

Title: Privatised Utilities and the Public Purpose: Some Issues in the UK Energy Sector

Author: Alan Hutton, Caledonian Business School, Glasgow Caledonian University

ABSTRACT

The blueprint for the privatisation, regulation and liberalisation of the publicly owned utilities in the UK was set out in a 1983 article by Beesley and Littlechild. Their approach is founded on the individualist calculus of value which characterises utilitarian welfare economics in which the individual consumer is the only ultimate judge of her own welfare and the social good lies in the maximisation of the sum of consumer welfare¹ efficiency¹ in its various senses. The main purpose of public policy must be to set a competitive market framework with minimum regulation of natural monopoly elements where adequate competition is not possible (eg in cases of natural monopoly). Other forms of market failure must be tackled within separate realms of policy.

This approach proved highly influential on the policy of the pre-1997 Conservative governments. Perhaps more surprisingly it continues to underpin present policy as reflected in the Competition Act 1999 and the Utilities Act 2000.

The much amended Utilities Act relates largely to the energy sector (perhaps the most straightforward case by which to test the policy framework). This paper, therefore, questions the idea of public purpose embodied in the present policy approach through an examination of issues that arise in the gas and electricity industries, including fuel poverty, environmental sustainability and transactions costs.

In a brief consideration of alternative policy approaches we ask whether-as has happened in other policy areas (devolved government in Scotland offers a context for the evolution of a different approach).