



## Parting shot

**Generally, businesses are not keen on encouraging customers to cut consumption of their product, governments are not (at least openly) keen on subsidising goods that cause pollution, and no-one is keen on wasting money. Yet all these things have happened in recent years in the energy market.**



Of course, these statements must be qualified, but there do seem to have been some dubious decisions made.

To take the first, the government decided some years ago to implement the smart meter programme through suppliers (companies like EDF and E.ON) rather than the transformer and wire owning distributors (like UK Power Networks and Western Power Distribution).

The information from smart meters has two clear purposes: for consumers to observe their consumption and possibly reduce it (potentially contrary to suppliers' sales interests) and for distributors to understand more about the loads in local areas so as to optimise the equipment used to bring electricity to our homes.

In other words, the direct incentives to install smart meters go not to suppliers but to distributors.

It is only recently that suppliers such as Octopus have recognised potential in making offers to consumers that reduce the costs the suppliers pay for electricity, by targeting particular times of day. This has the potential to increase incentives for suppliers to install smart meters, but only for electricity – for gas it is difficult to see where the incentives lie.

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On the second statement, the Government has naturally decided temporarily to subsidise consumers' electricity and gas bills in the light of the large price increases resulting from the conflict between Russia and Ukraine.

But consumers' bills are made up of two elements. One is the unit cost of electricity and gas, the other is the standing charge for taking supply. Both elements have risen over the past year or so. The subsidy has been applied to the unit cost, but not to the standing charge.

This has two negative impacts: It subsidises the cost of consuming fuel (much of which comes from fossil fuel resources) and its impact is regressive, in that it subsidises the rich to a greater extent than the poor, who still need to pay the standing charge even if they consume very little.

In most European countries, large fuel savings have been achieved through coordinated campaigns in a way not seen in Britain. In fairness, it should be noted that the agencies in charge of implementing policies in Britain were given very little notice of Government policy decisions, so were not able to fine-tune the precise responses that a more measured pace would have allowed.

As to our final statement, of course in normal times we had a choice, and an incentive, to shop around amongst suppliers for the best energy deal. But recently, for a variety of reasons, many consumers have been reluctant to do so.

More worryingly, there is evidence that, at least in the early stages of switching, around a quarter of consumers actually switched to a worse deal, whether through miss-selling or because the decision was simply too complex. In other words, they wasted money.

Last year, with the collapse of over 20 supply companies and various Government policy initiatives in place, the chance of saving money shrivelled away anyway. Perhaps default tariffs are here to stay, relieving the harried and confused of one decision too many. ◀

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