

The Creation of a Market for Retail Electricity Supply

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In September 1989, as part of its privatization program, the Government laid down a timetable for opening up to retail competition the entire electricity market of England and Wales. It was to be opened in three stages: large users on 31 March 1990 (Vesting Day), medium-sized users in April 1994 and all other users including domestic (residential) in April 1998.

It might be assumed that the way in which the market was created in England and Wales was part of a considered policy to facilitate the introduction and regulation of competition; that the Government as owner of the nationalized electricity industry would be in a position to specify the precise arrangements for opening the market; that the phasing over time was designed to facilitate implementation; and that the contractual arrangements that accompanied the timetable would provide a basis for the future development of the industry. It might even be thought that this would be a model case study of how governments can successfully create a competitive market.

Two accounts of electricity privatization paint a rather different picture. Henney (1994) says that the Regional Electricity Companies (RECs, formerly known as Area Boards) agreed a deal with the generators whereby competition would be limited to very large customers, to ensure sufficient capacity was build and to avoid the inconvenience of having to compete. Although the Department of Energy rejected this deal, agreement was reached later on the timetable mentioned above, with an associated set of long-, medium- and short-term contracts between the RECs and the generators. Helm (2004) suggests that “the concept and design of the transition to full retail competition was an article of faith rather than a well-worked out plan”. In the event it provoked a series of crises for all the parties, but the purpose of the rigid timetable was to give companies

(and regulators) targets, forcing companies, regulators and government to come up with solutions.

The extensive History of Electricity Privatisation (Department of Energy 1992), only now available, enables us to evaluate the above propositions. The History contains a frank and detailed account of advice given by the Department of Energy to its ministers, and of exchanges of view between senior ministers, the Prime Minister and other parties involved.

The History suggests that actual events were almost the opposite of the first picture painted above. They were in many respects consistent with the accounts given by Henney and Helm, but the History reveals a richer picture. It documents (from sources not available to the other authors) the significantly evolving views within the Department, as well as the differing views and influence of other ministers and advisers, as the implications of retail competition became clearer, not least for the nature and extent of electricity contracts and for privatization of the coal industry.

Initially, retail competition was hardly worth mentioning, later it was a mild concern, but by July 1989 the agreed Government plan was to introduce full competition immediately, together with short contracts. However, the Government could not force this plan on the industry. By September 1989 the Government accepted the industry proposal of a phased franchise monopoly with a mix of short, medium and long contracts, though the Government insisted that the franchise should have an eight year termination date. In the event, the medium and long contracts that the franchise was designed to facilitate were never signed because the coal industry declined to do so.

The approach may not be a model for others, but it may not be atypical of how governments actually behave, save perhaps for the distinctive commitment to competition exhibited by the leading actors here.

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