

**EVALUATION OF STRATEGIC MASTER PLAN FOR
RESTRUCTURING AND COMMERCIALIZING THE
SAUDI ELECTRICITY SECTOR**

Prepared for

Saudi Electricity Company

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SUMMARY

The Board of Directors of the Saudi Electricity Company (SEC) requested the King Fahd University of Petroleum and Minerals, Research Institute (KFUPM/RI), to evaluate a recently submitted draft report entitled “*Strategic Master Plan. Restructuring and Commercializing the Saudi Electricity Sector*” (SMP), as prepared for SEC by Arthur D. Little International. The SMP is an overall plan for restructuring SEC, in an attempt to comply with the Council of Ministers Decision 169 (CMD 169), which envisages commercializing the operations, and facilitating private sector participation in the Kingdom’s electricity industry. Prior to proceeding further with the SMP, SEC is seeking the input of third parties on the viability of the plan, and those aspects that may affect SEC positively or negatively.

Studies of international experiences of restructuring and privatization concluded that each utility has its own structure and environment, and as a result, there is no unified restructuring model that can be adopted in all its details for all situations. However, certain features such as unbundling of generation, transmission, and distribution; a monopolistic transmission sector; and proliferation of independent power producers are a common theme. While the recommendations of the SMP are in keeping with these broad features there are some aspects, which may need revision.

The formation of a single GENCO, while not necessarily problematical to SEC itself, will not facilitate the realization of the aims of CMD 169. As a result SEC would be better positioned, if the generation sector were divided into several GENCOs. With regard to transmission, SNG if run fairly, to provide a level playing field for all, may suffice. A single nationwide DISTCO is recommended, in view of the disparity in revenue streams between regions, and the effective elimination of government subsidies.

The consolidation of the merger, which formed the SEC, to increase savings and improve efficiencies, must be pursued aggressively. At the same time, SEC must clearly position itself, to be able to respond promptly in a manner consistent with its own self-interest, and consistent with the expected mandates from the government (per CMD 169), as they occur.