

European Commission
Competition DG

Your ref

Our ref

Date
01 May 2006

**Sector Inquiry under Art 17 Regulation 1/2003
on the gas and electricity markets**

Contact/Extension

Dear Sir

ScottishPower welcomes the opportunity to respond to the preliminary report on the sector inquiry on the gas and electricity markets. We would like to commend the Commission on the thoroughness of its investigation and its insight on the key issues affecting the development of a fully competitive energy market in the EU.

In our opinion, the recent high prices experienced in the UK, and other European countries, are in no small part due to the inefficiencies inherent in the European energy market. Not only do these problems unnecessarily increase prices and therefore reduce competitiveness of European industry, they also present a serious obstacle to achieving security of supply to the levels required in the new global climate. With limited interconnection and the dominant position of incumbents preventing the economic flow of gas and electricity, there will be little confidence that energy needs will be effectively met. Moreover, in this climate of uncertainty and opacity, there is little incentive for the investments in infrastructure and supply that will bring about that security.

ScottishPower believes that of the five major issues identified in the report, it is imperative that three of those are tackled as a matter of urgency, namely market integration, vertical foreclosure and transparency. Once these have been addressed, the issues around market concentration and price formation will be easier to address and will develop as a part of a competitive market.

Market Integration

As discussed in the report, dominant incumbent positions coupled with a lack of interconnection between countries has led to the biggest stumbling block to the creation of a European energy market. This must be tackled through the release of long term reserved capacity, improved management of interconnection and harmonisation of market operating regimes across the EU. Adequate investment in additional interconnection can only come when these issues are addressed and a fair, transparent and robust process has been developed to provide the required level of certainty.

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Vertical Foreclosure

The dominant position of many incumbents through the entire supply chain is a major hurdle to full and effective competition. In particular those companies that control significant quantities of production, transmission and retail on long term legacy contracts provide a serious barrier to new entrants. Legal unbundling and transparent and equitable access to transmission is a necessity to allow the market to flourish.


Transparency

As the report correctly states, timely and reliable information is the lifeblood of a healthy market. Without this information traded markets cannot provide the optimum distribution of resources and investments will be hampered by ongoing uncertainty.

ScottishPower welcomes the reports findings that most if not all of these issues have been addressed in the UK. However, we understand and accept that there may be a requirement for limited change to the UK operating regimes to allow an integrated European energy market to fully develop. We welcome the opportunity to be involved in these discussions going forward.

We further welcome the EU's commitment to addressing these issues in a relatively short time frame. Only by doing this will the certainty be created that will allow an efficient market to operate and necessary investments to come forward.

Yours Sincerely

A handwritten signature in black ink, reading "John A. Campbell", followed by a long horizontal stroke.

JOHN A. CAMPBELL
Director, Energy Wholesale