

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

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EPRG Spring Seminar

Cambridge 17 May 2013

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 ($\times \frac{1}{2}$)
- 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