

## Eurogas

### **Supply and Markets Development Committee**

#### **End-User Prices – September 2006**

This paper sets out Eurogas's views on 'regulated' end-user prices, the existence of which ERGEG CFG's work on customer switching suggests may act as a barrier to competition. A separate Eurogas paper considers the related issue of gas tariffs and socially disadvantaged customers.

Distribution and transmission are generally natural monopolies, which are therefore subject to regulation. Supply price controls are similarly applied to monopoly retail tariffs and are likely to be retained until full market opening (no later than 1<sup>st</sup> July 2007).

In a fully competitive market, retail prices are typically unregulated (although there may be a right to regulate prices in rare situations where retail prices are manifestly unreasonable or where national emergencies require suspension of the normal competitive framework).

Where there are regulated end-user prices and the retail price is fixed too low relative to market prices, new entrants will be unable to compete and may exit the market, reducing or eliminating customer choice. As a consequence, the level of retail prices will continue to be set by legal or regulatory means rather than competition; the incumbent supplier, unless compensated in some way, will suffer from reduced or negative margins.

Intervention in market forces distorts competition, and adds costs and administrative complexity, and for these reasons the imposition of artificially low prices on a market is generally neither sustainable nor desirable. In general therefore, Eurogas believes that the operation of market forces represents the best guarantee of competition.

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