Energy market liberalisation and fuel poverty in Britain.

Can competitive markets for essential utility services advance socially just outcomes?

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Outline

- *The Great Capitalist Restoration* - in reverse?
- *The British privatized energy market regime* – competition, consumerism and residualized 'social' concerns.
- **'***Fuel Poverty'* – definition; measurement; sources; incidence in UK.
- *Consumer choice & inequality* – winners and losers.
- *Utilities are not like private commodities* – essential social and economic services; common consumption; natural monopoly etc.
- *Alternatives to the neo-liberal vision* – pragmatic policy measures and recovering the idea of a 'public utility

The Great Capitalist Restoration

'Almost certainly, the GCR will founder upon the same endemic social problems that led away from nineteenth century capitalism: macroeconomic instability, ecological destruction, social inequality, and political upheaval.' [Stanfield, 1999]

'The modern financial system is a casino attached to a utility' [Kay, 2009]

Income Inequality in the UK

	Under 60% of Median	Under 40% of Media
1979	14	6
1985	17	8
1990	24	15
1997	24	16
2002	22	14
2007	22	14

‘Fuel Poverty’

A particularly British phenomenon?

Definition *(as applied in Scotland):*

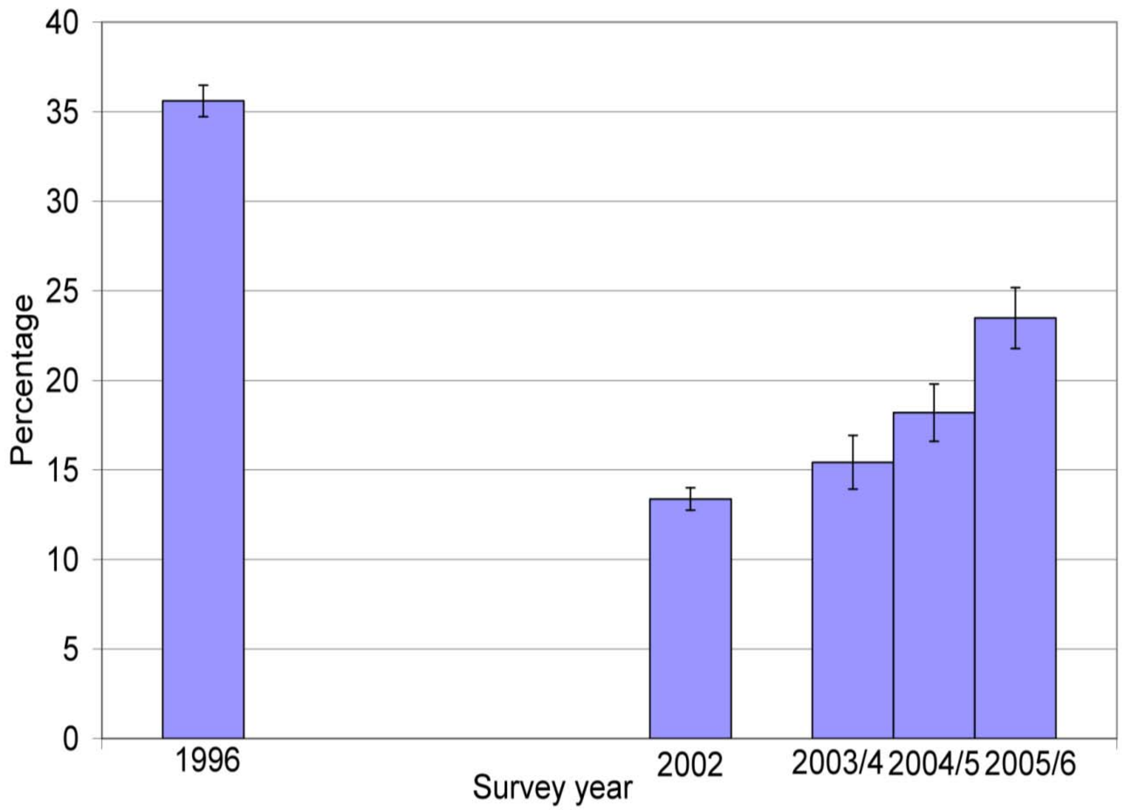
A household is in fuel poverty if, in order to maintain a satisfactory heating regime, it would be required to spend more than 10% of its income (including Housing Benefit or Income Support for Mortgage Interest) on all household fuel use.

Sources*:* a combination of *household income; energy prices; and quantity of energy used — this last determined by size & energy efficiency of house and characteristics of household.*

Extent of Fuel Poverty in Scotland

Most recent 2008 estimate: 850,000 households (29%)

Households in Fuel Poverty 1996-2005/6 (%)



“ Competition is indisputably the most effective means — perhaps ultimately the *only* effective means — of protecting the consumers against market power. Regulation is essentially a means of preventing the worst excesses of monopoly; it is not a substitute for competition. It is a means of ‘holding the fort’ until competition arrives” [Littlechild, 1983]

‘…more an act of faith in markets than a worked out policy…liberalization was very much a stab in the dark.’ [Helm, 2005]

UK Energy Market Regime

Post-privatization:

- Beginning with a regulated monopoly structure the approach set out to achieve a competitive market in supply (late 1990s) – choice of provider for consumers whose rational maximizing behaviour is required to achieve the efficient outcome
- a regime of economic ‘market’ regulation remains with ‘standards of service’ for suppliers as license conditions
- vertical separation with..
  - price capping for the natural monopoly elements of transmission & distribution
  - very expensively established competitive markets in generation & supply
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UK Energy Market Regime

- The approach is based on the separation of a ‘commodity’ of gas or electricity as a private consumer good from the service of its transmission
- A neo-liberal ‘economistic’ approach in which the major goal is ‘efficiency’ - taking consumer price levels as an indicator
- ‘Social’ concerns relating to ‘vulnerable’ consumers a supplementary issue
- Other goals - such as social cohesion, environmental sustainability, if desired, to be pursued by other means
- After 1997 the new Labour government shifted but added emphasis to the regulator’s responsibilities towards the protection of consumers’ interests – esp. those of vulnerable consumers

‘Vulnerable Consumers’

- Vulnerable consumers are defined to include *inter alia* those over 65; the disabled and chronically sick; those on low incomes; and those living in rural areas.
- Numbers are difficult to estimate but are considerable: Thus, for the UK:

  there are 9.1m over 65; 2.5m registered permanently sick or disabled; 13.2m living in households in income poverty; 4.3m with no access to mains gas.

Consumer Choice & Inequality -
The Competitive Market in Action

- From an initial 15 in 1999 the unified gas and electricity market is now dominated by 6 energy suppliers
- It is segmented by geographically, by payment method and in other ways resulting in over 70 different offers facing consumers—price differentials frequently not justified by costs. The average annual cost difference between pre-payment and direct debit customers has risen from #120 in 2004 to #190 in 2008.
- The British level of switching is significantly different from that in other liberalized supply markets - except for Australia

Consumer Choice & Inequality

- Just over 50% of domestic consumers have switched supplier since 2002
- Much more switching is ‘reactive’ (response to salesperson) than ‘proactive’
- Over 80% of ‘reactive switchers’ make no price comparisons in the process
- Switchers are unlikely to end up with the best deal, even in the short-term, indeed it seems that over 20% of switches actually worsen the consumer’s position (Price, 2008)
- Consumers who do not fall into the vulnerable categories—those who are younger, have higher incomes, & more education—are more likely to switch and, amongst switchers, to get the best deals

Consumer Choice & Inequality

Consumer engagement with energy market

	%
Confident deal seekers	16
Unhappy potential switchers	17
Under-confident & nervous	13
Loyalists	25
Disengaged	7
Older – happy as they are	23

(Ipsos/Mori – for OFGEM, July 2008)

Consumer Choice & Inequality

In sum the opening of the competitive market:

- has not significantly reduced the average cost of energy to domestic consumers
- has acted to increase rather than reduce 'fuel poverty' and, thus, raise economic inequality overall

Whilst suppliers' profits remain high, and profit margins differ significantly between different segments of customer, **competition** is, in effect, **between consumers**, and results in a cross-subsidy of the better off by the poorer

The regime reinforces and rewards selfish consumer values and behaviour

Utilities are different from private goods

- Essentialness
- Substitution problems
- Inelasticity of demand
- Natural monopoly (networks at least)
- Assets sunk and long-lived
- Positive & negative externalities
- Complementary to rest of the economy – huge cost of failure

Perhaps best seen as **merit goods** ?

In addition: the issue of **identity** and **social cohesion**

‘When it comes to public utilities the impact of the deregulation movement has been extensive and dramatic. The effective operation of the public utility sector is a matter of no small import to all citizens. These are, after all, infrastructure industries that constitute a foundation and provide the intra- and inter-group linkages that bind together a society. They underlie, facilitate and shape economic and social association. They importantly influence the business and social undergirding of a society.’ [Miller, 2004]

Illustrated by the case of electricity supply in the North of Scotland

Tackling Fuel Poverty

Specific policies:

Already introduced:

- subsidy of energy efficiency measures – limitations [G Brown initiative 2008]
- ‘income maximization’
- tariff advice
- ‘social tariffs’

Further possibilities:

- offering the first three as a targeted package

Enhanced regulation:

- *relative price regulation* to eliminate major price discrimination between consumers
- regulated standards for 'social tariffs'
- further license requirements relating to energy efficiency measures and other services provided by suppliers – esp. to vulnerable consumers

This last set moves us towards a more social form of regulation – and of frame of reference for the domestic energy market

Alternatives to the neo-liberal vision

- Blurring the **public/private boundaries** – firms with concerns that extend beyond shareholder value eg. social tariffs
- Regulation & ‘self regulation’ [Kay]
- Recovering the idea of a **public utility** as a basis for the behaviour of all actors in the energy sector
- The the concept of a **citizens right** to access essential utility services [Ernst, 1994]

Socializing the energy market

Privatization in Britain put the gas and electricity industries into private corporate hands with accountability either to a public regulator or to consumers in competitive markets. This entrusted the achievement of significant public purposes to private business.

But:

- the regulatory contract can never be 'complete';
- market competition cannot work as in the model;
- gas and electricity are, in effect, merit goods characterized as much by collective as individual consumption – that is they should be seen as *public utilities.*

Might we be at a point of shift in Hirschman’s ‘shifting involvements’?

Risks and threats raise the level of concern for ‘**security of supply’** - of energy and other essentials - for nations and for individuals; for **environmental sustainability.**

Ownership itself may not be the issue.

What is required is both a socialization of regulation and of the companies themselves – they may legitimate their powerful market positions through internalizing the wider social goals and responsibilities involved in the provision of an essential service. And a reinforcement of the social value of public utilities as an influence onthe attiudes and behaviourthe consumer/citizen.

Services of all kinds are best delivered by those who care about the quality of the service they provide.

Something closer to recognizing affordable access to essential energy services as a right of citizenship may be approachable through a more socially embedded form of public-private cooperation.

However, It is difficult to see a competitive market for domestic energy supply as a part of that arrangement.