Competition in the UK Retail Electricity Market

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**Agenda**

1. What is the measure of success?

2. What does the UK Retail Electricity Market look like?

3. How did we get here?

4. What are the key factors that facilitated competition?

5. What are the challenges going forward?
The measure of success

15th February 2002 – Ofgem states ‘we have long been determined that competition should work to the benefit of all – and we have been successful in achieving this’

- Price Controls lifted April 1, 2002
- Choice of suppliers
- High level of customer switching
- Significant savings could be made against former incumbents
- Barriers to entry low
- Benefits of competition extended to all customer groups
- General Statutory Legislation sufficient to ensure consumer protection
Today’s UK Electricity Market

- Separation of Supply and Distribution
- Consolidation has led to ‘The Big Six’ suppliers
- Vertical Integration
- A few ‘very small’ suppliers – some offering ‘niche’ services
- Wide range of products in the market
- Various Multi-Party Industry Codes (all with separate governance arrangements)
- BETTA – British Electricity Trading and Transmission Arrangements
- Renewable Obligation/Energy Efficiency Commitment
- Competition still working (see handout)
- Ofgem/energywatch
Who are the suppliers?
Who owns distribution?

HIGH VOLTAGE TRANSMISSION GRID OWNED BY NATIONAL GRID TRANSCO
### Who owns who?

<table>
<thead>
<tr>
<th>OWNER</th>
<th>SUPPLY BRAND</th>
<th>CUSTOMER NUMBERS</th>
<th>GENERATION CAPACITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>RWE</td>
<td>npower</td>
<td>3.8m (14.8%)</td>
<td>9,466 MW</td>
</tr>
<tr>
<td>EDF</td>
<td>eLONDON eSWEB eSEEBOARD Energie</td>
<td>3.4m (13.3%)</td>
<td>5,633 MW</td>
</tr>
<tr>
<td>eon</td>
<td>POWERGEN</td>
<td>5.4m (21.1%)</td>
<td>9,496 MW</td>
</tr>
<tr>
<td>Scottish Power</td>
<td>ScottishPower ScottishPower Manweb</td>
<td>3.1m (12.1%)</td>
<td>5,762 MW</td>
</tr>
<tr>
<td>Scottish and Southern Energy plc</td>
<td>Scottish Hydro Electric Southern Electric SWALEC</td>
<td>3.8m (15.1%)</td>
<td>9,034 MW</td>
</tr>
<tr>
<td>centrica</td>
<td>British Gas</td>
<td>5.8m (22.9%)</td>
<td>3,461 MW</td>
</tr>
</tbody>
</table>
How did we get here?

- WHITE PAPER ISSUED
  - FEB. 1988
  - 1989
- ELECTRICITY ACT IMPLEMENTED
  - 31ST MARCH 1990
- MARKET OPENED FOR 1MW+
  - 1ST APRIL 1994
- MARKET OPENED FOR 100kW –1MW
  - JANUARY 1995
- CONSULTATION ON DOMESTIC COMPETITION
  - JANUARY 1996
- 2ND CONSULTATION
  - DECEMBER 1996
- 1ST VIEW ON MARKET OPERATION
  - 14TH SEPTEMBER 1998
- DOMESTIC COMPETITION BEGINS
  - 24TH MAY 1999
- DOMESTIC MARKET FULLY OPEN
  - 1ST APRIL 2002
- REMOVAL OF PRICE CONTROLS
  - 1ST APRIL 2005
- NETA IMPLEMENTATION
  - March 2001
- BETTA IMPLEMENTED
  - 1ST APRIL 2002
Key features that facilitated competition

• Political/Regulatory commitment
• Supply/Distribution separation
• Declining wholesale prices (NETA)
• No stranded cost recovery
• Uniform rules and market design; Multi-Party agreements
• Duty to supply
• Access to incumbents infrastructure; i.e. Prepayment arrangements
UK Wholesale Electricity Prices
The forward challenge

• Prospect of further consolidation in the market

• Nuclear debate

• Metering – pressure from Europe

• Supply Licence Review – can the regulatory burden be reduced?

• Social policy – can suppliers manage vulnerability?