

The politics of the energy market

Despite the recession, and snowy weather, Britons will spend an estimated £3.2 billion in the next few weeks on the nation's favourite seasonal pastime: sales shopping. I have already gleefully supplemented my wardrobe with a long-coveted pair of new shoes.

I also recently paid my energy bill, which predictably gave me somewhat less pleasure. Apart from the obvious act of parting with my hard earned cash, these two experiences felt like they had almost nothing in common. Perhaps this is one of the reasons we don't tend to think of energy as a consumer industry, similar to, say, the retail market for electronics or designer clothes.

This was in fact the defence used by industry group Energy UK recently when the annual Consumer Focus customer satisfaction survey rated them the least popular market for the second year running. "Having gas and electricity supplied to your home is not comparable to buying books, DVDs and video games" says Energy UK.

Indeed it is not. The primary job of energy companies, as they often remind us, is to keep the country warm and the lights on. In the last year or so, as Britain has signed up to international targets for emissions reductions, this duty has been supplemented by the leading role the energy industry is expected to play in decarbonising our economy. Only a herculean effort and massive investment in new generation, renewables and energy efficiency over the next few years will allow the UK to catch up with our greener, cleaner European counterparts. But where is the consumer in all this?

Feeling pretty ticked off if the Consumer Focus poll is to be believed. In 2008 the attention of the media and the public was caught by the vocal and persistent campaigns by climate change activists against plans for new generation by the Big Six energy suppliers. Last year the papers and consumer groups vehemently protested against high and rising energy prices, a situation described by the Independent as 'the Great Energy Rip Off'.

To their credit, while not pledging to drop prices (on the grounds that cutting carbon is a cost to be fairly borne by the consumer as well as themselves), energy companies do appear to be taking a more pro-active approach to customer relations. In November, in a prominent and expensive PR exercise, Phil Bentley of British Gas personally fronted a pledge that the company would scrap estimated billing because 'customers hate it'. In a sector long used to communicating primarily through trade organisations, the strategy stood out to industry savants as a deliberate move away from the pack toward a more populist approach. Energy UK has pledged that the industry will be working with consumer groups to ease some of the dissatisfaction, and a number of other suppliers are also planning new consumer facing activities in the New Year, focusing less on new power stations and more on social responsibility and client service.

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Apart from the obvious aspiration for customer approval, even in such a tight market as UK energy, one might question why the industry has chosen this moment to ramp up its customer facing activities and move away from the vital new generation it resolutely prioritised last year. The answer may be partly due to the need to create a goodwill buffer against further price rises. But given the fundamental role of energy companies in providing essential services and decarbonising the economy, and the perceived weakness of the regulator to bring down prices, the strategy is still somewhat opaque.

That is, until the political context is taken into account. A new domestic and international priority has been placed on energy and climate change and both major political parties have fought hard to establish themselves as leading the charge. The Government's less than impressive track record has proved fertile ground for political point scoring: if the lights go out, say the Tories, if our distribution networks are crumbling, if we are one of the least energy efficient nations in the EU, well that's twelve years of dithering and delays by Labour for you.

In contrast, they are selling an ambitious blue-green vision for UK Plc. This includes not only cleaner generation, new networks, better energy efficiency and the like, but also potentially a radical market restructuring and the threat of investigation by the Competition Commission should the energy industry prove unable to put its own house in order. Labour has of course questioned the authenticity of the Tories' green credentials and, with an election now imminent, both parties will be working hard to convince the media and the voters of their real commitment to the issues.

The electoral benefits of a hard line on prices, pollution and market reform will hardly have escaped the Conservatives, given the very public dissatisfaction with the energy industry currently expressed by consumers and the press. Whether the Conservatives mean to carry out their threats, or whether these tactics are intended merely to shake the market into curing its own ills – a more characteristically Conservative approach to be sure – one thing remains clear: until the energy companies make peace with the public, progress in Westminster will remain slow.

It seems that, in more ways than one, power really does rest with the people and the energy suppliers would be wise not to forget that customers are also voters. That said, a keen observer may have noticed a clause in the new Energy Bill currently progressing through Parliament adding 'the interests of consumers' to the statutory considerations Ofgem must make in performing its regulatory functions. Twenty years after the privatisation of the market this may go some way to explaining why I enjoy buying shoes more than paying my energy bill.

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