

Inglaterra - Erros e Acertos no Modelo da Privatização

VIII Seminário PROTESTE de Defesa do Consumidor
INTERNACIONAL Desafios e Perspectivas: energia
elétrica acessível, segura e sustentável
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The UK reforms

- 1990: Privatisation, wholesale market, retail competition for very large users
- 1994: Retail competition for medium consumers
- 1998: Retail competition for small consumers
- 2001: New wholesale market. Cost to consumers US\$2bn
- 2003: After many takeovers, 6 generator/retailers emerge
- 2010: Regulator says the wholesale market will not work

Prices

- 1990-2003: Prices down by 30%. Not due to competition
- In 2003, 1.6m consumers suffer 'fuel poverty' – spend more than 10% of their income on electricity and gas
- 2004-2008: Prices up 95%
- 2009-2010: Prices down <10%
- 5-6m consumers suffer fuel poverty

Ofgem's Project Discovery



- Feb 2010: 'The unprecedented combination of the global financial crisis, tough environmental targets, increasing gas import dependency and the closure of ageing power stations has combined to cast reasonable doubt over whether the current energy arrangements will deliver secure and sustainable energy supplies. There is an increasing consensus that leaving the present system of market arrangements and other incentives unchanged is not an option.'
- Ed Miliband (Energy Minister, Feb 2010): The Neta system in which electricity is traded via contracts between buyers and sellers or power exchanges, does not give sufficient guarantees to developers of wind turbines and nuclear plants. We are going to need a more interventionist energy policy to deliver the low-carbon investment we need

Key Issues

Project initiated by Ofgem in 2009. It identified five key issues:

- Need for unprecedented levels of investment to be sustained over many years in difficult financial conditions & against a background of increased risk & uncertainty.
- Uncertainty in future carbon prices is likely to delay or deter investment in low carbon technology & lead to greater decarbonisation costs in the future
- Short term price signals at times of system stress do not fully reflect the value that customers place on supply security which may mean that the incentives to make additional peak energy supplies available and to invest in peaking capacity are not strong enough.
- Interdependence with international markets exposes GB to a range of additional risks that may undermine GB security of supply.
- The higher cost of gas and electricity may mean that increasing numbers of consumers are not able to afford adequate levels of energy to meet their requirements & that the competitiveness of industry and business is affected

Ofgem's options

- Option 1 - Targeted reforms: Sets minimum carbon price to make renewables and nuclear more attractive
- Option 2 - Enhanced obligations: As 1 but energy retailers must buy needs for 3-5 years forward
- Option 3 - Renewable tenders: As 2 but government holds auctions for new renewable capacity
- Option 4 - Capacity tenders: As 3 but all capacity by auction
- Option 5 - Single buyer buys all electricity needs

Has UK model failed? Retail markets

- Retail competition bad for household consumers: forces small consumers to compete with large consumers to buy electricity
- In practice, the Big 6 use household consumers to underwrite new power plants as small consumers do not switch often
- Large consumers change supplier (or renegotiate) every year so Big 6 buy from the 'market' to supply them
- Losing large consumers in the short term costs little so no incentive for the Big 6 to try to retain large consumers
- If the market is in surplus and wholesale prices low, large consumers do well, if there is a shortage, they do badly

Has UK model failed? Payment methods



- Consumers can pay by 4 methods: Pre-payment meters (PPM); standard credit, every 3 months; monthly direct debit; direct debit on-line (paperless)
- Pre-payment and standard credit up to 25% more expensive than on-line direct debit. No evidence that price difference is based on cost differences
- From 1992, consumers with debt had to move to PPMs
- Some of the money they paid goes to pay off debt
- Consumers then could not choose supplier
- Regulator said cost for PPMs should be no more than 5% more than normal tariffs

Pre-payment meters

- From 1998, consumers able to choose and price differences increased rapidly
- Companies claim PPMs cost more
- But: companies paid in advance; no bills needed; no meter-reading needed; no debt is possible

Pre-payment meters

- If consumers cannot afford power, they disconnect themselves but nobody knows this, so social problem covered up
- Consumers like PPMs because they know they can only use what they can afford. It is difficult to switch if you have debt
- Companies exploit PPM consumers as they are vulnerable, and don't have the ability, skills or confidence to switch
- PPMs in a regulated monopoly may have a place if enough safeguards are included, but in a market, they lead to exploitation of weak, vulnerable consumers

Smart meters

- Pressure to introduce smart meters. Who wants a dumb meter?
- European Commission requires smart meters to be installed by 2018 unless Member States show the business case is weak
- Ofgem will review the UK business case in June
- Smart meters measure consumption every 30 minutes and transmit data to a central data point
- In competitive market, wholesale price changes every 30 mins

Smart meters

- So useful to know how much each consumer uses every 30 mins so retailers can be billed for power they supply
- Meters not expensive but data link to central data point needed & large IT requirement – 18000 readings per consumer a year
- Only justified if ‘time-of-day’ pricing introduced - consumer prices change with the wholesale price
- Time-of-day pricing encourages consumers to reduce demand if the gap between supply and demand is small

Smart meters

- Demand can be postponed or reduced
- Times when prices high cannot be known in advance: if consumers know in advance, the demand peak will just be moved by 30 mins
- Highest prices when demand highest - when consumers need power most

Smart meters

- Only effective if prices high. If cost of energy is 20c/kWh instead of 10c/kWh would you miss your favourite TV programme or delay your dinner?
- Greatest response will be from the most price sensitive consumers: low income and vulnerable consumers
- What will be the social cost if the most vulnerable consumers are too scared to use power when they need it most?

Large consumers

- Large consumers get cheap power however industry organised
- In a full monopoly, large consumers exert political pressure to get low prices – if we don't get low prices we will leave. In South Africa, aluminium smelters get power at less than \$10/MWh, a tenth of the cost small consumers pay
- In UK, when large consumers could choose & small consumers could not retailers allocated all their cheap power to large consumers & all their expensive power to small consumers
- In Brazil, aluminium smelters pay 20% of the real cost of power
- Aluminium smelting consumes huge amounts of electricity, but adds little to GDP and employs few people

Conclusions: Project Discovery

- Single buyer only credible option. Allows security of supply, environmental objectives, strategic purchasing
- But has serious dangers if SB is not consumer focused and determined to provide secure, 'clean' energy at the lowest possible price
- If SB is lazy and buys power on long-term cost-plus contracts, prices will be high

Conclusions: Project Discovery

- If SB is dominated by government, it will be a tool for eccentric government policies
- How to prevent large consumers getting unfairly low prices?
- But if Ofgem does not acknowledge failing of retail competition, market structure, regulation as well as wholesale competition, new structure will not solve the problems

Liberalisation & small consumers

- Small consumers do badly from liberalisation
- Companies give best price to consumers that negotiate hardest
- ‘Loyal’ consumers are exploited
- Pre-payment meters very dangerous in a competitive market
- Smart meters very dangerous in a competitive market