UK Opens Residential Market To Competition
By Fereidoon P. Sioshansi*

After months of speculation and delays, competition has
began to be phased in to the remaining 24 million small
customers in England and Wales. The process, which started
in April 1990 with the largest customers, was extended to
medium sized customers in 1994, and is now being offered to
the remaining small customers (see accompanying table). By
end of June 1999, if all goes well, all customers in England
& Wales (E&W) will have the option to choose their supplier.

Some 750,000 customers currently served by Eastern
Electricity, Manweb, Scottish Power, and Yorkshire Elec-
tricity were initially opened to competition. Early reports
indicate that some 10,000 customers in these areas have thus
far registered to switch suppliers. The customers are being
lured away with all sorts of promotional and marketing
gimmicks, and promised savings. According to Professor
Stephen Littlechild, the industry regulator in charge of
OFFER (the Office of Electricity Regulation), average price
savings of 8 percent are being offered to motivate residential
customers to switch suppliers. Using 8 percent as an average
figure, it amounts to approximately US$30 off a typical
customer's annual electricity bill of US$390. Small commercial
customers are getting discounts of approximately 12
percent, according to OFFER's preliminary estimates. In
some cases, the savings are far greater (see second accompa-
nying table).

Nationwide, “well over 1 million domestic customers
and small businesses” are reported to have signed up to
change their suppliers. This, according to OFFER, repres-
ents roughly 5 percent of the market (by number of custom-
ers). By Christmas, some 7 million customers will have the
option to shop around. Speaking to reporters, Professor
Littlechild, who has been severely criticized for anything and
everything that went wrong with privatization over the past
8 years, was elated at the early results. He indicated that the
decisions for domestic customers had already dropped due to
competitive pressures. He predicted that the number of switchovers will continue to rise as new areas of the country
are opened to competition and as “customers become more
accustomed to exercising choice.”

In Stages ... Phased Introduction of Competition
in England and Wales

<table>
<thead>
<tr>
<th>Sites Allowed</th>
<th>Competitive Date</th>
<th>Number of Customers</th>
<th>Consumption (TWh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supply</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Above 1MW</td>
<td>1 April 1990</td>
<td>5,000</td>
<td>75 TWh</td>
</tr>
<tr>
<td>Above 100 kW</td>
<td>1 April 1994</td>
<td>50,000</td>
<td>1.15 TWh</td>
</tr>
<tr>
<td>All</td>
<td>1 April 1998*</td>
<td>23,000,000</td>
<td>245 TWh</td>
</tr>
</tbody>
</table>

*The original opening was postponed to September 1998. Moreover, competition will be spread over a year with the full market open by the end of June 1999.

Moreover, Professor Littlechild expects to see more –

and presumably better – choices as a number of newcomers
enter the business of electricity retailing, with estimated
annual revenues of US$15 billion. These new entrants include
supermarket chains, petrol stations, financial service compa-
nies, and who knows what else. Professor Littlechild stated
the obvious when he said, “The mere fact that customers can
correct exercise choice means that companies will have to become
more competitive and offer lower prices and better services
if they want to retain their market.” It is a fitting final act for
the chief electricity regulator who will be leaving his post
shortly. There are indications that the two main regulatory
agencies in charge of electricity (OFFER) and gas (OFGAS)
will be combined into one.

Savings Offered to Customers to Switch Suppliers

<table>
<thead>
<tr>
<th>Area</th>
<th>Existing Supplier</th>
<th>Chester</th>
<th>Hull</th>
<th>Yorkshire</th>
<th>Motherwell</th>
<th>Norwich</th>
<th>Scottish Power</th>
</tr>
</thead>
<tbody>
<tr>
<td>Typical Annual Bill</td>
<td></td>
<td>408</td>
<td>363</td>
<td>401</td>
<td>368</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Savings by switching to:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>British Gas Trading</td>
<td></td>
<td>33</td>
<td>18</td>
<td>32</td>
<td>26</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eastern Energy</td>
<td></td>
<td>17</td>
<td>12</td>
<td>8</td>
<td>26</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ScottishPower/Manweb</td>
<td></td>
<td>—</td>
<td>11</td>
<td>—</td>
<td>26</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yorkshire Electricity</td>
<td></td>
<td>21</td>
<td>—</td>
<td>(8) 1</td>
<td>26</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Office of Electricity Regulators (OFFER).

These early results are very different than those experi-
enced in the newly opened markets in California, Massachu-
setts and Rhode Island, where relatively few of the small
customers have switched thus far. There are several reasons
for the differences:

- No automatic savings – Aside from an average 6 percent
  price reduction imposed by OFFER in April, there are no
  legislatively mandated rate reductions available to custom-
ers in E&W. Customers must switch (or renegotiate with
  their incumbent supplier) to get a price reduction. By
  contrast, in California, for example, most small customers
  are better off to stay with their incumbent utility distribu-
tion company or UDC. They get an automatic and painless
  10 percent rate reduction by doing absolutely nothing. This
  provision has made it nearly impossible for the competing
electricity supply providers or ESPs to lure small custom-
ers away, profitably. No wonder Enron made a big fuss
when it announced that it was pulling out of California’s
residential market.

- Customers already used to competition – since privatiza-
tion and introduction of competition in the electricity sector
started in 1990 and has been gradually phased in, more
customers may be accustomed to the idea of shopping
around for competitive suppliers than in the newly opened
U.S. markets. One recent U.S. public opinion survey
conducted by RKS Research & Consulting, for example,
found that outside California, more than half of the US
population “is unaware of electric industry restructuring,”
Oblivious may be a better substitute for unaware.

- Gas vs. electric competition – The recent opening of the gas

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market in the UK and the onslaught of competition, marketing and advertising in that market has probably conditioned customers in E&W for the electricity market. As further explained below (see reference to Centrica), the electricity and gas companies have been going after each others' customers energetically. The competition in the natural gas market in the United States, in contrast, has been tame and uneventful in most areas.

- Satisfied customers don’t switch – Perhaps – this is pure speculation – some of the PESs in E&W have not been up to snuff in providing customers with good service. The RKS research mentioned above, for example, concludes that in California, (small) customers have not switched in large numbers – despite their awareness of their ability to do so – (perhaps) because they are, by-and-large, satisfied with the incumbent UDC’s service quality.

As suggested by the table, some of the most generous price discounts are being offered by Centrica, better known as British Gas, the former monopoly. Centrica has been incensed when it lost approximately 15 percent of its domestic gas market since the natural gas industry was opened to competition. Many of it customers switched to the public electricity suppliers (PESs) who have entered the gas supply business. Now, Centrica is taking revenge by going after their electricity customers with vengeance. According to early reports, it has thus far acquired over 440,000 electricity customers from PESs.

Competition in the supply business is expected to be fierce, as previously reported. There are dire predictions that the number of PESs will shrink to half as many as there are today over the next few years. This is not a business for the marginal players. Only the best and the biggest will survive.

Opportunities for Private Power Producers in Italy

In his June 9 PowerGen speech, Enzo Gatta, director of the electric energy division of Edison Spa, focused on the opportunities for independent operators in the changing Italian electricity market; he also presented Edison’s proposal for adopting the EU directive.

The liberalization of the Italian electricity sector, presents a unique chance for the country, one perhaps never to be repeated. It, therefore, behooves the government, empowered by its parliamentary delegation, to create the most favorable conditions for the development of a truly free and expanded electricity market where operators will be compelled to find new ways to maximize efficiency in production and to use the most advanced technologies.

In such a context, Edison reckons it is easier to achieve the commitments Italy made during the Kyoto conference (the reduction of greenhouse gases by 6.5 percent by 2010 compared to 1990) thanks to the use of technologies such as the gas-fired combined cycle, which permits an increase in energy efficiency and a significant reduction in the emissions of polluting substances into the atmosphere.

Edison believes that recourse to this technology is necessary for Italy, not only to satisfy demand (new plants for an additional capacity of approximately 18,000 MW, neces-