

21 January 1986

REGULATION OF THE GAS INDUSTRY

Today's publication of the Commons Energy Committee report on Regulation of the Gas Industry is likely to trigger fresh criticism of the Government's plans for gas privatisation. My reading is that the Committee have not succeeded in providing the Government's critics with substantial ammunition for their attack.

The report does not reopen the question of whether competition in the energy market might have been stimulated by breaking up BGC into competing regional elements. A liberal gas import/export régime is strongly advocated, but doesn't feature in the summary of recommendations because the Government have yet to make a decision. If the Government opts for continued controls, the Committee propose that the regulator should intervene in the market between gas producers and a monopsonist BGC. It is difficult to think of anything which would have a more dampening effect on exploration and appraisal for UK gas. The oil companies will see the spectre of a regulated lowest common denominator rate of return, and see little reward for exploration success or for ingenuity and efficiency in developing new fields.

Otherwise, the essential design of the regulatory régime for a privatised BGC is endorsed, including the decisions to:

- regulate on price rather than adopting a US-style regulated rate of return on an approved asset base;

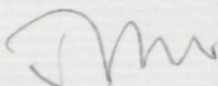


- create a tightly-regulated, protective régime for the 16.5 million small domestic and business consumers, and keep the lid on gas price increases through the RPI-X+Y formula;
- rely primarily on interfuel competition - hopefully complemented by competition between gas suppliers - in the contract market with large industrial consumers.

As regards the latter, some concern is expressed for BGC's more captive intermediate contract customers, but they should be protected by various assurances, especially BGC's undertaking to be even-handed in contract pricing across the industrial sector. The suggestion that OFGAS should closely police the contract market will please neither BGC nor their large industrial customers.

For the rest, the Committee's recommendations amount either to "motherhood" (the overriding virtue of competition wherever practical, and independence of the regulator) or the need for a privatised BGC to be subject to a high degree of disclosure and transparency.

The Committee have had to work hard to come up with a number of recommendations, none of which challenge the basic design of the regulatory régime.



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