

**ECONOMY, ENERGY AND FAIR WORK COMMITTEE
PUBLICLY OWNED ENERGY COMPANY INQUIRY**

**SUBMISSION FROM Catherine Waddams, Centre for Competition Policy,
University of East Anglia**

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I have watched the recording of the session and have read the transcript, and wanted to add some brief thoughts which I would have contributed to the discussion. I indicate where these relate to the discussion by the question which was asked, though the discussion has sometimes moved on from this. The Committee may also be interested in our publication '[Fairness in Retail Energy Markets?](#)' which presents some relevant recent Centre for Competition Policy research, including expenditure shares and some data on Scotland.

John Mason: Is the market functioning well at the moment?

There has been a shift in the basis of market assessment, and of whether a market is working well. In the energy market, in particular, when markets were first opened the assessment was based on the process of competition and average prices. The markets were helped by falling energy prices, which gave entrants an advantage over incumbents who had committed to higher purchase prices through forward contracts, a trend which reversed from a historically low level of prices in 2002-03. More recently, judgements about well-functioning markets have been made on the basis of outcomes, i.e. what consumers achieve through their responses, as well as the offers available to them. There is also more emphasis, especially since the 2008 financial crisis and subsequent austerity measures, on outcomes for different groups of consumers, with special attention to those who might be considered to be in vulnerable circumstances. So the question of whether a market is functioning well is now more often met with the challenge of 'working well for whom?'

John Mason Should the ...organisation....[help] people to understand better what is going on...?

Kate Morrison spoke about low awareness, and she is of course correct that without awareness, some parts of society cannot engage in the energy market. However many attempts have been made to stimulate switching, with very limited success; even the successful Ofgem collective switch left more than three quarters of the consumers on their more expensive tariffs. Awareness is necessary, but far from sufficient, to ensure widespread participation in the market.

The Convener: How will adding yet another energy company ...affect the Scottish Government's policy approaches?

It is difficult to reach some consumers – including some (but not all) of those who may be classified as fuel poor. Some are actively engaged in their use of energy, for example through careful rationing of their demand, and may be wary of changes which may involve unpredictable changes, when their financial position is very precarious. But one instrument may be collective switching, either of the opt-out type mentioned in my original written evidence; or as trialled by Ofgem, and referred to by Neil Barnes later in the evidence.

Jamie Halcrow Johnson: ...perhaps the focus should be on encouraging those who are not engaged to shop around...?

It is interesting that the proportion who did switch in the Ofgem trials (22.4%) is similar to that which took advantage of Which?'s collective switch, where individual consumers had opted in to the auction, and had needed to provide considerable information upfront.

It seems increasingly important in considering policy in this area to distinguish those consumers who choose not to switch from those who find it difficult to do so for one reason or another – ‘don’t switch’ rather than ‘can’t switch’. A POEC could take a different approach to stimulating different groups from that taken by a purely commercial firm. The Ofgem trials clearly increased switching partly through reducing the costs of searching for a better deal. However some costs clearly remain, and they are likely to vary considerably between different consumers.

Dean Lockhart Other examples where state owned companies have been successful [in addressing fuel poverty]

It is much easier to provide protection for particular groups of consumers where there is monopoly provision, though that requires regulation, which itself imposes costs and challenges. For example in parts of the US where there is monopoly provision, a specific charge is added to bills to allow for lower prices for some groups in need. This is a transparent part of the bill (alongside transportation charges) – effectively an additional tax. Such cross-subsidy is more difficult to impose in competitive markets, and we see from British schemes, such as Warm Home Discount, that they may impose some distortion in the market (for example between companies who are and are not obliged to implement schemes). Where they differ between companies, they may also impose a barrier to switching for consumers who are in vulnerable situations.

Moreover recovery of such costs tends to be regressive, particularly if it is levied on the fixed element of tariffs (acts as a per household charge). But the pattern of energy expenditure, which forms a higher proportion of the incomes of low income households, means that its recovery is regressive however it is recovered through the bill, even if implemented through the energy charge.

Angela Constance Does the panel have views on where the principal accountability should lie?

Parliament seems the obvious place for accountability. I am not sure that Scottish Water is a very relevant model, since it is a large dominant and vertically integrated company, where the POEC seems to be envisaged as a more nimble and flexible entrant.