



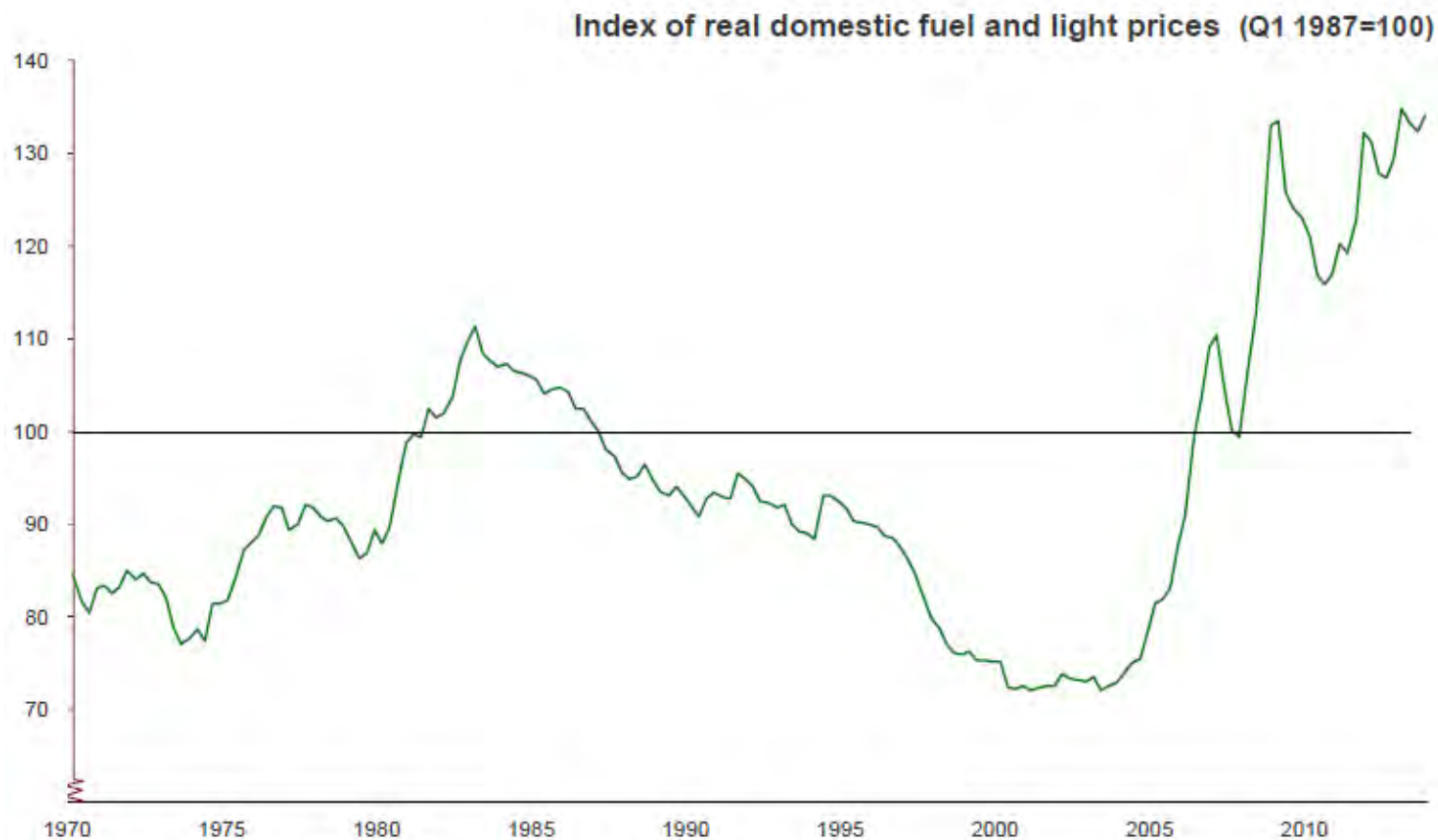
Energy Retail Market Competition in GB: Status & Prospects

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Price increases drive policy



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
 - 1999-2003: 4, 2003-2008: 2, 2011-12: 0
- Business/financial/economic non-execs
 - 2001-2008: 6/6, 2009-2012: 4/7, 2013-14: 3/7



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

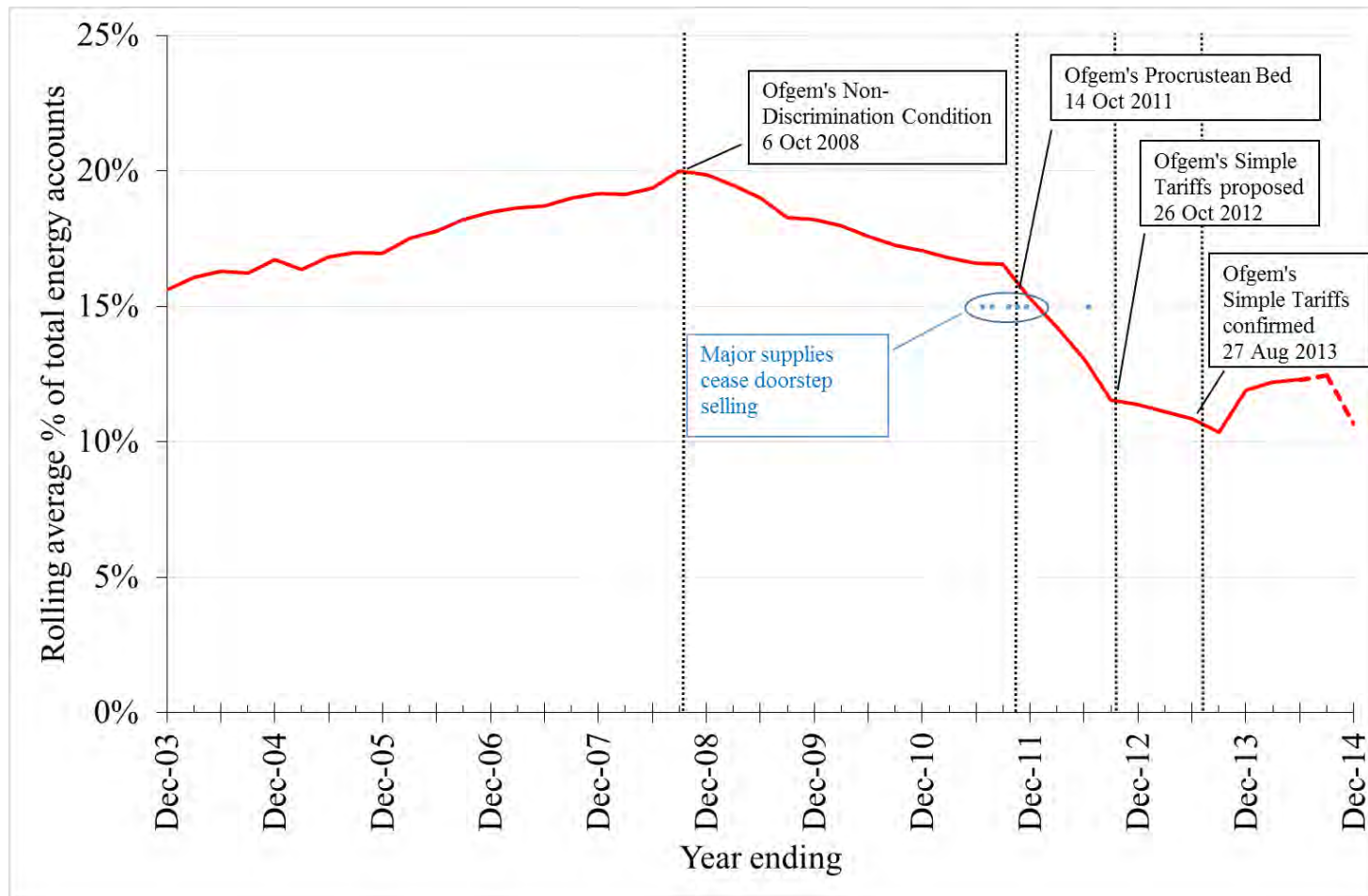


Policy has reduced competition

- 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





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