already completed—the expansion of the import capacity of the Bacton–Zeebrugge Interconnector, and the new LNG[17] terminal at the Isle of Grain—would be used fully this winter because it was possible that gas suppliers would prefer to sell to other European counties or (in the case of LNG) to the United States or the Far East rather than to the UK.[18] Ofgem suggested that the companies that financed the expansion of the Interconnector would not have done so had they not been fairly confident that they could recoup their investment by importing at capacity when demand for gas was high in the UK.[19]

8. In general, although they rebutted any accusations of complacency, both the regulator and the Minister seemed to believe it likely that market forces would deliver secure energy supplies to almost all customers in most foreseeable circumstances. As far as the largest I&C customers were concerned, the Minister emphasised that the risk of interruption stemmed from the contracts they had freely entered into with other (energy) companies in the private sector, and that this was a commercial decision they had taken at that time.[20]

9. Ofgem also felt that, although supplies were tight, market sentiment—extreme nervousness when wholesale prices reached a certain level, because of the lack of credit available for trading at that level—was still responsible for some of the volatility.[21] We return to this issue later, merely noting now that, if the market is so nervous, then prices are likely to remain both higher and less predictable than the actual supply situation warrants.

10. **Gas supplies this coming winter are likely to be tighter than was anticipated in February, principally because of the continued faster-than-expected decline in production from the UKCS. New import and storage facilities are coming into operation roughly as expected. The difficulty in predicting actual import rates has grown because of the effects of the hurricanes in the Gulf of Mexico this year: the uncertainty about the extent and duration of the damage to the USA's gas production facilities, with the resulting unpredictability of demands for LNG imports to the United States. We note National Grid's assessment of the security of supply this winter, and the Meteorological Office's suggestion that there is about a 66% chance of this winter being a '1 in 10'. Although it is extremely unlikely that domestic customers and the majority of businesses will suffer any interruptions to their gas or electricity supply because of the tight gas supply, it is very likely that the largest I&C customers will, if they have the relevant contracts, suffer interruptions, or, if they purchase gas on the spot market, have to pay very high prices for that gas, or both. It is, unfortunately, impossible to do anything to change this situation now, although we discuss below (in paragraph 19) some mitigating actions that can be taken. However, we believe that the Government needs to pay closer attention to the consequences of this situation—some of which we**

17 Liquified Natural Gas

18 Qq 17-18 and 99-100; see also Appendix 4, paras 4.1-4.2 (Centrica) and Appendix 13 (Heren)

19 Qq 4 and 17

20 Q 97

21 Q 23

set out in the next few paragraphs—and to demonstrate greater urgency in pursuing a single market within the EU. [22]

Fuel poverty

11. Much of the recent reduction in fuel poverty[23] (from 5.25 million households in 1997 to 2.25 million in 2004) is attributable to the decrease in the price of gas and electricity over that period. Our predecessors heard in 2002 that about 2 million households had been taken out of fuel poverty because of the reduction in energy prices;[24] but they were also told earlier this year that, for every 10% increase in fuel prices, an extra 400,000–500,000 households in England and about 60,000 households in Scotland[25] fall into fuel poverty.[26] We asked the Minister about the impact of the recent rises in fuel prices on those on low incomes, and what extra measures were being put in place to help people in difficulties. The Minister noted the number of schemes available through the energy supply companies and the Warm Front initiative to provide energy efficiency measures such as new boilers, insulation and draught proofing. However, many people who could benefit from the help available are either not aware of it or find the plethora of schemes, with different help on offer and different eligibility criteria, confusing. The Minister told us that, because of this, the industry had launched a helpline on 31 October to give advice about the grants and other assistance on offer.[27] He also argued that the pension credit and winter fuel payment should provide reassurance to the elderly that they would be able to pay fuel bills; and that the greater co-ordination between the local pension offices and social services departments would also help the vulnerable by making it easier for them to navigate the complexities of welfare provision.[28] However, we noted that Winter Fuel Payments were available only to the elderly, and not to other vulnerable groups like families with young children and people whose circumstances give rise to the need to use more fuel.[29] When asked whether there were any mechanisms to ensure that people would get the help they needed as soon as possible, the Minister responded: "I think we are in a better place than we have ever been but … it takes some time to insulate someone's dwelling and … to put new boilers in and so on. I think it takes less time to do the benefit check and make sure they are getting the benefits [to which they are entitled]."[30]

12. **Although the effect of peaks in prices on the wholesale gas market is moderated for domestic consumers by the averaging effect of their billing mechanisms**[31] **and by the fact that wholesale prices form only about 50 percent of the retail cost of their gas,**[32]

22 See paragraph 18

23 The most commonly used definition of fuel poverty is that heating the home to a reasonable temperature would require more than 10% of the household's income.

24 Trade and Industry Committee, *Fuel Poverty*, Sixth Report of Session 2001-02, HC 814, para 10 ('*Fuel Poverty*')

25 There was no equivalent estimate for Wales or Northern Ireland

26 *Fuel Prices*, para 29

27 Q 76

28 Q 78

29 Qq 81-85

30 Q 77

31 Through a tariff rather than a contract

32 The rest comprises transportation and administrative costs, margins for the shippers and suppliers, and so on.

rising fuel prices will mean that more people fall into fuel poverty. Although greater energy efficiency is the most effective means of reducing the number of those in fuel poverty absolutely and permanently, it is not—as the Minister acknowledged—an immediate response for those suffering now from higher energy prices. If fuel prices continue to rise it will be essential to provide further assistance to the elderly. However, we are particularly disappointed that little progress has been made in dealing with the plight of some non-elderly vulnerable groups, particularly disabled people, whose difficulties in relation to fuel poverty have been known for a long time.[33]

I&C customers

13. We also wished to pursue the issue of how I&C customers could be helped to cope with the expected problems with supply. Ofgem reported that, since the previous Committee's inquiry, there had been a major change in the way in which I&C customers had approached purchasing gas: the amount of gas traded on the six-month forward market had halved, and the amount traded on the day ahead market had virtually doubled. It was clear that such customers were trying to avoid the very high forward prices being offered.[34] The Minister suggested to us that these large I&C customers should bear the responsibility for choosing to entrust themselves to the spot market, which has subsequently witnessed extraordinarily high prices; but this strategy of shifting from the forward to the spot market was commended by the Minister's predecessor earlier this year.[35] Moreover, a number of the large industrial companies that sent us written evidence expressed frustration about the limited options open to them: even if they could in theory use alternatives to gas as fuels, most of these alternatives involved higher emissions of pollutants to produce the same amount of electricity, and therefore had a deleterious effect on their pollution profiles under their Climate Change Agreements and/or the emissions trading scheme.[36] We asked whether the Government would be prepared to give temporary derogations in relation to emissions trading permits and to controlled emission levels under the Climate Change Scheme, to help companies forced to switch to other, more polluting fuels as a result of gas shortages. The Minister replied that, because of the importance it accorded to tackling climate change, the Government would be very reluctant to do so; and he noted that another option for companies would be to reduce their demand for gas.[37] When we pressed him further, the Minister conceded that "we are looking at one or two of these things with relevant government agencies" and that the Government might consider suspending the penalties payable under climate change agreements if disruptions to gas supplies made it impossible for industrial plants to meet their energy efficiency targets.[38]

14. **The Government cannot directly affect the price of gas. However, it can ensure that there are no UK regulatory or economic barriers to maximising gas supplies and storage facilities, and improving the functioning of the gas market. It can also**

33 *Fuel Poverty*, para 14

34 Q 20

35 Cited in *Fuel Prices*, paras 22 and 26

36 Appendix 14, para 4.14.3; Appendix 5, paras 2.3-2.4; Appendix 3, para 4

37 Qq 89-90, 93 and 96-97

38 Qq 91-92

encourage energy liberalisation in the European Union (which we discuss further below), and help I&C customers to share best practice on how to cope with high prices and a volatile market. We are pleased to note that the Government has been pursuing all these. However, in the area where the Government can take direct action—ensuring no-one is penalised because, with gas interruptions looming, they have temporarily breached emissions limits as the only alternative to suspending operations—the Minister seemed reluctant to do anything at all. We accept the enormous importance of tackling climate change, but we cannot see that giving temporary derogations *in extremis* (and both Ofgem and the DTI believe that the tight supply situation is likely to last for only another couple of years, and that this winter is likely to be the most problematic) would seriously undermine the Government's long term climate change programme. We look forward to receiving the Minister's assurance that the Government would be willing to give temporary derogations this winter and in the next two winters if prolonged cold spells make large scale gas interruptions inevitable, at the same time as his making it abundantly clear that such derogations in the years thereafter would not be forthcoming except in a case of grave national emergency.

Liquidity of the gas wholesale market

15. One of the central concerns of our predecessors was that a serious lack of liquidity in the gas wholesale market—in particular, a severe shortage of traders willing to sell large quantities of gas, or to sell short in any way—meant that it was not, in reality, a functioning market. While Ofgem and the Department recognised some liquidity problems, both demurred at the Committee's conclusion that the market was in danger of failing.[39] We asked Ofgem and the Department whether the situation had improved since our predecessors' report. Ofgem said that there were signs of 'major players' coming into the market as both traders and suppliers, though it was not clear to us to what an extent these players were actually bringing extra liquidity into the market.[40] Moreover, as we noted above,[41] a change in purchasing behaviour in response to high forward prices has resulted in significantly smaller volumes being traded on the forward market, even though many industrial customers would prefer the certainty provided by forward contracts of six months or more. This is hardly a sign of confidence in the forward market. The DTI reported the results of their consultation with some of the big financial institutions that might have been expected to provide credit for, or act themselves as traders in, the forward gas wholesale market. The conclusion was that the UK market was not big enough—there were not enough intensive users—to be interesting to them; they would participate only if there was a vibrant forward European market.[42]

16. **This is a depressing, but not surprising, finding. It supports our predecessors' conclusion that the forward market was too illiquid to be considered functioning, and it underlines the fact that the operation of the liberalised UK market is heavily**

39 *Fuel Prices*, paras 110 and 116 and Trade and Industry Committee, *Responses to the Committee's Twelfth Report of Session 2004-05*, HC 363, Appendices 1 and 2

40 Q 19

41 Paragraph 13

42 Q 38

dependent—and becoming ever more so—on the unliberalised Continental European one.

17. On this latter point, we note the progress made by the European Commission in its two parallel inquiries into the functioning of the European gas and electricity markets, with the publication on 15 November 2005 of both the Transport and Energy Directorate General's final report on *Progress in Creating the Internal Gas and Electricity Markets* and the Competition Directorate General's initial finding of competition problems within these markets.[43] **These seem to us to provide a comprehensive, rigorous analysis of the failure to achieve real liberalisation to date and of the obstacles remaining to electricity and gas companies seeking to trade in, buy from, or use transit or storage capacity in, Continental Europe. These obstacles will not be overcome quickly or easily—the Commission has noted that many of the legacy contracts that make purchasing or transporting gas through Europe so difficult have a decade or more to run—with the result that we risk having a malfunctioning forward gas market for a decade. Although LNG imports will alleviate some of the problems of liquidity, the UK will be competing for those with not only some European countries (such as Spain) but also the Far East and the USA.**

18. Despite the fact that the Minister insisted that liberalisation of the European market was at the top of the UK Presidency's agenda for energy,[44] there is no sign that much has been achieved in the last six months. This is not surprising, as one Member State, even the holder of the Council Presidency, can only seek to persuade: the European Commission alone can enforce the liberalisation already agreed. From what the Minister has told us, **we expect the UK Government to give its full backing to the Commission in its attempts to enforce existing legislation, and to introduce any amendments designed to close any loopholes.**

19. **It is far from clear that all energy users have derived continuing and sustainable benefits from the early liberalisation of the energy market in the UK. The gas supply problem this winter will affect—whether through high prices of gas and electricity, or through actual supply interruptions—all domestic and I&C customers. The problem is caused not only by matters outside the control of government, but also by a legacy of slow development of infrastructure, and the lack of a true European market for gas. These are matters that do lie, at least partially, under the control of the UK Government. It is therefore right to expect Government to take steps to mitigate the impact of problems this—and probably for the next two—winters.**

43 European Communication and Commission Staff Working Document (Technical Annex), *Progress in creating the internal gas and electricity markets*, 15 November 2005, both available on the Commission website at europa.eu.int/comm/energy/electricity/report_2005 and European Commission, *Energy Sector Inquiry—Issues Paper*, 15 November 2005 available at europa.eu.int/comm/competition/antitrust/others/sector_inquiries/energy

44 Qq 70-75

Conclusions and recommendations

1. Gas supplies this coming winter are likely to be tighter than was anticipated in February, principally because of the continued faster-than-expected decline in production from the UKCS. New import and storage facilities are coming into operation roughly at the rate predicted. The difficulty in predicting actual import rates has grown because of the effects of the hurricanes in the Gulf of Mexico this year: the uncertainty about the extent and duration of the damage to the USA's gas production facilities, with the resulting unpredictability of demands for LNG imports to the United States. We note National Grid's assessment of the security of supply this winter, and the Meteorological Office's suggestion that there is about a 66% chance of this winter being a '1 in 10'. Although it is extremely unlikely that domestic customers and the majority of businesses will suffer any interruptions to their gas or electricity supply because of the tight gas supply, it is very likely that the largest I&C customers will, if they have the relevant contracts, suffer interruptions, or, if they purchase gas on the spot market, have to pay very high prices for that gas, or both. It is, unfortunately, impossible to do anything to change this situation now, although some mitigating actions can be taken. However, we believe that the Government needs to pay closer attention to the consequences of this situation and to demonstrate greater urgency in pursuing a single market within the EU. (Paragraph 10)

2. Although the effect of peaks in prices on the wholesale gas market is moderated for domestic consumers by the averaging effect of their billing mechanisms and by the fact that wholesale prices form only about 50 percent of the retail cost of their gas, rising fuel prices will mean that more people fall into fuel poverty. Although greater energy efficiency is the most effective means of reducing the number of those in fuel poverty absolutely and permanently, it is not—as the Minister acknowledged—an immediate response for those suffering now from higher energy prices. If fuel prices continue to rise it will be essential to provide further assistance to the elderly. However, we are particularly disappointed that little progress has been made in dealing with the plight of some non-elderly vulnerable groups, particularly disabled people, whose difficulties in relation to fuel poverty have been known for a long time. (Paragraph 12)

3. The Government cannot directly affect the price of gas. However, it can ensure that there are no regulatory or economic barriers to maximising gas supplies and storage facilities, and improving the functioning of the gas market. It can also encourage energy liberalisation in the European Union, and help I&C customers to share best practice on how to cope with high prices and a volatile market. We are pleased to note that the Government has been pursuing all these. However, in the area where the Government can take direct action—ensuring no-one is penalised because, with gas interruptions looming, they have temporarily breached emissions limits as the only alternative to suspending operations—the Minister seemed reluctant to do anything at all. We accept the enormous importance of tackling climate change, but we cannot see that giving temporary derogations in extremis (and both Ofgem and the DTI believe that the tight supply situation is likely to last for only another couple of years, and that this winter is likely to be the most problematic) would seriously undermine the Government's long term climate change programme. We look forward to receiving the Minister's assurance that the Government would be willing to give temporary derogations this winter and in the next two winters if prolonged cold spells make large scale gas interruptions inevitable, at the same time as his making it abundantly clear that such derogations in the years thereafter would not be forthcoming except in a case of grave national emergency. (Paragraph 14)

4. Financial institutions that might have been expected to take part in or finance trading in the forward market for gas are not interested in doing so: the UK market is not big enough, and they are unlikely to become involved unless there is a Europe-wide forward wholesale gas market. This is depressing, but not surprising. It supports our predecessors' conclusion that the forward market was too illiquid to be considered functioning, and it underlines the fact that the operation of the liberalised UK market is heavily dependent—and becoming ever more so—on the unliberalised Continental European one. (Paragraph 16)

5. The reports published by DG Transport and Energy and DG Competition on 15 November seem to us to provide a comprehensive, rigorous analysis of the failure to achieve real liberalisation in the European market to date and of the obstacles remaining to electricity and gas companies seeking to trade in, buy from, or use transit or storage capacity in, Continental Europe. These obstacles will not be overcome quickly or easily—the Commission has noted that many of the legacy contracts that make purchasing or transporting gas through Europe so difficult have a decade or more to run—with the result that we risk having a malfunctioning forward gas market for a decade. Although LNG imports will alleviate some of the problems of liquidity, the UK will be competing for those with not only some European countries (such as Spain) but also the Far East and the USA. (Paragraph 17)

6. We expect the UK Government to give its full backing to the Commission in its attempts to enforce existing legislation, and to introduce any amendments designed to close any loopholes. (Paragraph 18)

7. It is far from clear that all energy users have derived continuing and sustainable benefits from the early liberalisation of the energy market in the UK. The gas supply problem this winter will affect—whether through high prices of gas and electricity, or through actual supply interruptions—all domestic and I&C customers. The problem is caused not only by matters outside the control of government, but also by a legacy of slow development of infrastructure, and the lack of a true European market for gas. These are matters that do lie, at least partially, under the control of the UK Government. It is therefore right to expect Government to take steps to mitigate the impact of problems this—and probably for the next two—winters. (Paragraph 19)

Formal minutes

Tuesday 6 December 2005

Members present:

Mr Peter Luff, in the Chair

Roger Berry	Mr Rob Marris
Mr Peter Bone	Mrs Maria Miller
Mr Michael Clapham	Anne Moffat
Mr Mark Hunter	Mr Mike Weir
Judy Mallaber	Mr Anthony Wright

Draft Report (Security of Gas Supply), proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 19 read and agreed to.

Resolved, That the Report be the First Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Ordered, That the Appendices to the Minutes of Evidence taken before the Committee be reported to the House.

[Adjourned till Tuesday 13 December at 10.30am

List of witnesses

Monday 31 October 2005

Mr Alistair Buchanan and Mr Steve Smith, **Ofgem**

Mr Malcolm Wicks MP, Minister for Energy, Ms Claire Durkin, and Mr Richard Abel, **Department for Trade and Industry**

List of written evidence

1 Association of Electricity Providers
2 British Ceramics Confederation
3 British Glass Manufacturers Confederation
4 Centrica
5 Chemical Industries Association
6 Ciba Speciality Chemicals
7 Department for Trade and Industry
8 Department for Trade and Industry (Supplementary)
9 E.on UK plc
10 EDF Energy
11 energywatch
12 The Gas Forum
13 Heren Energy Ltd
14 INEOS Chlor Ltd
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19 Ofgem
20 Terra Nitrogen (UK) Ltd
21 Terra Nitrogen (UK) Ltd (Supplementary)
22 Terra Nitrogen (UK) Ltd (Supplementary)
23 UK Offshore Operators Association

List of unprinted written evidence

Additional papers have been received from the following and have been reported to the House but to save printing costs they have not been printed and copies have been placed in the House of Commons library where they may be inspected by members. Other copies are in the Record Office, House of Lords and are available to the public for inspection. Requests for inspection should be addressed to the Record Office, House of Lords, London SW1. (Tel 020 7219 3074) hours of inspection are from 9:30am to 5:00pm on Mondays to Fridays.

British Nuclear Fuels plc

Confederation of British Industry

John Hall Associates

RWE npower

Scottish and Southern Energy

Shell