



Competition and Fairness in Retail Energy Markets: Regulatory Trade-off in the UK

Catherine Waddams

ESRC Centre for Competition Policy, University of
East Anglia, UK

World Forum on Energy Regulation IV
Athens, Greece

October 18 - 21, 2009

Competition and Fairness



- ✦ UK energy market
- ✦ Gains from competition
- ✦ Regulator's duties for vulnerable
- ✦ Undue discrimination clause & effects
- ✦ Fairness and Competition: trade off and prospects

UK Energy Market

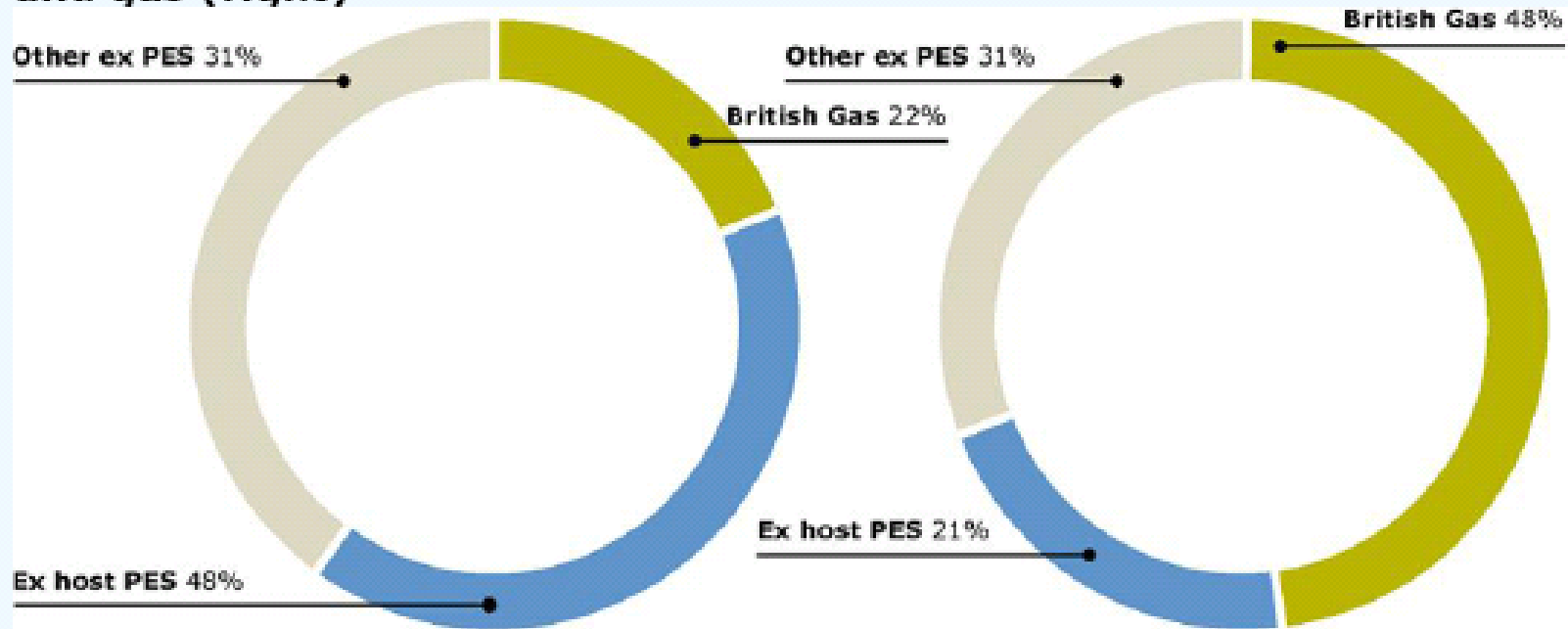


- ✦ Before opening, 14 regional electricity incumbents, 1 national gas incumbent, all privatised
- ✦ All incumbents entered each others' markets, other entrants did not survive wholesale price increases
- ✦ Last retail price caps removed 2002
- ✦ M&A led to 'big six': 5 consolidated descendants of electricity incumbents, each incumbent in two or three regions, and one gas incumbent

Regional markets dominated by electricity and gas incumbents



Figure 3.4: Current average regional supply market shares electricity (left) and gas (right)



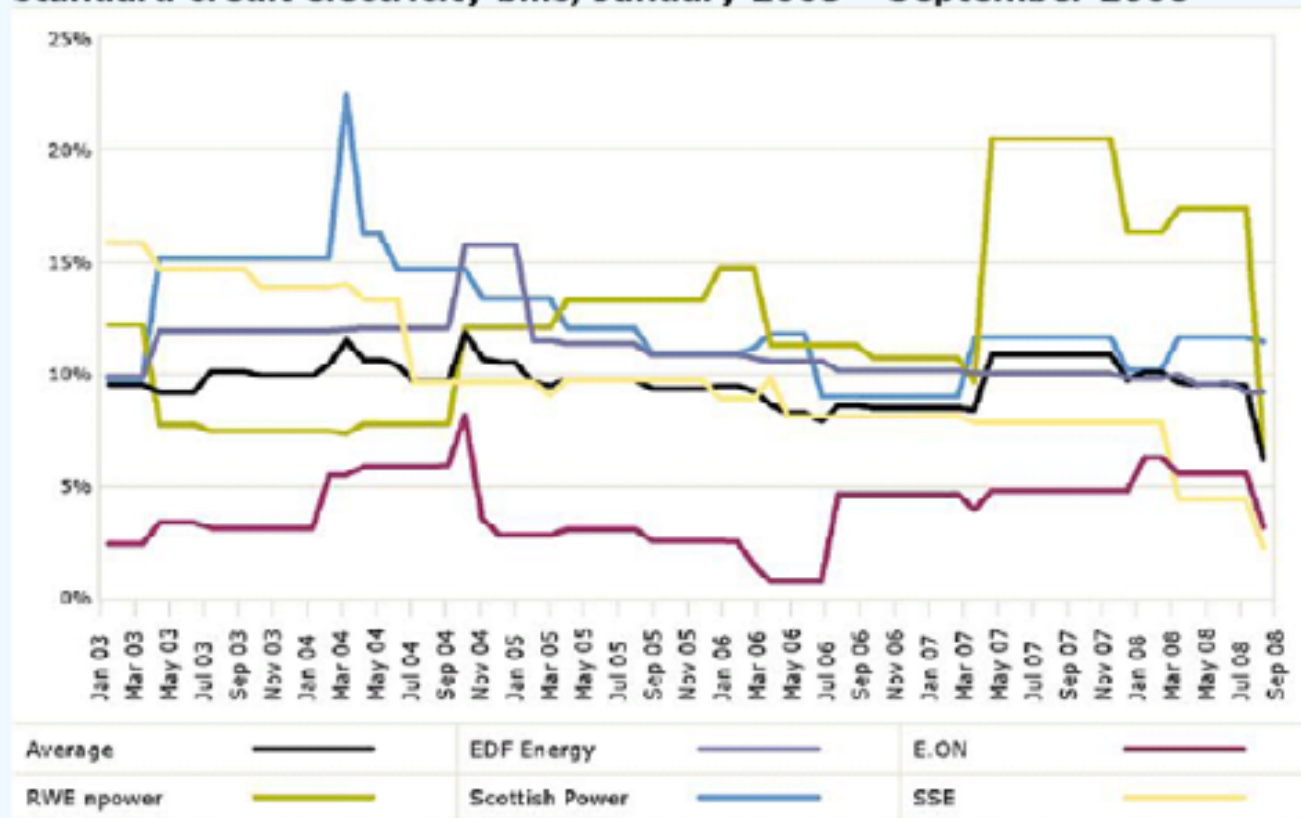
Source: Ofgem

Note: Electricity shares are for June 2008; Gas shares are for December 2007.

Price gains from switching: loyal consumers have not switched



Figure 7.4: Average percentage difference between in-area and out-of-area standard credit electricity bills, January 2003 – September 2008



Source: Ofgem

Average
Savings
10 to
12%
2003-
2008

Concern that these are 'vulnerable'

% of consumers with each supplier type



Vulnerable group	Incumbent	B Gas	Entrants
Over 65	46	28	26
Low inc	47	31	22
Disabled	44	28	28
Rural	60	20	20
Low educ	52	27	22
At least one	47	29	24
All cons	42	32	26

Undue discrimination clause



- ✦ Prevents companies charging more (relative to costs) in home region, cannot charge less out of region
- ✦ If immediately revenue neutral, in area prices fall and out of area prices rise
- ✦ Those with incumbent gain, with entrant lose, no immediate effect on British Gas
- ✦ More vulnerable consumers gain than lose

Longer term



- ✦ Pressure on incumbent(s) reduced
- ✦ National gas incumbent will raise price
- ✦ Best case: el incumbent prices down, BGas and entrant prices up: more vulnerable lose than gain
- ✦ Worst case: entrant leaves; all prices higher
- ✦ Competition harmed – may need (re)regulation

Fairness and competition



- ✦ Competition may deliver equal prices: forcing equal prices damages competition
- ✦ Ofgem strong preference for immediate 'fairness' at expense of competition and lower prices
- ✦ Is it fair that switchers don't gain?
- ✦ Wider backlash against unregulated markets/competition? New price caps needed?
- ✦ Can competition deliver social objectives?