

Promoting or restricting competition?: Regulation of the UK retail residential energy market since 2008

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Abstract Since 2008 UK energy regulator Ofgem has imposed increasingly severe restrictions on suppliers to the domestic (residential) retail market. Initially, non-discrimination conditions aimed to “remove unfair price differentials”, particularly between suppliers’ prices between regions, totalling £0.5 bn. This actually envisaged increasing prices to other customers by £0.5 billion, to maintain revenue neutrality. In the event, competition reduced, customer switching fell by half, and profits of major suppliers increased by nearly £1 billion, at the expense of customers.

Later, restrictions on the number and types of tariffs aimed to encourage customers to engage in the market. However, there is no empirical evidence to justify this, and the policy prohibits many discounts and tariff types that customers value, especially vulnerable customers.

Perhaps Ofgem felt pressed to Do Something in the face of an unprecedented increase in energy prices. Successive Governments have supported its interventions, but cannot be blamed for designing them. The decline of economists in senior positions at Ofgem removed an important ‘sanity check’. But Ofgem itself bears responsibility for its change in policy since 2008. It may have been well-meaning, attempting to protect the interests of vulnerable customers, but inappropriate restrictions have made customers worse off.

Should other regulators follow suit? No. Hopefully the CMA market investigation will reveal this and bring to an end one of the most misguided episodes in the modern history of UK regulation.

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