

Annex E

Major events in the Energy Industry since 1990

1990

Electricity

The new electricity licensing regime for electricity companies was established along with the post of Director General of Electricity Supply (DGES) by the 1989 Electricity Act. The Act also gave powers to the Secretary of State for Trade and Industry to replace existing public electricity boards by Plc's. Office of Electricity Regulation (Offer) now merged with OFGAS to form OFGEM set up in shadow form.

Provisions of the Act came into force in March. The Central Electricity Generating Board (CEGB) was split into four companies, National Power and PowerGen (fossil fuel generation), Nuclear Electric (nuclear generation) and the National Grid Company (NGC) (transmission). Twelve Regional Electricity Companies replaced the Regional Electricity Boards. At the same time South of Scotland Electricity Board and North of Scotland Hydro-Electric Board were replaced by Scottish Power and Scottish Hydro-Electric (generation, transmission, supply and distribution) and Scottish Nuclear (nuclear generation). The ordinary shares in the National Grid were transferred to the 12 Regional Electricity Companies (RECs).

At vesting, (31 March) price controls, put in place by the Government, came into being for the transmission business of NGC and the supply and distribution businesses of the RECs. There was not a generation price control as this sector was open to competition from the start.

The 12 Regional Electricity Companies in England and Wales were floated on the London Stock Exchange in December. The Government retained a special share in each of the privatised companies, known as the 'Special Share', which prevented any other investor from buying more than 15 per cent of the shares for a period of five years.

At the same time the market for customers with demand exceeding 1 MW was opened up to competition.

During 1990 the Electricity Pool was established. This is a trading mechanism, which allows electricity companies to purchase electricity from generators through a system of bidding.

New and Renewable Energy

The first Non Fossil Fuel Obligation (NFFO-1) Renewable Order for England and Wales made for 102 MW Declared Net Capacity (DNC).

1991

Electricity

60 per cent of the shares in National Power and PowerGen were floated on the London Stock Exchange in March. The Government retained the remaining 40 per cent of shares. Scottish Power and Scottish Hydro Electric were floated in June. The Government retained ownership of Nuclear Electric. In England and Wales the long term costs of generation from nuclear sources were funded from the proceeds of the "Fossil fuel Levy" on supplies of certain electricity. In Scotland contracts were established with the Scottish PESs for the output of the Scottish nuclear generating stations.

New and Renewable Energy

The second Non Fossil Fuel Obligation (NFFO-2) Renewables Order for England and Wales made for 457 MW Declared Net Capacity.

Oil

The Gulf War began in mid January and ended in late February, following the occupation of Kuwait by Iraq in August 1990. This provoked worldwide concern about the availability of oil. The annual average price of crude oil rose sharply, and took two years to settle back to its pre-war level.

One hundred oil and gas fields in production in the UK.

1992

Electricity

In March, generation was transferred from Northern Ireland Electricity to four independent generation companies. Northern Ireland Electricity plc became responsible for transmission and distribution. A special share was retained in Northern Ireland Electricity.

Gas

Following on from the withdrawal of BG legal monopoly relating to non-tariff or contract market for customers with demand greater than 25,000 therms per annum. British Gas in March was prompted by the Director General of Fair Trading to create the conditions whereby competing suppliers should be able to supply at least 60 per cent of the market for customers whose demand exceeded 25,000 therms. In August, the market sector open to competition was extended to include customers with an annual demand of between 2,500 and 25,000 therms. The agreement between British Gas and the Director General of Fair Trading was then redefined as 45 per cent of the market for demand greater than 2,500 therms per annum.

1993

Coal

Coal Review White Paper, "The Prospects for Coal", published on 23rd March. Main conclusions were:

- subsidy to be offered to bring extra tonnage down to world market prices,
- no pit to be closed without being offered to the private sector,
- no changes to the gas and nuclear sectors,
- increased investment in clean coal technology,
- regeneration package for mining areas increased to £200 million.

On 2nd December the Coal Industry Bill was published. Its main features were:

- to enable privatisation,
- to establish the Coal Authority,
- to protect the rights of third parties,
- to safeguard pension and concessionary fuel entitlements
- to retain HSE and HM Mines Inspectorate as bodies responsible for mine safety & inspection.

Electricity

In June, Northern Ireland Electricity plc was floated on the London Stock Exchange.

Gas

The Monopolies and Mergers commission published a report on competition in gas supply.

Oil

Unleaded petrol sales accounted for 50 per cent of the total UK market for motor spirits.

1994

Coal

Coal Authority brought into legal existence under Section 1 of the Coal Industry Act 1994 on 19th September.

The 31st October was the Coal Authority “Restructuring Date”. Ownership of Britain’s coal reserves transferred to the Authority and it assumed its full range of functions including powers to license coal operations.

In December, British Coal Corporation's mining activities were sold to the private sector.

Electricity

In April, competition in the electricity market was extended to include all customers whose demand exceeded 100 kW.

From 1 April the revised (tightened) supply price control took effect.

New and Renewable Energy

The third Non Fossil Fuel Obligation (NFFO-3) Renewables Order for England and Wales made for 627 MW Declared Net Capacity (DNC).

The first Scottish Renewables Order (SRO-1) for Scotland made for 76 MW Declared Net Capacity (DNC).

The first Northern Ireland NFFO (NI-NFFO-1) Renewables Order made for 16 MW Declared Net Capacity (DNC).

VAT

In April the Government introduced VAT on domestic fuel at a rate of 8 per cent.

1995

Coal

The Domestic Coal Consumer’s Council was abolished.

Electricity

In March the Government’s ‘Special Share’ in each of the Regional Electricity Companies expired, the companies were then exposed to the full disciplines and opportunities of the market, including acquisitions and mergers. In 1995 there were four bids involving Regional Electricity Companies, followed by a further seven successful bids in 1996 and two more in the first half of 1997.

In March, the Government also floated its remaining 40 per cent share in National Power and PowerGen on the London Stock Exchange. It did however retain its 'special share' in these companies.

Following a review, the distribution price control was revised from 1st April.

The DGES decided to review again the Distribution Price Control following Northern Electric's defence against a take-over bid from Trafalgar House.

The National Grid Company was floated on the London Stock Exchange in December. As a result, customers of the Regional Electricity Companies received a discount of £50 on their electricity bills in early 1996 as their share of the benefit from the sale. Before the company was floated, its Pumped Storage Business was transferred to a new company, First Hydro, which was then sold to a US generator, Mission Energy. The Government still holds a special share in the National Grid Company which is not time limited.

Gas

The Gas Act 1995 set out the Government's plans for the liberalisation of all gas markets, including the domestic sector. The Government and the industry put into place the licensing framework and the administrative/computer framework required to support the forthcoming gas pilot trials.

By the end of 1995, there were 40 independent gas marketing companies selling gas to UK end-users. They had captured 80 per cent of the firm industrial and commercial market, and 70 per cent of the market for "interruptible" sales.

The development of a "gas bubble" (an excess of supply over demand) in 1995 and into 1996 led to a sharp fall in the spot price of gas from 0.7p/KWh to around 0.4p/KWh (10p per therm), the main beneficiaries of this were customers on short term gas contracts.

Oil

Production from the UK sector of the North Sea and onshore sites reached a new record level of output, 130.3 million tonnes per annum.

Nuclear

In February electricity generation began at Sizewell B, the UK's only pressurised Water Reactor, completed the previous year.

In May the Government published a White Paper on the prospects for nuclear power in the UK. It concluded that nuclear power should continue to contribute to the mix of fuels used in electricity generation, provided it maintained its current high standards of safety and environmental protection; that building new nuclear power stations was not commercially attractive; and that there was no justification for any government intervention to support the construction of new nuclear stations.

1996

Coal

In January the company Coal Investments ceased trading, closing four pits and selling two to Midlands Mining Ltd.

In May the National Audit Office published its report into the privatisation of British Coal's mining activities.

Electricity

The revised Distribution Price control (further tightened as a result of the second review in 1995) took effect from 1st April.

In July 1996 Eastern Group leased a total of 6 GW of coal-fired electricity generation capacity from National Power (4 GW) and PowerGen (2 GW). As a result, the pool price cap was lifted.

Bids were made by National Power and Powergen for Southern Electric and Midlands Electricity respectively in 1995, which would have allowed significant vertical integration between generation and supply in the industry, were prohibited by the President of the Board of Trade in April following an investigation by the Monopolies and Mergers Commission.

Gas

On 6 February in response to the separation of licensing for gas distribution and supply in the Gas Act 1995, British Gas Plc announced it was demerging into two companies, one responsible for the transmission of gas (BG Transco) and one for the supply of gas (Centrica).

On 1st April, the first stage of the introduction of competition in the domestic market began - around 540,000 customers in South West England were enabled to purchase their gas from a variety of suppliers. By the end of the year just under 20 per cent of households switched to a new supplier, whose prices were on average 10-20 per cent less than those charged by British Gas.

Nuclear

The nuclear generating industry was formally restructured on 31 March 1996 in preparation for privatisation. A holding company, British Energy plc (BE) was created, together with two subsidiary companies - Nuclear Electric Ltd, which now operates the PWR and five AGR stations in England and Wales, and Scottish Nuclear Ltd, which operates two AGR stations in Scotland. In July 1996 British Energy, which operates the AGR/PWR nuclear electricity power stations in the UK, was floated on the London Stock Exchange by the Government. Magnox stations remain in the public sector under the ownership of Magnox Electric plc. Magnox Electric and BNFL merged early in 2000.

Because of the privatisation of British Energy, on 1st November, the Fossil Fuel Levy in England and Wales was reduced from 10 per cent to 3.7 per cent (on 1st April 1997 it was reduced further to 2.2 per cent).

The premium element of prices payable in Scotland under the Nuclear Energy agreement ended in July 1996. A new Fossil Fuel Levy was introduced at a rate of 0.5 per cent to support renewable energy.

In September, AEA Technology, the former commercial arm of the UK Atomic Energy Authority, was privatised.

Regulation

On 10th June, the Office for the Regulation of Electricity and Gas (OFREG) was formed to perform a similar role in Northern Ireland to that of OFFER and OFWAT in England and Wales. It was unique in that it was the only combined utility regulatory office in the UK.

1997

Regulation

In June, the Government announced a review of utility regulation to cover in particular electricity, gas, telecommunications and water. It was aimed at ensuring that consumers get a fair deal from regulation, and at making regulation more consistent, transparent and accountable.

Electricity

Revised Transmission Price control took effect from 1st April reducing prices further over four years.

In October, the Government announced a review of the electricity trading arrangements including the Electricity Pool. OFFER were asked to report by July 1998.

In December, the Government announced a review of fuel sources for power stations. A consultation paper was issued in June 1998.

The Regulator announced a proposed timetable starting in April 1998 for the roll out of the final stage of supply competition using customer postcodes. The Regulator subsequently modified the timetable and put in place arrangements for the extensive testing of the systems necessary to make competition work.

Gas

Following the increased expenditure on exploration and development of gas fields in the North Sea in the early 1990s, gas production increased to the point where the UK became a net exporter of gas for the first time.

By March competition in the domestic market was extended to include another 0.5 million households in Avon and Dorset and 1.1 million households in the South East of England, bringing the total to two million customers. Over 20 per cent of these households switched to a new supplier, by the end of 1997

In November 1997, as part of the next stage in the liberalisation of the gas industry, competition was extended to another 2.5 million domestic customers in Scotland and North East England.

New and Renewable Energy

The fourth Non Fossil Fuel Obligation (NFFO-4) Renewables Order for England and Wales made for 873 MW Declared Net Capacity (DNC).

The second Scottish Renewables Order (SRO-1) made for 112 MW of capacity.

John Battle, Minister for Science, Energy and Industry announced a review of renewables energy policy on 6 June 1997.

VAT

On 1 September, VAT on domestic gas and electricity supplies was reduced to 5 per cent.

Windfall tax

In the July Budget, the Government announced that the privatised utilities would have to pay a one-off windfall tax on the excessive profits they had made, payable in two instalments - one in 1997 and the other in 1998. Altogether this was expected to raise £5.2 billion.

1998

Coal

The 5-year contracts with the electricity generators ended in March 1998.

Silverdale Colliery closed in December 1998.

Electricity

The final stage of opening electricity supply markets began in September and was completed in May 1999.

The Government published a White Paper (CM 4071) on energy sources for power generation, and has adopted a more restrictive policy towards consents for new power stations, but with special provisions for CHP.

The Monopolies and Mergers Commission recommendation on revised transmission and distribution price control on Northern Ireland Electricity, which was subject to judicial review, was upheld by the Northern Ireland Court of Appeal.

Gas

Introduction of supply competition in Great Britain completed in May 1998.

In April the gas levy was reduced to zero.

The European Union Gas Liberalisation Directive entered into force in August 1998.

In October the UK - Belgium interconnector became operational, providing a path for UK gas exports to markets in Europe as well as another route for imports of gas into the UK.

Revision of Frigg Treaty with Norway was signed in August 1998.

New and Renewable Energy

The fifth Non-fossil fuel obligation (NFFO) Order was laid in September 1998 for 1,117 MW of capacity.

Oil

International agreement reached on decommissioning and disposal of offshore structures.

New Regulations require Environmental Impact Assessments for offshore projects.

200 oil and gas fields in production in the UK.

Nuclear

In January, the Government transferred its shareholding in Magnox Electric to BNFL as the first stage of a merger of the two companies. Full integration of the combined business of the two companies completed early in 2000.

The Health and Safety Executive and the Scottish Environment Protection Agency completed a full audit of safety at UKAEA Dounreay.

The acceptance of a small consignment of uranium from Georgia for non-proliferation reasons was subject to scrutiny by the Trade and Industry Committee, who approved of the Government's decision.

Utility Regulation

In March, following an inter-departmental review, the Government published a Green Paper entitled 'A fair deal for consumers' on utility regulation aimed at ensuring that consumers get a fair deal from regulation, and at making regulation more consistent, transparent and

accountable. The Government's conclusions, in the light of consultation, were published in July, including confirmation that the regulators for gas and electricity should be merged and that the Electricity Act 1989 should be amended to require the distribution businesses of the PESs to be licensed separately from their supply businesses. Detailed proposals on energy and the creation of independent consumer councils were published in November.

Appointment of new gas regulator in November 1998 who took over as electricity regulator in January 1999.

1999

Nuclear

The Government announced that it was looking to introduce a Public Private Partnership (PPP) into BNFL, subject to the company's overall progress towards achieving targets on safety, health, environmental and business performance as well as further work undertaken by the DTI and its advisers. The Government's working assumption is that PPP would involve BNFL as a whole. Existing legislation provides for the sale of up to 49 per cent of the company.

BNFL, in partnership with US engineering group Morris Knudsen, has acquired the global nuclear business of the US company Westinghouse.

Following Government approval, BNFL commenced uranium commissioning of its Sellafield mixed oxide (MOX) fuel plant.

Electricity

Opening of supply market to full competition completed in May.

At the end of June, Ferrybridge and Fiddlers Ferry power stations were sold by PowerGen to Edison Mission Energy, and at the end of November National Power sold DRAX to AES.

The implementation date for the EU Electricity Liberalisation Directive was February 1999, this required an initial 25 per cent market opening to be implemented, with nearly all the Member States adhering to the timetable.

In October 1999 the Director General of Gas and Electricity supply (DGGES), published a report on Pool Prices. This concluded that the trading arrangements facilitated the exercise of market power. He proposed the introduction of a good market behaviour condition in the licences of the main generators.

New and Renewable Energy

In March 1999, a third Scottish Renewables Order (SRO) made for 150 MW (DNC) of capacity.

In March 1999 the Government published a consultation paper "New and Renewable Energy - Prospects for the 21st Century". The legal provision for a new renewables mechanism is the Utilities Bill announced in the Queen's speech in November 1999.

Coal

In March 1999, the Government issued mineral planning guidance with respect to opencast mining.

In April 1999, the Department published its policy paper Energy Paper 67 on research and development into cleaner coal technologies.

In July 1999 Calverton Colliery closed.

In October 1999, the Government's Coal Field Task Force published a progress report relating to the problem of those communities affected by pit closures.

Utility Regulation

New name for the combined OFFER and Ofgas regulating gas and electricity markets announced as Office of Gas and Electricity Markets - OFGEM.

In April, in its response to consultation, the Government confirmed its plans to establish independent consumer councils.

In November 1999 the Government announced a Utilities Reform Bill to provide a new framework for the regulation of the gas and electricity markets to provide a fair deal to consumers.

Fuel Poverty

Following discussions with expert organisations and across departments, the Government issued, in May, a consultation paper on a new Home Energy Efficiency Scheme (HEES) aimed at cutting the numbers of households in fuel poverty. The proposed scheme will concentrate on households in the private rented and owner occupier sectors and particularly those at greatest risk, e.g. the elderly. It will provide a greater range of energy efficiency measures, including new heating systems, than the existing HEES scheme. The new scheme will have a total budget of nearly £300 million in the first two years, (which includes the additional £150 million made available through the Comprehensive Spending Review).

BG Transco announced its Affordable Warmth programme which will help upgrade a million homes.

Gas

In June, BG announced its restructuring to separate Transco, the regulated pipeline company, from the rest of the business.

A consultation exercise into the Fundamental Review of Gas Safety was launched by the Health and Safety Executive.

In September 1999 the HSE issued a consultation document outlining the proposed amendments to "The Gas Safety (Management) Regulations (GS(M)R)", with a closing date for December 1999.

Environment

In the March 1999 Budget the Government announced its intention to introduce a climate change levy on the supply of energy to business, following up recommendations of the Marshall Report.

The Government has also followed up Lord Marshall's recommendations on Emissions Trading, by encouraging the launch of an industry-led project to design a pilot scheme for the UK. The scheme is intended to be operational by April 2001.

Oil

16th February 1999, the key Brent crude oil benchmark price touched \$9 per barrel, a record low level. However, by December 1999 the oil price had recovered to over \$25 a barrel.

Production from the UKCS reached a record level of 137 million tonnes of oil.

Drilling at BP Amoco's Wytch Farm onshore field achieved two world records - longest production well drilled and greatest horizontal drilling distance achieved.

Oil & Gas industry Task-Force report published in September 1999 sets a vision for the UKCS in 2010, aimed at increasing investment in UKCS activity, increasing employment in directly linked and related industries and prolonging UK self-sufficiency in oil and gas.

2000

Fuel Poverty

A cross Departmental Ministerial group was set up in January with the objective of developing and publishing a strategy setting out the Government's fuel poverty objectives, targets for achieving those objectives, the policies to deliver these and how progress should be monitored.

In the March 2000 Budget the Government announced a change in tax rules to facilitate the Affordable Warmth scheme (lease financing of central heating in social housing) being organised by Transco. This programme aims to install central heating in 850,000 local authority/registered social landlord homes and 150,000 pensioners private sector homes over the next seven years.

The first Social Action Plan was produced jointly in 1998 by Offer and OFGAS. It was thought to be inadequate, and in March 2000 OFGEM published a revised Social Action Plan following earlier publication and consultation on initial proposals. The Plan proposes licence amendments and new codes of practice to help the fuel poor; broader structural changes to help the fuel poor benefit more fully from competition; outlines areas where further research is needed to understand the issues better; and proposes a timetable for action and indicators for reviewing progress.

The new HEES scheme for England was formally launched in June 2000.

Gas

In March 2000 BG plc announced that Transco would become a separately listed company with the rest of the group forming BG International.

Electricity

In March National Power sold Eggborough power stations to British Energy and Killington CCGT stations to NRG.

The Secretary of State for Trade and Industry announced on 17 April that he anticipated lifting the restrictions on the building of new gas-fired power stations, once new electricity arrangements are in place. This is expected to be in the autumn.

Energy Efficiency

In July 1999 the Regulator announced his intention to raise the level of Energy Efficiency Standards of Performance (EESOP), which obliges electricity supply companies to provide energy efficiency amongst domestic consumers, from £1.00 to £1.20 per customer with effect from April 2000. He also announced his intention to extend EESOP obligations to supply companies, also at a rate of £1.20 per customer.

The Utilities reform bill announced in November 1999 provides that future EESOP obligation is decided by the Government. The Government had previously indicated such an intention explaining that it was appropriate for the Government rather than the Regulator to decide social and environmental obligations that had significant financial cost.

In November 1999 the Government confirmed its intention to set a target of at least 10,000 MWe of CHP capacity by 2010: more than double current capacity. In December, the Government confirmed that electricity from CHP plants would be exempt from the Climate Change Levy where the electricity is used on site or sold direct to the consumers.

Coal

At the end of January 2000 Midlands Mining ceased to produce coal from its only remaining colliery, Annesley-Bentinck

On 17 April 2000, the Secretary of State announced a coal subsidy scheme designed to assist UK coal producers through a difficult transitional period arising from adverse market conditions and the imminent relaxation of the stricter gas consents policy. The Government's objective is to enable those elements of the industry with a viable future without aid to overcome short term market problems. The subsidy scheme is conditional upon approval by the European Commission and must meet the requirements of the ECSC Treaty and Commission Decision 3632/93/ECSC which establishes the rules for State aid to the coal industry. Payments will be made to coal producers who submit valid applications meeting the criteria devised by DTI to meet the Government's objective and fulfil Treaty obligations. Payments cannot be made until after Commission approval but will cover the period from the date of the announcement until the ECSC Treaty expires on 23 July 2002.

New and Renewable Energy

In February the Government published *Conclusions in Response to the Public Consultation* ("New and Renewable Energy: Prospects for the 21st Century"). The document summarises the Government's strategy to make progress to a target of 10% of UK electricity from renewables sources by 2001, subject to the cost to consumers being acceptable.

In May the European Commission adopted a proposal for a Directive on the promotion of electricity from renewable energy sources in the internal electricity market.

Nuclear

In February HSE published three reports into BNFL, covering

- The Storage of Liquid High Level Waste at Sellafield
- Falsification of Data at the Mox Demonstration Facility
- Team inspection of the Control and Supervision of Operations at Sellafield

In March the Government announced that it considered that the earliest date possible for the introduction of any PPP into BNFL could not be before the latter part of 2002.

In April BNFL published its response to two of the HSE reports, with the third response to follow in the summer as agreed with HSE.

In May BNFL acquired the nuclear business of ABB. BNFL also announced a strategy for managing lifetimes of its Magnox stations.

