

A Postcode Lottery? Regional Variations in Electricity Prices for Inactive Consumers

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KEYWORDS: energy market, electricity prices, regional differences, inactive consumers, switching

BACKGROUND

- The variation in prices between consumers who do, and do not, switch energy supplier has received considerable policy and political attention
- Ultimately concern about the fairness of the variations between active and inactive consumers resulted in legislation capping the price of default tariffs in the energy market from early 2019
- Only limited attention has been given to the fact that inactive consumers (non-switchers) pay different prices according to their geographic location

METHODOLOGY

- A unique time series of the electricity bills charged by the regional electricity incumbent for 3,300kWh of electricity via their Standard Credit Tariff (SCT) in the 14 electricity regions in Great Britain was constructed for the period 1970 to 2016
- This time series harnessed data collected at the University of Warwick; data from price sheets produced by Which?, energywatch and Consumer Focus; and more recent data from Cornwall Insight
- Data from a 2011 consumer survey was used to identify persistently inactive consumers in two ways: (i) those reporting that they had never switched energy supplier, and (ii) those reporting that their current supplier was the regional incumbent
- Logit regressions were used to identify the characteristics of households who were likely to be persistently inactive and facing the regional variations in SCTs identified in the time series

KEY FINDINGS

- There are noticeable variations in regional electricity bills, peaking at around a third of the national average bill in the 1970s
- While all regions follow the broad overall time trend, the identity of the cheapest and most expensive regions has varied through time
- Across the period as a whole prices have tended to be highest in South West England and South Wales, while generally the lowest in the North of Scotland
- Averaged across the period 1970 to 2016, customers in South Wales paid on average £49 (in 2016 prices) per annum more than customers in the North of Scotland
- The regression analysis identifies household characteristics including renting from a private landlord, not having a gas connection and having lower electricity expenditures as being associated with a higher probability of a household reporting never switching
- Around a third of respondents (with the required data) were found to have apparently inconsistent results between the two methods used to identify persistent inactivity

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POLICY ISSUES

- Policymakers should be aware that there are variations in the electricity prices paid by different inactive consumers, in addition to the variations between active and inactive consumers
- Regional price variations were greatest when the electricity industry was nationalised in the 1970s
- The regional price variations are at least partially explained by regional variations in costs
- The inconsistency of the two ways to identify persistent inactivity in our survey raises questions about the feasibility of reliably identifying persistent non-switching using survey data alone

SUGGESTED CITATION

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