If it ain’t broke, break it: how to increase prices and profits in GB’s retail energy market

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The first and the best

• GB first competitive retail energy market
• 6 active major suppliers + fringe entrants
• Active customer switching 20+% churn
• High prices recently reflect fuel costs and renewables, not lack of retail competition
• Minimal retail profits, - £50/dual fuel 2008
• Active competition between switching sites
• Best information & assistance in world?
What went wrong?

- Need to blame something for rising prices
- Ofgem could not find market failure
- Decided problem was customer failure
- Customers unable or unwilling to understand suppliers’ offers
- Hence paying unduly high prices, and
- Too little competitive pressure on suppliers
- So market had to be simplified
Dumbing down the market

- Increasingly bizarre series of proposals
- From Ofgem, Government & now Which?
- All the proposals are well-intentioned
- None shows any understanding of competitive markets
- All will fail to achieve their stated goal of more customer engagement
- All will make customers worse off
Non-discrimination rule SLC25A

- Suppliers offering lower prices out of area
- 2009: SLC25A in/out prices must be same
- Suppliers removed lower prices, not higher
- Customers suffered from higher prices
- Significant reduction in switching (x ½)
- Significant increase in suppliers’ margins
  - Dual fuel: - £50 2008, -£10 2009, c £50 2010-2, £100 now
Ofgem’s Procrustean Bed

• 2011 Ofgem looked again at retail market
• Too complex, customers don’t understand
• Suppliers must have same standing charge
• To be set by Ofgem, annually
  • Would ban popular zero standing charge tariffs
  • Would facilitate price coordination by suppliers
  • Ofgem take joint responsibility for energy prices
• Ofgem thought again & abandoned idea
Ofgem’s 4 tariff rule

• Suppliers competing despite SLC25A
  • lower online prices, fixed price deals, discounts
• Ofgem 2012: too complicated for customers
• Maximum 4 tariffs per fuel per supplier
  • Withdrawal of minority preference tariffs
  • Eg Green tariffs, no standing charge tariffs
  • What innovation if at expense of existing tariff?
• Discounts same each year, £ not %
  • SSE’s recent best offer in market would be banned
PM’s Question Time

• County Council election leaflet:
  • “Conservatives in Government have forced energy companies to put customers on the lowest tariff”
  • Actually they haven’t yet. And where is Ofgem?
• But what does it mean? Is it a good idea?
• Lowest tariff of rivals? Hardly workable
• Own lowest tariff? Even if £50 exit charge?
• If forced to give new customer discount to all customers, would not offer that discount
Which? enters the fray

- Ofgem’s proposals don’t go far enough
- Each supplier single unit price for energy
  - like petrol prices on garage forecourt
- Single uniform price across whole country
  - Different network charges mean massive cross-subsidies, not workable or equitable
- Zero standing charge raises prices to large users, makes small users unattractive
- Less product variety, easier price coordn
  - If most suppliers’ prices similar most of the time, where is incentive to engage in the market?
Concluding remarks

- These schemes assume regulators & govts know more about customers than suppliers & switching sites that have to discover & provide what customers want.
- The schemes won’t really simplify the market but they will restrict competition.
- Customers worse off, engage less not more.
- Suppliers grumble all the way to the bank.
- GB no longer leading market & regulator.