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M. Francois Lamoureux
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Dear M Lamoureux,

DG TREN Report on Electricity and Gas Directives

Scottish and Southern Energy (SSE) is one of the largest energy companies in the UK. It is involved in the generation, transmission, distribution and supply of electricity; energy trading; the storage, distribution and supply of gas; electrical environmental and utility contracting; domestic appliance retailing; and telecoms.

I am therefore writing with SSE's view of the current status of competition in both Great Britain and Europe to assist DG TREN in preparing its report on the impact of the European Gas and Electricity Directives on its further development.

We regard it as vital that Member States implement the Electricity and Gas Directives and related regulations. In our view, it is not sufficient for governments to create theoretical market liberalisation but not actually implement and enforce it in full. We need genuine competition where national companies do not enjoy unfair advantages. Against this background, it is clear that many Member States have failed to implement the Directives in full. We therefore welcome DGTREN's review together with the current investigations of the market by DGCOMP. We would be happy to support both efforts in any way we can.

We believe that the main focus of both reviews should be securing compliance with the existing Directives. However, we are aware that there has been discussion through ERGEG and other forums that additional legislation is needed. We do not agree. Additional legislation merely creates more prescription and cost for already compliant countries. Instead, we firmly believe that the European Commission should

monitor implementation of the existing legislation and take firm action against any areas of non-compliance.

Within Great Britain, competition in gas and electricity is already well established. We therefore believe that the main focus of the DGTREN and DGCOMP reviews should be the continental markets, particularly those in Germany and France. We regard it as unacceptable, for example, that French and German companies supply nearly 20 million UK customers, but UK companies do not have equal access to the "home" markets of these companies.

Despite competition being firmly established in the UK, there are nonetheless a number of issues that need to be resolved to ensure that competition continues to thrive and to secure full compliance with the liberalisation directives and the renewables directive.

Firstly, transmission pricing in GB is set by National Grid, using a tariff model which produces extreme locational signals. SSE, with a portfolio of generation across GB, is not unduly affected by this but we are very concerned about the extreme prices for transmission access that emerge from this tariff model for the north of Scotland in particular. This is an area rich in renewable resources and is a "peripheral area" in terms of the renewables directive. We are therefore concerned that such extreme tariffs could be in breach of the renewables directive and that they might hinder the development of renewable generation in Scotland.

Secondly, whilst the wholesale and supply markets are probably the most open and competitive within Europe, Great Britain's gradual reduction in natural gas means that it is becoming increasingly reliant on the wider European energy markets. This change in the balance of supply and demand introduces new risks to energy companies and ultimately end users. The decline in UKCS natural gas means that the UK became a net importer of natural gas for the first time last year. Access to gas supplies from further afield is now dependent on access to capacity and regulatory rules in other European countries particularly the Netherlands and Germany. Access to LNG is dependent on international markets.

In the mainland European gas markets we understand that the majority of capacity on existing pipelines is reserved for long-term contracts and this therefore reduces competition between market participants. We welcome the introduction of gas release programmes as a step in the right direction for Member States whose market structure are insufficiently competitive. However, this should not be seen as an alternative to true market liberalisation and action by the Commission.

Third, within the UK, whilst the supply markets are fully competitive, we remain concerned that the historical nature of gas legislation has meant that producers are regulated by a different body to Shippers and Suppliers. This has enabled producers to prevent the disclosure of information that would promote an efficient and economic

gas market. It is our opinion that the operation of the offshore gas market has resulted in sustained high wholesale gas prices which are not justified by the supply-demand fundamentals. This is to the detriment of customers and competition. This situation cannot occur in the GB electricity markets where all market participants are regulated by the same body, and generators are required to disclose real time data to the whole market.

The UK regulatory Authorities have recently taken steps to address information provision in the UK's offshore gas market. However, we remain concerned that this will be insufficient and, as a consequence, further direct regulation of the UK offshore gas market may be required, as well as liberalisation of related markets in the other Member States.

I hope that you find our comments useful and we look forward to seeing the conclusions of your review. In the meantime, we would be delighted to discuss our thoughts with you further should you find that helpful.

Yours sincerely

Rob McDonald
Direct of Regulation