Energy Retail Market
Competition in GB:
Status & Prospects

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Price increases drive policy

Index of real domestic fuel and light prices (Q1 1987=100)

Source: Quarterly fuel prices, DECC. Table 2.1.1
Change in Ofgem purpose?

- Profits not high but need to Do Something
- Ofgem’s transformation 2008 - 2013
  - Chief Executive’s “transformational role in leading Ofgem from a body that was essentially an economic regulator ten years ago to its current and far more multi-dimensional purpose and activities”
- Trained economists on GEMA
- Business/financial/economic non-execs
Change in regulation

- Until 2008 Ofgem largely hands off
- 2008 non-discrimination policy SLC25A
- 2010 restrictions on doorstep selling
- 2011 Procrustean Bed (abandoned 2012)
- 2012-13 Retail Market Review reforms
  - Max 4 tariffs per fuel per supplier
  - Simple tariffs – prevented many variants
  - Detailed obligations on presentation of bills
Policy has reduced competition

- Suppliers less able to differentiate products to meet preferences of different customers
  - Staywarm, Tariffs with no standing charge
  - Conditions for tacit coordination
- Customer switching halved since 2008
- Supplier profits have increased by c £1bn
  - 2007 £110m 2009 £379m 2013 £1148m
- All customers surely worse off including vulnerable customers
Decline in customer switching

- Ofgem's Non-Discrimination Condition 6 Oct 2008
- Ofgem's Procrustean Bed 14 Oct 2011
- Ofgem's Simple Tariffs proposed 26 Oct 2012
- Ofgem's Simple Tariffs confirmed 27 Aug 2013

Rolling average % of total energy accounts

Year ending
Solution?

• Hope CMA will recognise that regulation has restricted competition
• Query: are present supply profits excessive?
• Remedy for both: abandon RMR policies
  • Concern about sticky customers?
  • Not unique to energy markets
  • Sticky customers still protected by active ones
• Focus any remedies on enabling vulnerable customers to benefit from competition, instead of distorting whole competitive market