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

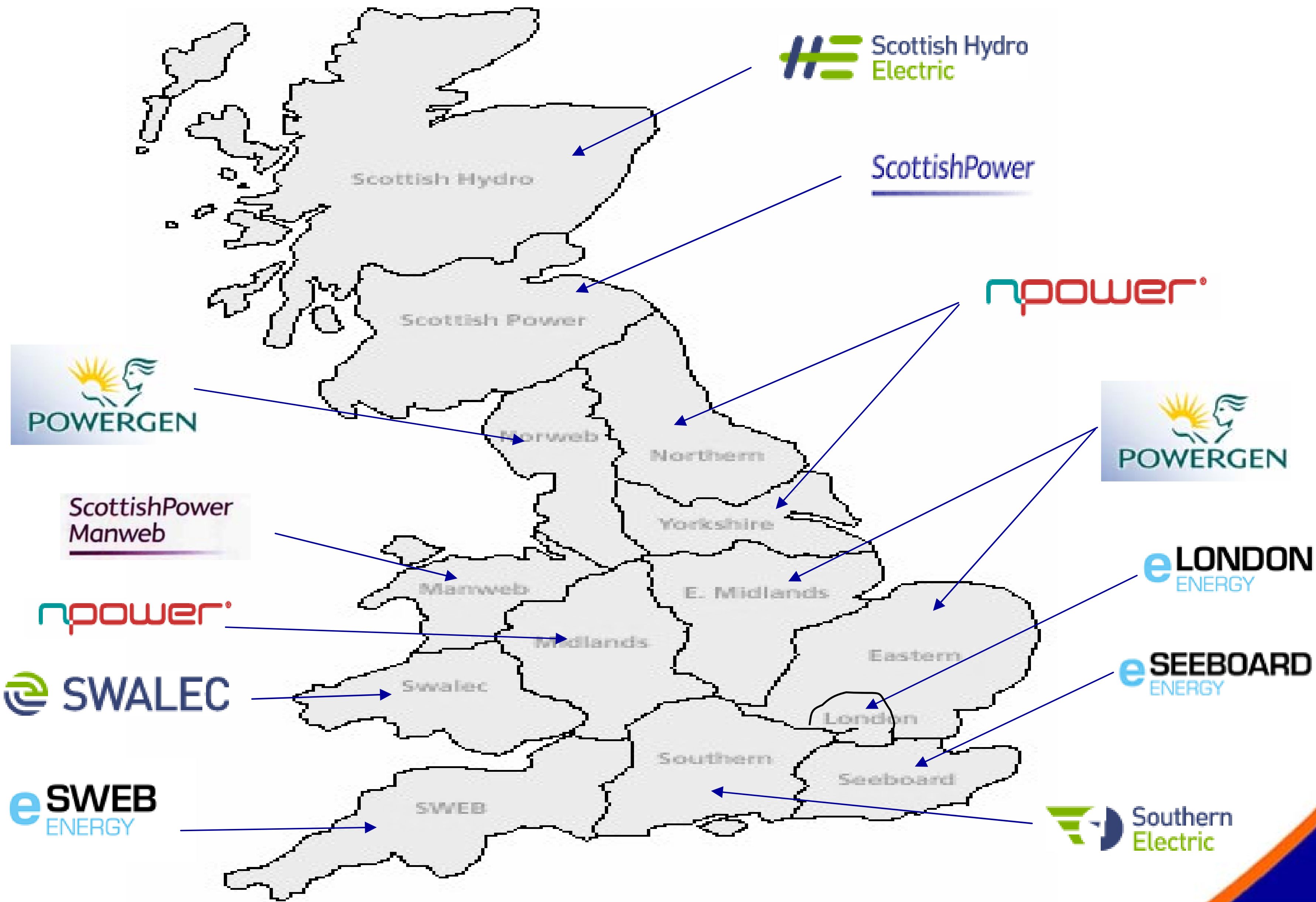
15th February 2002 – Ofgem states ***'we have long been determined that competition should work to the benefit of all – and we have been successful in achieving this'***

- 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

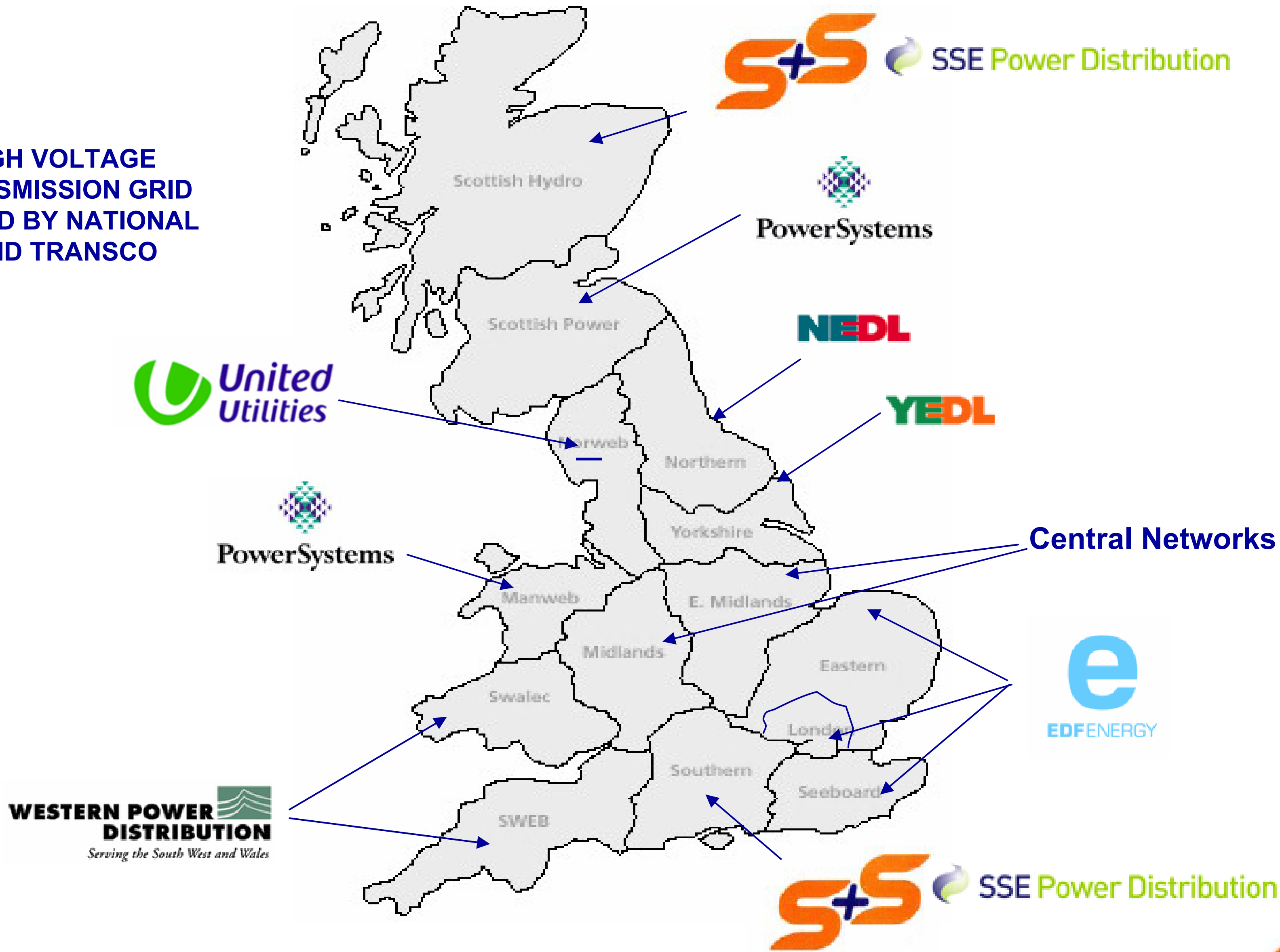
- Separation of Supply and Distribution
- Consolidation has led to 'The Big Six' suppliers
- Vertical Integration
- A few 'very small' suppliers – some offering 'niche' services
- Wide range of products in the market
- Various Multi-Party Industry Codes (all with separate governance arrangements)
- BETTA – 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?

OWNER	SUPPLY BRAND	CUSTOMER NUMBERS	GENERATION CAPACITY
RWE	npower	3.8m (14.8%)	9,466 MW
EDF Electricité de France	LONDON ENERGY, SWEB ENERGY, SEEBOARD ENERGY	3.4m (13.3%)	5,633 MW
e-on	POWERGEN	5.4m (21.1%)	9,496 MW
ScottishPower	ScottishPower, ScottishPower Manweb	3.1m (12.1%)	5,762 MW
Scottish and Southern Energy plc	Scottish Hydro Electric, Southern Electric, SWALEC	3.8m (15.1%)	9,034 MW
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How did we get here?

FEB. 1988 — WHITE PAPER ISSUED

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

March 2001 — NETA IMPLEMENTATION

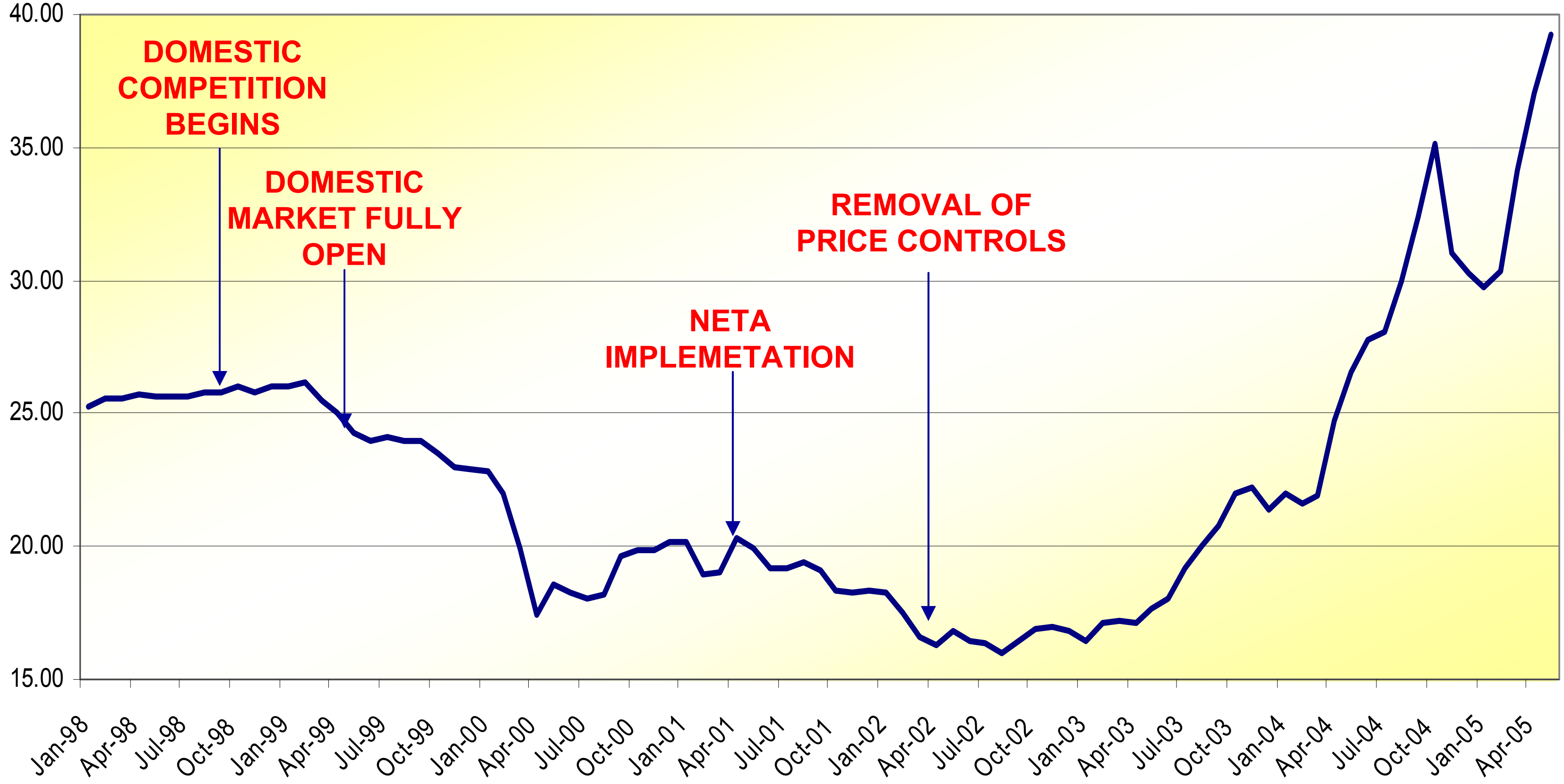
1ST APRIL 2002 — REMOVAL OF PRICE CONTROLS

1ST APRIL 2005 — BETTA IMPLEMENTED

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?