Prices, Gains and Switching in Retail Electricity Markets

Catherine Waddams and Minyan Zhu
ESRC Centre for Competition Policy, UEA

EPRG Spring Seminar, Cambridge, 17th May 2013

www.competitionpolicy.ac.uk
Prices have (mostly) risen and converged: British Gas from high to low (relative) cost
Switching is correlated with potential gains: varies across regions

Time

Y_D: expenditure difference between incumbent and best entrant (£)
Y_S: number of customers switched (000)
Switching depends on increases in bills and gains available (and region, time, season)

<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>Coefficient</th>
<th>T-statistic</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in incumbent expend, this month</td>
<td>0.034</td>
<td>2.08</td>
<td>0.038</td>
</tr>
<tr>
<td>Increase in incumbent expend, last month</td>
<td>-0.005</td>
<td>-0.38</td>
<td>0.71</td>
</tr>
<tr>
<td>Incumb – best entrant expend, this month</td>
<td>0.003</td>
<td>0.22</td>
<td>0.82</td>
</tr>
<tr>
<td>Incumb – best entrant expend, last month</td>
<td>0.033</td>
<td>2.17</td>
<td>0.030</td>
</tr>
<tr>
<td>Time trend</td>
<td>-0.15</td>
<td>-2.14</td>
<td>0.032</td>
</tr>
<tr>
<td>Constant</td>
<td>38.59</td>
<td>46.05</td>
<td>0.00</td>
</tr>
<tr>
<td>London dummy</td>
<td>-20.08</td>
<td>-23.35</td>
<td>0.00</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.89</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of observations</td>
<td>820</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Pooled OLS is used with seasonal dummies and regional dummies, 2005-11

Serial correlation and heteroscedasticity accounted for and standard errors estimated using White's procedure.
Initial gains (often) erode over time

London

-50
0
50
100
150

annual gains in £s: switched in Jan from worst to best deal
yearly accumulated gain
average gain over the period

Time
Policy implications

- Price differences matter, beware interventions which reduce them, as after Energy Supply Probe
- Each £ reduction in potential gain deters 32 more customers
- Price increases have effects of similar magnitudes: good news as energy costs rise??
- Consumer scepticism about persistent benefits of switching is sometimes justified
- Take account of the supply side in seeking remedies to increase consumer participation