

# INTRODUCING RETAIL COMPETITION IN ELECTRICITY

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The European Council of Energy Ministers has finally approved Directives for the gas and electricity industries that establish a common timetable for retail market opening for all member states. As the wave of retail competition grows, it is timely to consider the benefits and costs of retail competition in the context of newly reforming power markets.

The introduction of retail competition is at least – if not more – complex than the development of wholesale electricity markets and the benefits less clear.

Benefits from retail competition arise because it gives customers the opportunity to choose their energy supplier. This generates competitive pressure in retailing and trading, which then spreads through the entire energy value chain (so long as other market reforms have been implemented that make this possible – such as an effective wholesale energy market, and non-discriminatory access to networks). It can provide incentives for consumers to manage their load more effectively through new technologies.

But have these benefits been realised in practice? Experience varies widely. However, it is clear that the experience of the degree to which customers have switched suppliers, costs have been saved and efficiency increased has been very different across countries. We explore some of the reasons for this.

Implementing retail competition is highly complex, particularly for the mass market. Robust market rules, processes and systems are required to enable the arrangements to function smoothly. Much of the practical complexity centres on systems for the treatment of metered data and the mechanisms for transferring customers between suppliers.

Of course, many areas other than systems need to be addressed. Regulation is critical. Vulnerable consumers must be protected and competition allowed to take place fairly – the latter usually involves substantive separation between historically integrated distribution and retail businesses, further adding to complexity and cost.

Indeed, costs associated with the introduction of retail competition have tended to be very high. For example, in the UK, costs were around £1 billion, or around £50 per consumer.

Given the political sensitivity of retail competition, the relatively limited benefits and the need to show value for money, cheaper solutions must be found. New technology provides the opportunity to do this and our paper explains some of the current approaches.

We then draw together some of the lessons learned about the “state of the art” for introducing retail competition.