Utilities Market Assessment 2006

Description: Executive Summary

This report analyses the UK utilities market for electricity, gas and water services (water supply and sewerage). As well as presenting financial, power and water-service data, the report also includes the results from consumer research into attitudes towards the purchase and marketing of utility services.

The largest sector in terms of turnover is electricity, due to the expensive process of converting primary fuel such as coal or gas into electrical power. Gas forms the second-largest sector with its major markets being direct use for heating and, increasingly, electricity generation. Water services is the smallest sector.

The opening up of the UK market for electricity and gas supply to competition means there is a range of companies offering both fuels. Most of these companies originated in the electricity industry, but some have their roots in the gas industry. Some electricity and gas suppliers are marketing organisations with no history of direct involvement in the electricity or gas sectors. Suppliers of electricity and gas are now considered to be energy companies rather than suppliers of one fuel or the other. The UK energy market includes major players that are subsidiaries of very large French and German companies.

Regulation in the electricity and gas markets is carried out through the Office of Gas and Electricity Markets (Ofgem) to facilitate competition among supply companies, operate a licensing system, monitor prices, provide technical advice and address consumer issues. Energywatch, an independent body, provides help and advice on gas and electricity.

The UK electricity and gas sectors face fundamental challenges regarding security of supply and rising prices. Output from the UK's offshore gas industry will decrease and evidence of this decline is now emerging. With limited alternative environmentally acceptable primary fuels, the UK will import more of its gas requirements. Much of this gas will derive from regions that would not normally be preferred trade partners for energy supplies for the UK on account of differing political and cultural outlooks and remote distance from the UK.

The UK water-services market does not yet have open competition as in the case of electricity and gas markets. However, plans are being discussed for large industrial customers to be able to choose their water supplier from 2005. The UK water-services market is regulated through the Office of Water Services (Ofwat), with Water Voice providing a mechanism for help and advice for consumers. Structurally the water-service industry is operated by commercial companies, some providing water-only services and others providing water supply and sewerage services.

There has been a change in direction of the type of players in the UK utility market during the past few years. Following the opening of the electricity and gas markets from the mid-1990s, some of the major players adopted a broad position with activities in electricity, gas, telecommunications, water and waste management. However, there has been a general retreat from this position to the current one in which most players focus on either energy or water.

Due to concerns about the security of supplies, environmental issues, terrorist attacks and rising prices, the utility sector now has a high profile both at consumer and government level. This report forecasts that the rise in household final consumption expenditure on UK utilities between 2004 and 2008 will be approaching 20%.

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