UK's Distribution Utilities Not Ready For Competition

*By Fereidoon P. Sioshansi**

Everybody knew that preparing for competition was going to be complicated and expensive - particularly the systems required to keep track of customer accounts and billing. Now with the remaining 23 million customers in England and Wales expected to get a chance to pick their electric supplier over a 6 month period between April to September, 1998, new concerns have surfaced that suggest the task will be more complicated *and* far more expensive than originally estimated.

A few months ago, the Office of Electricity Regulation (OFFER) figured that the billing and accounting systems required to handle competition will cost some £154 million (approximately $230 million) for the 12 regional electricity companies (RECs) and the two Scottish suppliers, Scottish Power and Hydro Electric (Table 1). OFFER figured that this *modest* cost could be recovered through an annual per-customer charge of £1 (approx. $1.50) collected over 5 years. Given the fact that the average (residential) customer's bills run under £300 (approximately $450), the surcharge was considered negligible.

Table 1
Cost of Competition
Millions of Pounds*

Public Electricity Supplier (PES)	Original OFFER Estimate	Revised OFFER Estimate	Revised PES Estimate
Eastern	15.00	26.25 - 29.45	43.10
East Midlands	12.00	20.69 - 33.61	80.18
London	11.50	18.91 - 30.40	55.17
Manweb	9.50	15.04 - 23.44	55.62
Midlands	12.00	20.58 - 33.41	67.45
Northern	9.50	15.11 - 23.57	31.43
NORWEB	12.00	19.93 - 32.25	118.53
SEEBOARD	11.50	19.26 - 29.76	77.24
Southern	13.50	23.35 - 30.44	41.62
SWALEC	8.00	12.19 - 18.30	67.52
South Western	9.50	15.18 - 22.17	34.96
Yorkshire	11.00	18.61 - 29.87	57.52
Scottish Power	11.00	18.86 - 30.31	71.74
Hydro-Electric	7.50	11.57 - 16.02	51.58
Total	153.50	255.50 - 383.00	853.70

Source: Offer report: *Opening the Market*
* Each £ is approximated US$1.50

Now, with less than 7 months until April 1998, two new and significant issues have surfaced. First, it is generally acknowledged that only 3 of the 14 public electricity suppliers (PESs) will be ready for the last phase of open competition based on where they are today. Second, the cost of getting ready has ballooned to £854 million (approximately $1.28 billion) - at least as figured by the 14 PESs.

OFFER has scoffed at these estimates, but even OFFER acknowledges that its original estimate was far off-target. OFFER now figures the cost of gearing up the customer information systems (CISc) for competition to be somewhere between £256-383 million (approximately $380-575 million). That amounts to an annual per customer surcharge of £1.9-2.9 (approximately $2.80-4.35) for 5 years. If the numbers end up being closer to what the companies estimate, then who will make-up the difference? Another question: if the costs are anywhere as large as the PESs estimate, then will there be any residual savings from competition? Professor Stephen Littlechild, Director General of OFFER insists that the savings from competition would still outweigh these costs, even though electricity supply (i.e., retailing in U.S. jargon), the portion of the service which is being opened to competition, accounts for just 6 per cent of the bills. Distribution (i.e., poles & wires), which remains a monopoly, covers 29 per cent of the bills, with the balance covering generation and other costs. And that's not all. The Electricity Pool, the wholesale power market, is spending £50m (approximately $75m) to update its *own* computerized trading system.

One piece of the puzzle is the wide disparity in estimated cost of CIS upgrades among the PESs, e.g., Northern Electricity asking for £31m (approximately $47m) while Norweb is requesting spending of £118m (approximately $177m). Some of this may be due to size, density, customer diversity or other variables, but NORWEB's price tag stands out as an outlier no matter how you look at it (Table 1).

A more serious problem facing Professor Littlechild and John Battle, the new Minister of Energy, is that only Eastern, SEEBOARD, and Yorkshire appear to be anywhere ready to handle the competitive market come April 1998 based on system tests planned to begin in October 1997. The other 11 PESs are lagging anywhere from 3 to 4 months or more behind (Table 2).

Table 2
Who's Ready for Compeition?

	England and Wales	Scotland
1997 October	Eastern, SEEBOARD, Yorkshire, the Pool	
1997 November	SWALEC	
1997 December	Northern, NORWEB, South Western, Hydro-Electric	
1998 January	East Midlands, London Manweb, Midlands	Scottish Power Scottish Settlements
1998 February		
1998 March	Southern	

Source: *Progress on the 1998 Programme*, PA Consluting, May 1997; *Energy Utilities*, June 97.

In an editorial in *Energy Utilities* (June 97), Dieter Helm of Oxford Economic Research Associates (OXERA) says, "Professor Stephen Littlechild, Director General of Electricity Supply, has finally recognized two facts about the 1998 project to liberalize the electricity market. The first is that the costs of competition are likely to be much higher than he expected. His latest estimate is £255m-£385m over five years. The second is that the timetable for his three-phase program is hopelessly optimistic. Only three companies are now expected to be ready for the first trials." Helm goes further when he opines, "Nobody wants to admit publicly that the overall electricity project needs urgent surgery. Some slips in timetable and a bit more money may be OFFER's solution. Nevertheless, the fundamental problems will not go away. It is too early to predict with much confidence which 'event' will trigger the next set of timetable and cost revisions."

* Fereidoon P. Sioshansi edits and publishes the *EEnergy Informer*, a monthly newsletter focused on the North American electric power industry. This is an edited version of the article which appeared in the August 1977 issue.

has already begun selling its 53 million barrel inventory of government owned crude oil. The United States has assumed a leadership role within the International Energy Agency advocating that free markets be allowed to work even in an emergency and that the first response to a disruption should be the release of strategic reserves. Our credibility in maintaining that advocacy role is a factor that policy makers will also weigh in reaching a position on this issue.

On the other side of the issue is the question of money. The Federal Government has added massively to the national debt since 1980, and it is a clear priority of the Administration and the current Congress to eliminate the deficit no later than FY 2002. After the deficit is eliminated, the critical question within the big picture of Federal Government activities is in what proportion surpluses will be assigned to national debt reduction, further tax relief, or increases in discretionary spending. Since the funds to acquire oil for the Reserve fall in this last category, the issue of SPR size and the timing of fill will compete not simply against a break even cost benefit analysis but against a queue of other programs that are philosophically acceptable to the Government and the American people but which have been shrunk or eliminated by the unrelenting budget pressures associated with elimination of the deficit.

Conclusion

The Department of Energy and the Administration have a target date of the end of September to release the Statement of Policy. That document will provide the basis for further amendments of the Energy Policy and Conservation Act that the Department of Energy hopes to champion during the next session of Congress, and for future budgets that will determine the direction of the Reserve's size and inventory.

Conference Proceedings 18th IAEE International Conference Washington, DC, July 5-8, 1995

The Proceedings from the 18th International Conference of the IAEE held in Washington, DC, are now available from IAEE Headquarters. Entitled *Into the Twenty-First Century: Harmonizing Energy Policy, Environment, and Sustainable Economic Growth*, the proceedings are available to members for $55.95 and to non-members for $75.95 (includes postage). Payment must be made in U.S. dollars with checks drawn on U.S. banks. To order copies, please complete the form below and mail together with your check to:

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ANNOUNCEMENT: LONDON WEEK

December 6-10 1997

SATURDAY 6 DECEMBER

Executive of EFCEE meets at midday. Full European-affiliate EFCEE/IAEE meeting at 15.00 at offices of Petroleos de Venezuela UK Ltd., 7 Old Park Lane, off Piccadilly at Hyde Park Corner (nearest station). Opposite the Hard Rock Cafe.

At 19.30 all attending are invited by BIEE to dinner at a nearby club. Details upon arrival.

SUNDAY 7 DECEMBER

BIEE Warwick Conference Administrators and invited EFCEE East European delegates transfer to Warwick University. (N.B. only those on these special groups have accommodation Sunday night).

MONDAY 8 DECEMBER

10.00-11.30: Registration for BIEE Conference at Warwick University (train London Euston to Coventry, then taxi 4 miles). Conference starts promptly at 11.30 with UK minister, John Battle's address. See separate announcement for further details of the Warwick Conference.

TUESDAY 9 DECEMBER

BIEE Warwick Conference finishes at 16.00.

WEDNESDAY 10 DECEMBER

Workshop on East European Energy, No.5. Commences at 09.30 at Shell-Mex House - Strand (courtesy of Shell UK). Working lunch. Finish around 16.00 pm.

Enquiries to: Mary Scanlan, Administrative Office, BIEE, 37 Woodville Gardens, Ealing, London, W5 2LL. Tel: +44-(0)181-997-3707. Fax: +44-(0)181-566-7674.

Climate After Kyoto - The Implications for Energy

Eleventh RIIA/IAEE/BIEE International Energy Conference

Chatham House, London
5 and 6 February 1998

The aims of this conference, organized by the Royal Institute of International Affairs (RIIA), in association with the British Institute of Energy Economics (BIEE) and the IAEE, were printed in the Summer 1997 Newsletter - now we can advise you of the structure (subject to speaker invite).

Day 1

Session

1. Outcome of Kyoto summit on climate change
2. National Strategies for ratification/implementation, Part I: statements from the USA, the EU and Japan.
3. National Strategies, Part II: Russia - Eastern Europe - Developing Countries
4. Implications for Global Energy Markets: Individual speakers on Coal-Oil-Gas-Non Fossil Fuels

Day 2

5. Evolution of Trading Systems and Enforcement Approaches.
6. Developing countries - AIJ/JI and Technology Transfer Initiatives.
7. Future work of the IPCC
8. Industry Strategies - Keynote Address and Final Panel.

Confirmed Speakers include: John Browne, Group CEO, British Petroleum Co. Plc; Dr Robert Watson, World Bank Environment Director; A Designated IPCC Chairman; and Michael Brown, Director of Cogen, Europe. Sponsorship is sought to support participation by developed countries, academics and non-governmental persons. For further information contact:

Diana Bailey, RIIA Conference Unit
Phone +44 (0) 171-957-5700; Fax: +44 (0) 171-957-5710

Publications List

Independent Power Producers in Asia, (1997). Price: $650.00. Contact: FT Energy Asia Pacific, 159 Telok Ayer Street, Singapore 068614. Phone: 65-323-6373. Fax: 65-323-4725. E-mail: ppsing@singnet.com.sg

Electricity in Europe Towards The Year 2000, (1997). Price: $195.00. Contact: UDI, 1200 G Street, NW, Ste. 250, Washington, DC 20005-3802. Phone: 202-942-8788. Fax: 202-942-8789.

1997 International Petroleum Encyclopedia, (1997). Price: $150.00 publication / $195.00 CD-ROM. Contact: PennWell Directories, 3050 Post Oak Blvd., #200, Houston, TX 77056-6524. Phone: 918-831-9555.

Directory of U.S. Cogeneration, Small Power & Industrial Power Plants. Price: $395.00. Contact: Utility Data Institute, 1200 G Street, NW, Suite 250, Washington, DC 20005-3802. Phone: 202-942-8788. Fax: 202-942-8789.

Electrical World Director of Electric Power Producers. (105th edition). Price: $395.00. Contact: Utility Data Institute, 1200 G Street, NW, Suite 250, Washington, DC 20005-3802. Phone: 202-942-8788. Fax: 202-942-8789.

International Directory of Electric Utilities (8th edition). Price: $345.00. Contact: Utility Data Institute, 1200 G Street, NW, Suite 250, Washington, DC 20005-3802. Phone: 202-942-8788. Fax: 202-942-8789.

Measuring the Competition: Operating Cost Profiles for U.S. Investor-Owned Electric Utilities. Price: $595.00. Contact: Utility Data Institute, 1200 G Street, NW, Suite 250, Washington, DC 20005-3802. Phone: 202-942-8788. Fax: 202-942-8789.

Electricity in South Asia. (1996). 182 pages. Price: $616.00. Contact: FT Energy Publishing Asia Pacific, 159 Telok Ayer Street, Singapore 068614. Phone: 65-323-6373. Fax: 65-323-4725. E-mail: ftenergy@pearson-pro.com.sg

Electricity in South-East Asia. (1996). 178 pages. Price: $616.00. Contact: FT Energy Publishing Asia Pacific, 159 Telok Ayer Street, Singapore 068614. Phone: 65-323-6373. Fax: 65-323-4725. E-mail: ftenergy@pearson-pro.com.sg

Electricity in Southern Africa. (1996). 273 pages. Price: $560.00. Contact: FT Energy Publishing Asia Pacific, 159 Telok Ayer Street, Singapore 068614. Phone: 65-323-6373. Fax: 65-323-4725. E-mail: ftenergy@pearson-pro.com.sg

Electricity in the Middle East. (1995). 172 pages. Price: $560.00. Contact: FT Energy Publishing Asia Pacific, 159 Telok Ayer Street, Singapore 068614. Phone: 65-323-6373. Fax: 65-323-4725. E-mail: ftenergy@pearson-pro.com.sg

Future IAEE Events

Annual Conferences

May 13-16, 1998	21st IAEE International Conference Quebec, Canada *Chateau Frontenac Hotel*
October 18-21, 1998	19th Annual USAEE/IAEE North American Conference Albuquerque, NM, USA *Hyatt Regency Albuquerque*
June 9-12, 1999	22nd IAEE International Conference Rome, Italy *Hotel Parco dei Principi*

Calendar

11-12 November 1997, 16th Annual Pacific Coast Oil Show & Conference. Kern County Fair Grounds, Bakersfield, California. Contact: Pacific Coast Oil Show & Conference. Phone: 630-241-9873. Fax: 630-241-9870. URL: www.pacos.com

11-15 November 1997, Fifth Chemical Congress of North America. Cancun, Quintana Roo, Mexico. Contact: 5NACC Congress Secretariat, c/o American Chemical Society, Room 420, 1155-16th St., NW, Washington, DC 20036. Phone: 202-872-4396. Fax: 202-872-6128.

13-14 November 1997, The Developing Energy Markets of Central & Eastern Europe. Renaissance Hotel, Prague. Contact: Business Seminars International, Ltd., Sussex House, High Street, Battle, East Sussex, TN33 0AL, United Kingdom. Phone: 44-171-490-3774. Fax: 44-1424-77-33-34.

19-21 November 1997, Expo Petroleo Colombia '97. Santafe de Bogota, Colombia. Contact: Fax: 301-493-5705.

20-21 November 1997, Natural Gas: Trade and Investment Opportunities in Russia and the CIS. Hotel Inter-Continental, London. Contact: Royal Institute of International Affairs, Chatham House, 10 St James's Square, London SW1Y 4LE, United Kingdom. Phone: 44-171-957-5700. Fax: 44-171-321-2045.

8-11 December 1997, The Fourth Asian-Pacific International Symposium on Combustion and Energy Utilization. Bangkok, Thailand. Contact: Energy Research Institute, Institute Building III, Chulalongkorn University, Bangkok, 10330, Thailand. E-mail: apisceu@eng.chula.ac.th

9 Decmeber 1997, Coal - A Vision for Tomorrow? New York, NY. Contact: The Energy Forum, City University Graduate Center, Rm. 1560G, 33 West 42nd Street, New York, NY 10036. Phone: 212-642-2381. Fax: 212-642-2642.

16-21 December 1997, The Second International Non-Renewable Energy Sources Congress. Kish Free Zone Island, Hormozgan, Iran. Contact: Ali Haghtalab, Congress Secretariat, e-mail: u10215@uicvm.uic.edu

(continued on page 32)

Conference Proceedings
19th IAEE International Conference
Budapest, Hungary, May 27-30, 1996

The Proceedings from the 19th International Conference of the IAEE held in Budapest, Hungary, are now available from IAEE Headquarters. Entitled *Global Energy Transitions, with Emphasis on the Last Five Years of the Century*, the proceedings are available to members for $55.95 and to non-members for $75.95 (includes postage). Payment must be made in U.S. dollars with checks drawn on U.S. banks. To order copies, please complete the form below and mail together with your check to:

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Calendar *(continued from page 31)*

12-23 January 1998, Third International Training Program on "Utility Regulation and Strategy." A Collaboration between the Public Utility Research Center and the World Bank. Gainesville, Florida, USA. Contact: Pascale Parker, Program Coordinator, PURC, 205 Matherly Hall, University of Florida, Gainesville, FL 32611. Phone: 352-392-3655. Fax: 352-392-7796. E-mail: purcecon@dale.cba.ufl.edu URL: http://www.cba.ufl.edu/eco/purc/wrldbank.htm

21 January 1998, Restructuring the Electricity Industry: The Real World. New York, NY. Contact: The Energy Forum, City University Graduate Center, Rm. 1560G, 33 West 42nd Street, New York, NY 10036. Phone: 212-642-2381. Fax: 212-642-2642.

10-12 February 1998, Global Energy Forum: The Energy Company of the Future, the 17th Annual CERA Executive Conference. Westin Galleria & Oaks, Houston, Texas. Contact: Michael Banville, Cambridge Energy Research Associates, 20 University Road, Cambridge, MA 02138. Phone: 617-497-6446. Fax: 617-497-0423. E-mail: mbanvill@ceracamb.com

4-6 March 1998, Centre for Global Energy Studies, Second Latin American Energy Conference. Inter-Continental Hotel, Miami, Florida, USA. **Gas, Power and Regulation in Latin America: From State Monopoly to Private Investment.** Contact: Phone: 44-171-704-6161. Fax: 44-171-704-8440

27-28 April 1998, Centre for Global Energy Studies, CGES Eighth Annual Conference. Inter-Continental Hotel, London, England. **Oil and Gas Investment in Asia: The Engine of Growth.** Contact: Phone: 44-171-704-6161. Fax: 44-171-704-8440

13-16 May 1998, 21st IAEE International Conference. Quebec City, Canada. Contact: IAEE Headquarters, 28790 Chagrin Blvd., Ste. 350, Cleveland, OH 44122. Phone: 216-464-5365. Fax: 216-464-2737. E-Mail: iaee@iaee.org URL: www.iaee.org

8-11 June 1998, 9th Global Warming International Conference & Expo. Hong Kong University of Science & Technology. Contact: Dr. Sinyan Shen, Chair, International Program Committee, Global Warming International Center, PO Box 5275, Woodridge, IL 60517. Phone: 630-910-1551. Fax: 630-910-1561.

14-18 June 1998, National Energy Conference CNE'98: Energy for Tomorrow - Reconciliation of Efficiency and Competitiveness with the Sustainable Development. Neptun, Romania. Contact: Mrs. Ella Ratcu, CNE'98 General Secretariat, 8 Energeticienilor Blvd., 79619 Bucharest 3, Romania. Phone: 401-321-4465. Fax: 401-321-1010. E-mail: srai@mail.gsci.vsat.ro

17-19 June 1998, EPRI's 1998 Innovative Approaches to Electricity Pricing Conference: Pricing in the Competitive Business Environment. Washington, DC, USA. Contact: Ms. Lori Adams, EPRI, 3412 Hillview Avenue, Palo Alto, CA 94304-1395. Phone: 415-855-8763. Fax: 415-855-2041.

13-18 September 1998, 17th Congress of the World Energy Council. Houston, Texas. Contact: United States Energy Association, 1620 Eye Street, N.W., Suite 1000, Washington, DC 20006. Phone: 202-331-0415. Fax: 202-331-0418. (http://www.wec98congress.org)

18-21 October 1998, USAEE/IAEE 19th North American Conference. "Technology's Critical Role in Energy & Environmental Markets." Albuquerque, New Mexico, USA. Contact: USAEE/IAEE Headquarters, 28790 Chagrin Blvd., Ste. 350, Cleveland, OH 44122. Phone: 216-464-2785. Fax: 216-464-2768. E-Mail: iaee@iaee.org URL: www.iaee.org

19-21 November 1998, 7th International Energy Conference and Exhibition - ENERGEX '98, Manama, Bahrain. Contact: Dr. W.E. Alnaser, Conference Secretariat, Dean, Scientific Research, University of Bahrain, PO Box 32038, Bahrain. Phone: 973-688381. Fax: 973-688396. E-mail: EA607@isa.cc.uob.bh

9-12 June 1999, 22nd IAEE International Conference. Rome, Italy. Contact: IAEE Headquarters, 28790 Chagrin Blvd., Ste. 350, Cleveland, OH 44122. Phone: 216-464-5365. Fax: 216-464-2737. E-Mail: iaee@iaee.rog URL: www.iaee.org

IAEE Newsletter

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