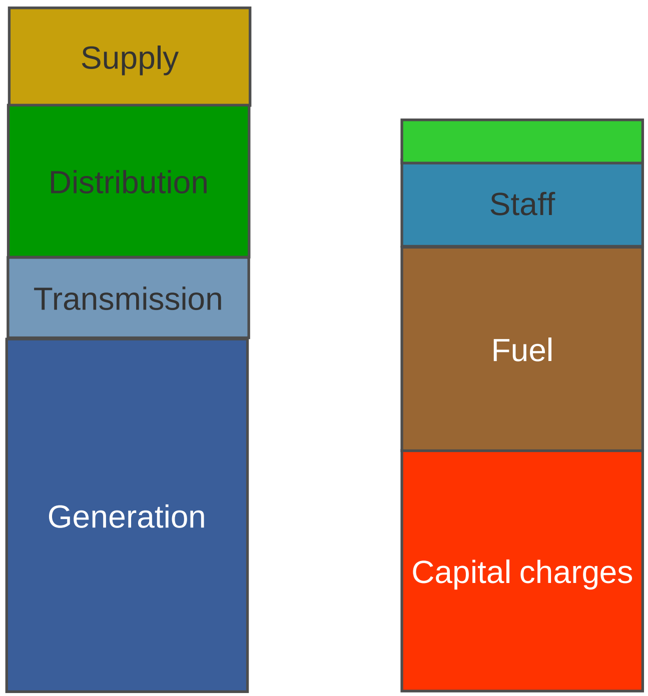
Agenda

1	A bit of history	3
2	Power Trading	7
3	Commercial behaviour	10

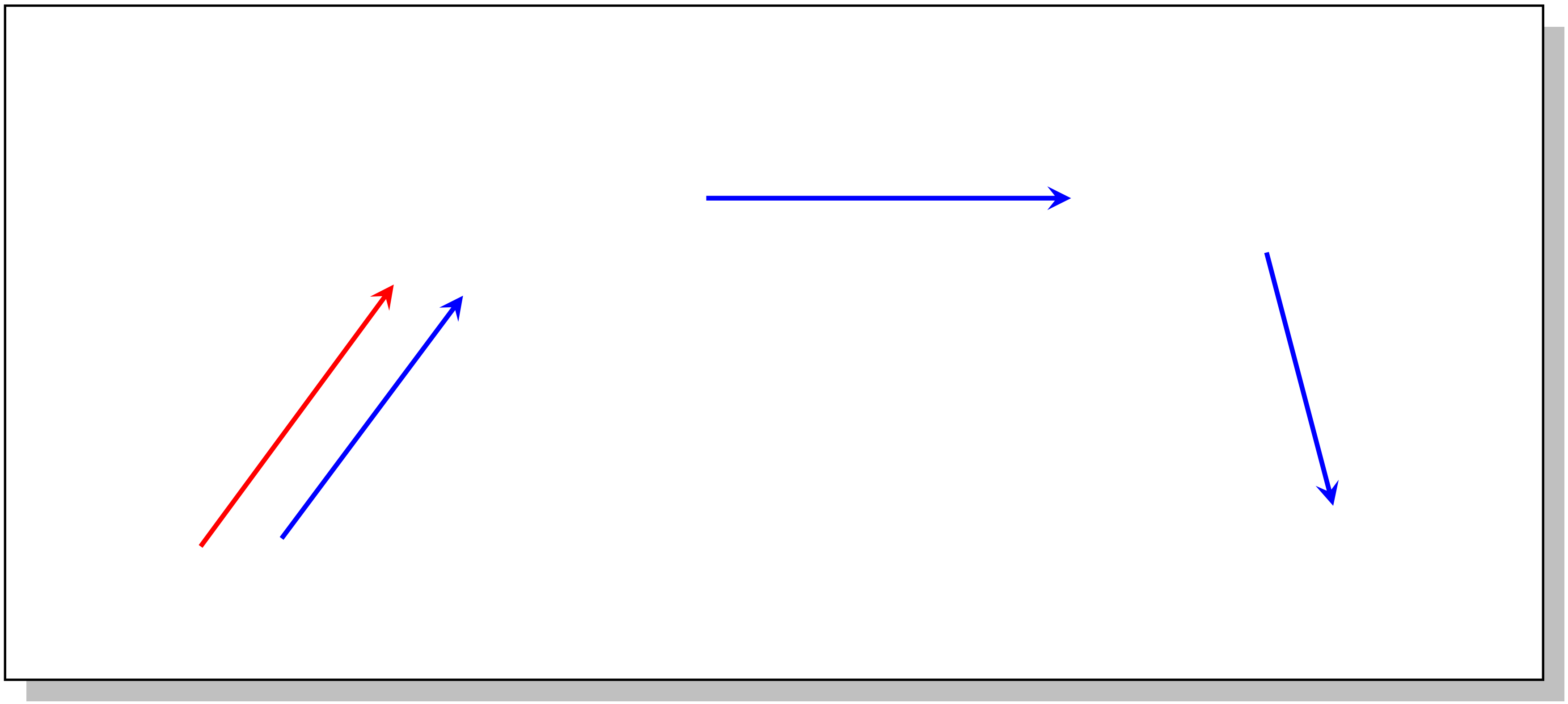
Costs £m


Supply
Distribution
Transmission
Generation
Staff
Fuel
Capital charges

Led to

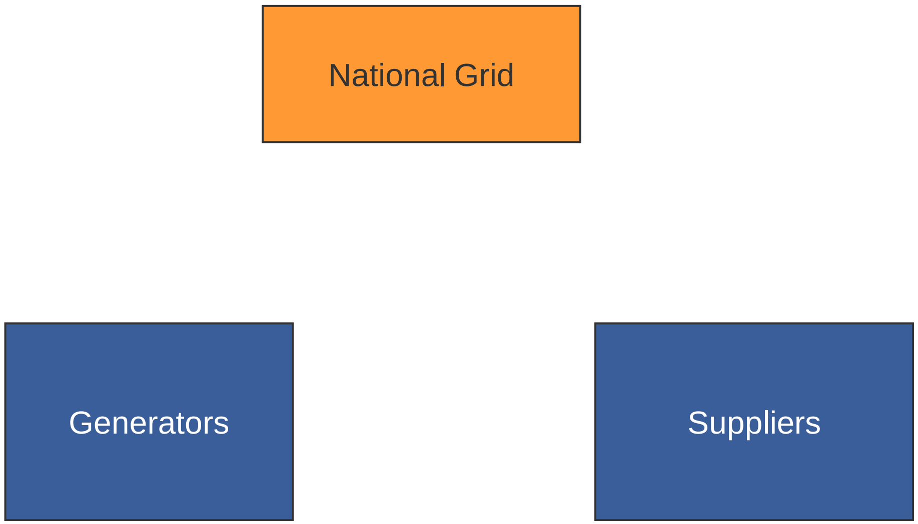
- Gold Plating
- Inefficiency
- Corruption?

1989 Act - Competition wherever possible

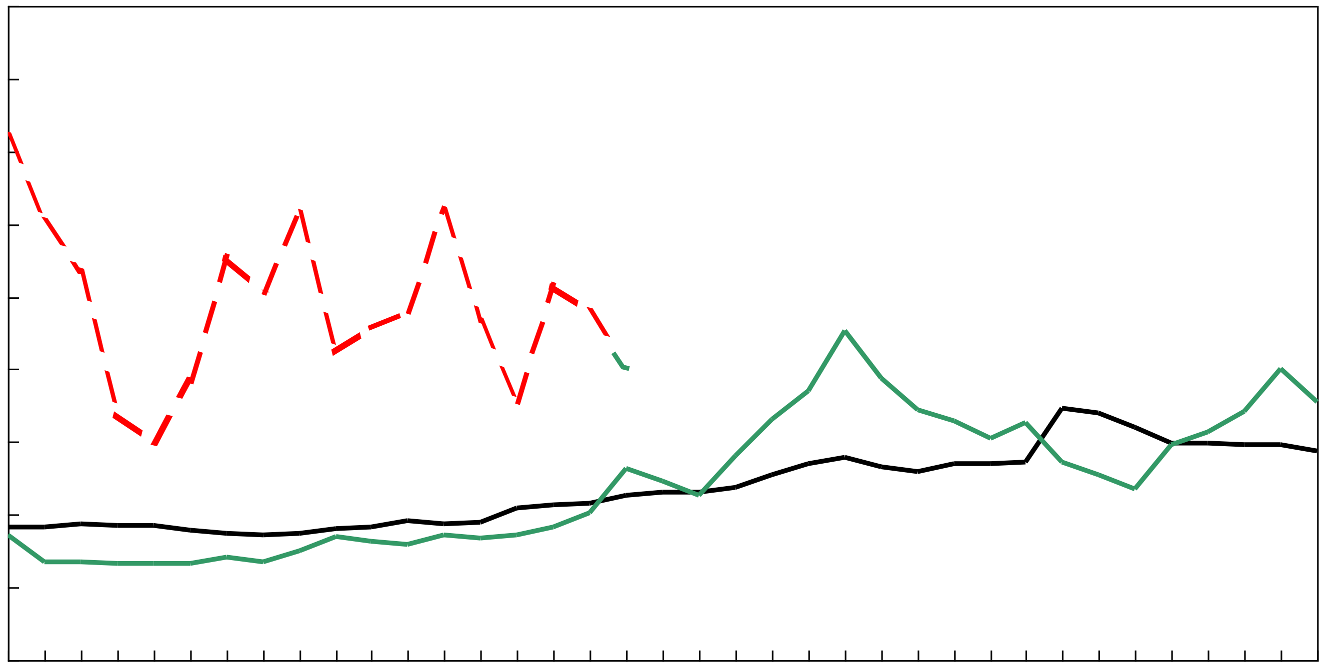


How to trade power?

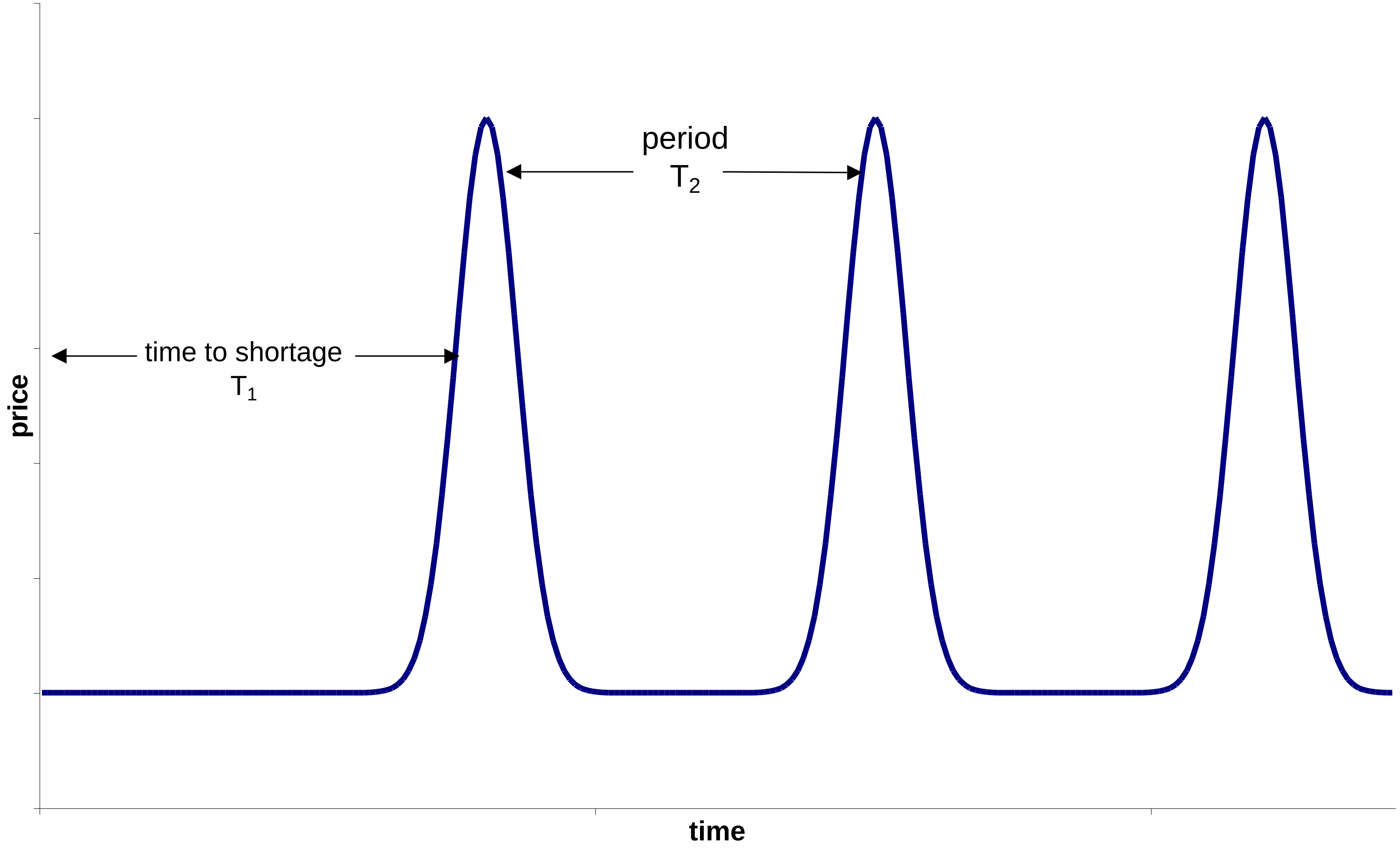
- Lord Marshall - 1988
- Prof Caramanlis MIT - 1985


National Grid
Generators
Suppliers

England & Wales Wholesale Power Market



Price behaviour in competitive markets?



Prices in competitive markets

- Oligolpoly

Two issues remain

- **Governance**

  Who oversees the investment decisions?

- **Efficiency**

  Is the reliance on Contract for Differences sensible?

  - Will generators be confident of matching the reference price?

Back to the future?

- Central Agency
  - Purchases all power under long term competitive contracts
  - Capacity commissioning and retirement decisions independent of Government, consistent with Law
  - Sells power to unregulated Suppliers by a published tariff & purchases from large embedded generation
  - Would enjoy a very low cost of capital
- Generators
  - Rewarded for providing capacity and efficiency. Market fuel
  - NOT rewarded for trading
- Suppliers
  - Rewarded for efficient & accurate billing, customer management but NOT trading

Questions?