

1. Introduction

1.1 About this report

- 1.1.1 This is the second Energy Markets Outlook report, following up the undertaking in “Meeting the Energy Challenge: A White Paper on Energy” (2007)¹ to introduce a new information service, authored jointly by DECC and Ofgem and providing forward-looking energy market information relating to security of supply, building on and expanding the work of the former Joint Energy Security of Supply (JESS) working group.
- 1.1.2 This report also discharges the Government’s and Ofgem’s obligation under section 172 of the Energy Act 2004² to report annually to Parliament on the availability of electricity and gas for meeting the reasonable demands of consumers in Great Britain; and the Government’s obligation under certain EU Directives³ to monitor gas and electricity security of supply issues and publish reports.
- 1.1.3 The first report⁴, published in October 2007, initially examined how security of supply can be defined and measured and then went on to look at the supply and demand, in the UK and (where relevant) global markets, of the various primary energy sources in use in the UK. The balance between these is shifting with time but it is likely that all will continue to be important to the UK’s energy mix for the foreseeable future.

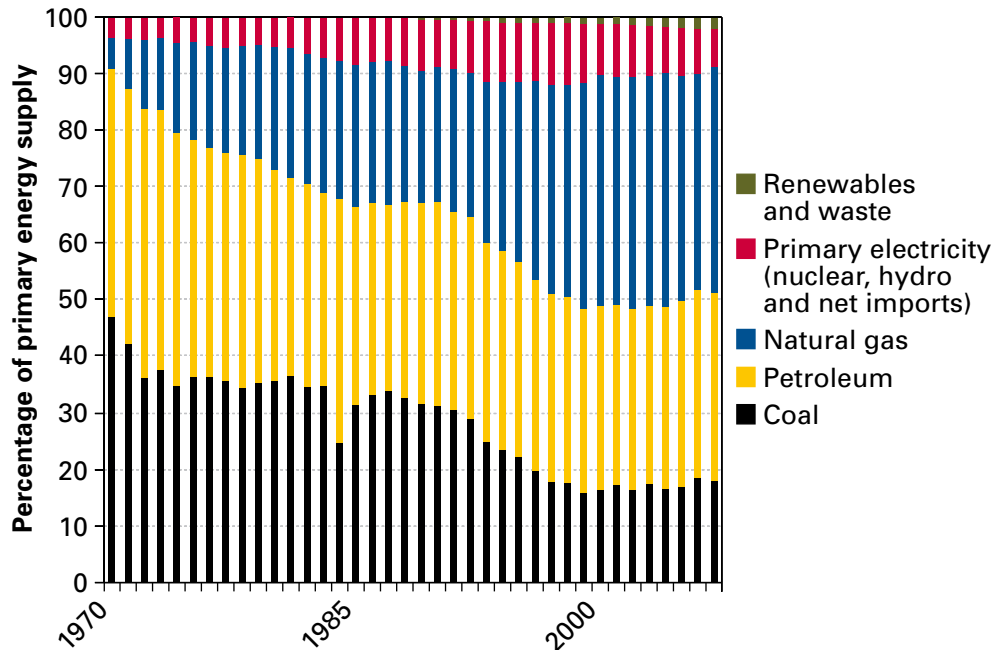
1 <http://www.berr.gov.uk/whatwedo/energy/whitepaper/page39534.html>. Paragraphs 4.36 – 4.38

2 Available from <http://www.statutelaw.gov.uk/Home.aspx>

3 Directive 2003/55/EC of 26 June 2003 concerning common rules for the internal market in natural gas, augmented by Article 5 of Directive 2004/67/EC of 26 April 2004 concerning measures to safeguard security of natural gas supply; Directive 2003/54/EC of 26 June 2003 concerning common rules for the internal market in electricity, augmented by Article 7 of Directive 2005/89/EC of 18 January 2006 concerning measures to safeguard security of electricity supply and infrastructure investment

4 <http://www.berr.gov.uk/whatwedo/energy/energymarketsoutlook/page41839.html>

Chart 1.1: Energy supply in the UK



Source: DECC Energy Indicators

1.1.4 This report follows the same overall structure, again drawing on expertise from a range of sources; in particular National Grid’s Seven Year Statement and Ten Year Statement and analytical work undertaken for the development of the Government’s ongoing Renewable Energy Strategy. It does not make predictions about future energy prices, although it does give qualitative consideration to their impact on supply and demand⁵.

1.1.5 We also again include a chapter on carbon, since the emergence of the EU Emissions Trading Scheme means that the price of carbon allowances and the operation of the carbon market, as with fuel, are likely to be an increasingly important factor in operational and investment decisions for electricity generating capacity.

1.1.6 Following the publication of the first report we organised three stakeholder events to examine in more detail the outlook for electricity and gas supply in Great Britain and for the development of a global market in Liquefied Natural Gas. We are grateful for the support of those who participated in those events. Many of the comments made there have been taken into account in this report.

⁵ The assumptions on future fossil fuel prices which were used to inform the Government’s Updated Energy Projections are available at <http://www.berr.gov.uk/whatwedo/energy/environment/projections/recent/page26391.html>. Information on actual price outturns is available at <http://www.berr.gov.uk/whatwedo/energy/statistics/publications/prices/index.html>

1.2 Developments since the last report

1.2.1 In this report we examine the security of supply implications of some important regulatory developments for the energy market over the past year.

- The UK Government published White Papers on the future of nuclear power and setting out the implementation framework to deliver a deep geological disposal facility for higher-activity nuclear waste. Paragraph 4.6.6 refers.
- Phase II of the EU Emissions Trading Scheme began on 1 January 2008, introducing a more substantive cost for carbon emissions than had been the case in Phase I. Discussion started on the EU's approach to Phase III, which is to begin in 2013. Chapter 10 refers.
- Also on 1 January 2008, the EU Large Combustion Plants Directive (LCPD) came into effect, introducing a new factor into the decision-making governing the operation of a number of coal-fired power stations. Discussion began on the European Commission's proposals for building on the LCPD and a number of other EU environmental laws in a consolidated Industrial Emissions Directive. Paragraph 4.4.6 refers.
- The European Union adopted a target to increase the amount of its energy demand met from renewable sources to 20% by 2020. The Government undertook a consultation to inform its consideration of ways of meeting the UK's share of the target. Paragraph 4.6.10 refers.
- The Government undertook a consultation on carbon capture and storage. Paragraph 6.2.6 refers.
- Developments were also observed in the energy market, notably the commencement of work on some new electricity generating projects and the announcement of several more. Section 4.5 refers.
- Concern grew about the longer term availability of oil, as both spot and forward oil prices hit an all-time high earlier in the year. Chapter 7 refers.
- The Energy, Climate Change and Planning Bills all received Royal Assent on 26 November. The Climate Change Act sets ambitious, legally binding emission reduction targets, the Energy Act underpins the achievement of those targets by creating the right legislative framework to support investment in more low

carbon sources of energy, and the Planning Act will ensure that these, and other energy infrastructure projects which are key to security of energy supply, are dealt with by an efficient and fair planning process.

1.3 New analysis in this report

1.3.1 As well as considering the implications for security of supply of these developments, we have expanded and refined the analysis in the previous report in certain areas:

- constraints on new capacity deployment (see paragraph 4.5.4 and subsequent paragraphs);
- impact of renewables penetration on electricity security of supply (see box in chapter 4);
- peak oil (see box in chapter 7);
- coal supply and demand (chapter 6 refers).

1.4 The Energy Markets Outlook Website

1.4.1 As well as the text of this report, the Energy Markets Outlook website⁶ contains a number of more in-depth background papers and links to other relevant sites. We seek to update this on an occasional basis during the year.

1.5 Any comments?

1.5.1 Please contact:

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⁶ <http://www.berr.gov.uk/whatwedo/energy/energymarketsoutlook/page41839.html>