

## Ofgem's Consultation on the Undue Discrimination Prohibition standard licence condition

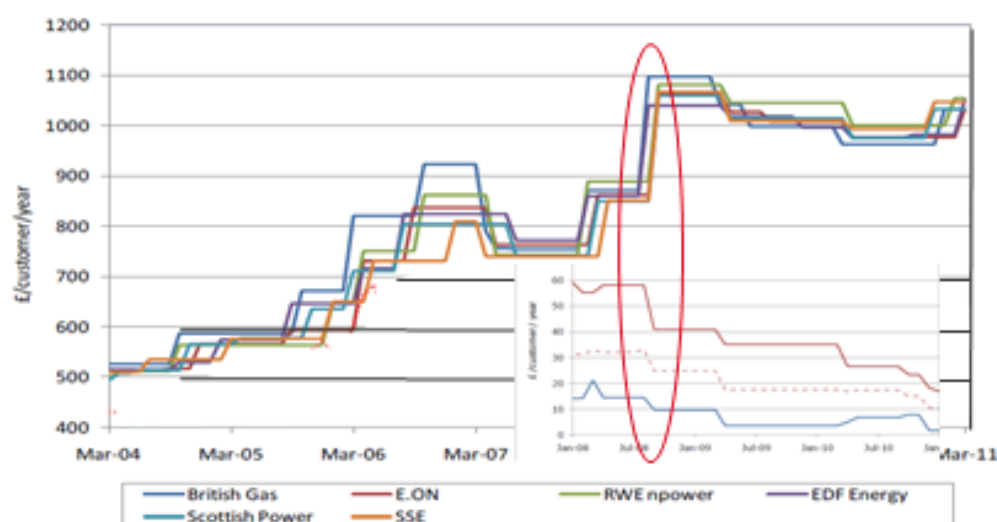
Response from Professor Richard Green, Imperial College Business School

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A number of commentators have suggested that the undue discrimination prohibition may have persuaded incumbent suppliers, not to be more competitive inside their home areas, but to be less competitive elsewhere. That could then lead to a general increase in prices.

I would like to draw your attention to the possibility of juxtaposing two graphs that have previously been published by Ofgem – one shows the average dual fuel prices for the big six incumbent firms, and the other shows the difference between “in area” and “out of area” tariffs, adjusted for network charges. The original graphs have different scales for both time and money. It is possible, however, to make the date scales compatible and align them. Doing so reveals a large increase in the level of the average bill at almost exactly the same time that companies started to reduce their cross-region differences. I am conscious that costs were increasing during this period, and that more sophisticated analysis would be required to investigate all the effects of the Prohibition. Furthermore, the formal Prohibition did not come into effect until after the cross-region differences had fallen significantly. However, an instinctive reaction to the pattern in the graphs is that the policy may have had some unintended consequences...

### Dual Fuel bills and (inset) cross-region differences



*National Average Dual Fuel Bills, and (inset) the difference between in and out of area bills Source: Ofgem*

I hope that Ofgem's desire to protect consumers by having simple tariffs will not, in due course, make it harder to exploit the benefits of smart metering by introducing cost-reflective tariffs which will inevitably appear somewhat complex.

Richard Green, 10 April 2012