

UK's Competitive Residential Market: A Lot Of Losers And A Few Winners

By Fereidoon P. Sioshansi*

With the last segment of the competitive electricity market now progressively opening to domestic customers in the UK, a crowded and fluid situation is unfolding. Many inside and outside the industry are following these developments with more than a casual interest. The fate of the 23 million remaining customers is a matter of survival for a few of the smaller—and more feeble—of the suppliers. It may also establish a pattern of continued growth and consolidation for a handful of the well-positioned and aggressive players.

A recently completed report by Convector Consulting NA, Inc. (CCNA) and *EEnergy Informer*, provides a comprehensive summary of the evolution of the UK's competitive market since 1990. This multi-client study includes the latest estimates of switchovers, including detailed coverage of what marketing strategies are being pursued among the competing suppliers, and how successful they are.

According to the CCNA report, over 75% of the UK market is able to choose its electricity supplier as of April. The full market is supposed to be open by the end of June. Prices have certainly fallen, though the available savings are somewhat less than were offered in the natural gas market. A saving of 10% on an electricity bill may be the norm in many cases—considerably less than the typical savings of 20% offered on natural gas.

Although information on customer switchovers is being collected by many, it is not publicly available. This is in contrast to California where a visit to the California Public Utilities Commission (CPUC) Web site provides frequently updated access to switchover statistics. However, OFFER has published periodic updates in its press releases. More up-to-date information is collected by various market research polls.

The Table below—from the CCNA report—shows a summary of the information released by OFFER and other sources at various times during the market opening process.

More Customers Are Switching

Date	Total Customers	Number Switched	Percentage
14 September 98	750,000	0	0.00%
30 September 98	1,350,000	15,000	1.10%
23 December 98	6,000,000	165,000	2.75%
25 January 99	15,000,000	300,000	2.00%
3 March 99	20,000,000	600,000	3.00%
26 March 99	21,000,000	800,000	3.81%

Source: Adapted from *Competition in the Domestic Electricity Market in the UK*, published by Convector Consulting NA, Inc., April 1999. Original data is from various OFFER press releases and other sources.

While these switchover percentages are low compared to Pennsylvania, they are substantially better—both in absolute terms as well as in percentage terms—than what has been achieved in California (1.1%, as of February 15, 1999). Furthermore, the figures are on the low side because of the phased market opening and delays in processing switching requests.

From the beginning, OFFER has maintained that over 1 million customers have registered an intention to switch as soon as they are able to do so. Centrica (formerly, British Gas)—which is among the most active in the market—claims to have

a million electricity customers. These larger figures are a result of counting people who have signed contracts and perhaps been registered, but have not yet actually started with a new supplier.

The same report by Convector Consulting quotes Chris Rix of the Electricity Association, estimating that the current level of switching is around 5%. He “unofficially” predicts that around 20% of domestic customers will have switched by the end of the first twelve months of market operation.

For most of the public electricity suppliers—or PESs—the opening of the domestic market does not look promising. Only four companies have gained customers—at the expense of the losers. More interesting, Centrica, a non-electric company, has been the greatest beneficiary thus far. It has gained more than twice all the other gainers put together, according to the report. The power of its nationwide presence and customer database is clearly showing.

This 200-page report provides the most comprehensive analysis of the UK market to date, including a discussion of the performance and strategies of the key players. Further information is available at <http://members.aol.com/eeinformer/uktoc.pdf>

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Award Recommendations Solicited

The IAEE Awards Committee, chaired by Immediate Past President Charles Spierer, seeks recommendations from the membership for the Association's 1999 Awards.

Annually, the Association makes two awards: The *Outstanding Contributions to the Profession* Award and the *Journalism* Award. Occasionally, it also makes an award for *Outstanding Contributions to the Association*.

The *Outstanding Contributions to the Profession* award is made to an individual judged to have made singular contributions to the field of energy economics and its literature. The award was won in 1996 by Michael Hoel, in 1997 by Robert Pindyck and in 1998 by Colin Robinson

The *Journalism* award is made for excellence in written journalism on topics relating to international energy economics. It was won in 1996 by Isabel Gorst, in 1997 by Anne-Marie Johnson and in 1998 was shared by John Jennrich and Toni Mack.

The *Outstanding Contributions to the Association* award is made to an individual judged to have made a distinguished and significant contribution to the IAEE and its well-being. It was given in 1993 to Toyoaki Ikuta, in 1994 to Melvin Conant and in 1998 to Subroto.

Recommendations should include a letter citing reasons why the committee should consider the individual being nominated along with samples of the individual's work that would be relevant to consideration.

Recommendations should be sent to:

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