

Extent should the uk  
government regulate  
the energy industry  
assignment



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To what extent should the UK government regulate the energy industry BY enmeshment Evaluate the extent to which the government should regulate the energy industry. (30) Government regulation is when they impose a wide range of laws and regulations to influence the way the market works. The current regulator of the ELK energy industry is BEFOG, and they are currently investigating into all of the big 6 energy suppliers that dominate the UK market. The main reason behind government intervention is to reduce or prevent market failure.

Market failure is defined as the failure to allocate resources efficiently. The UK energy market is said to be failing because of the Of the suppliers monopoly power. This allows them to exploit the UK customers as they have no other choice but to stay with the big 6 because of the lack of competition, there is also strong evidence that they are also colluding on the price of their service. Evidence c shows that Manpower price for gas rose by 8.8% and 9.2% for electricity, this huge increase in price alongside with the 25% rise in profits shows their clear ability to exploit their consumers.

If the government were to increase regulation of the energy industry there would be both positive and negative effects. The main positive of enforcing stricter regulations within the energy market would be to prevent the market failure. This would be highly positive for the consumer as it means that the resources would be allocated efficiently. Also as the government would have a more influential role within the market, and could allow them to reduce the negative externalities within energy production.

A negative externality is defined as a negative effect on a third party either through the production or consumption of a good or service. This increase in regulation would allow the government to enforce the providers to reduce their carbon emissions that they release whilst producing the energy. This would benefit the whole of the UK as it would mean there would be less pollution in the air, so helping reduce the rate of global warming. This would be seen as a large positive and would put the UK government in a good light as they are trying to reduce carbon emissions.

This regulation of decreasing the amount of pollution created could also help the organizations within the energy markets become more efficient. This could mean that the companies could reduce the price they can charge for gas and electric but still make the same amount of profit, therefore making them have a competitive advantage. The decreasing amount of pollution within the UK would also help create cleaner air. Therefore less people should be affected with respiratory problems as the air is less harmful, so as there are less people being affected then the NHS will have less strain on their resources.

Therefore they can spend the excess money on other areas such as cancer research, which will contribute to creating a healthier working population and help the country becoming more productive. Another benefit of an increase of government regulation within the energy market would be that it would mean the organizations would likely have to reduce their prices. This is due to the regulators finding out that they are charging over the top prices to make the most profit possible. Evidence H supports this theory of them

overcharging as 5. Million households are now in debt to their energy  
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companies, along with this evidence C, Manpower increased profits of 25%. This shows that they would still have made a huge profit even if they were not to have raised their prices. If the government were to expand their regulation they would really realize what extent to which the consumers are being exploited by using their monopoly power, as they know the demand won't change even if the price goes up due to it being inelastic.

If the energy companies were to reduce their prices so they were to make a smaller profit they would help stimulate growth in the UK economy. As the consumer would have a larger disposable income, so they have more money to spend in their local economy. This would mean that the government would claim more in taxes as more businesses are making Geiger amounts of profit. This means the government would have more money to invest in the country, to prevent market failure in other markets. This is known as the multiplier effect, and helps local economies grow cleaner and less stress on the NHS.

Another positive of the government increasing regulation is it could allow other businesses to enter the market by reducing the barriers to entry, thus allowing them to compete against the big 6 as they are on a level playing field. This would then increase competition in the energy markets, so consumers have more choice. Also if there are more businesses then the government would collect more revenue from corporation tax. Therefore boosting the country's economy, this would also reduce the exploitation of consumers because the big 6 can't collude and charge high prices as they would lose their customers to the smaller cheaper gas providers.

However there are also negatives of the government increasing regulation within the energy market. If they were to reduce the amount of profits the big 6 gain would mean they will have less money to invest and improve the industry. This means that it will take longer for the industry to come more efficient and CEO-friendly. This will have a negative effect on the whole country, as we will be producing more carbon emissions and this could put us in a bad light and could prevent countries investing in our country.

These views could also bring other businesses to our country for the wrong reasons, as they believe that they can pollute as much as they want and not be punished. Another negative that could come from increased regulation could lead to the energy companies having to cut the amount of people they employ as they can no longer afford it because they are now making a lower amount of profit. Therefore have to reduce their outflows and make their staff more specialized and productive. This would have a negative effect on the economy as they would be claiming less money in income tax and likely to be paying out more in benefits.

This could drive us further into the recession. Also if they make the regulation too strong and unprofitable the energy suppliers, who are mostly foreign owned, could just leave, creating a shortage of energy, causing the price to inflate massively due to the uncertainty. However if the government weren't to increase the regulation in the energy market the big 6 would continue to exploit the British consumers by charging ridiculous prices. This would leave us in an even worse situation as they are just crippling the population so they don't have any disposable income to spend in their local economy.

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If they don't change the way they regulate the market no new businesses will enter the market and make it more competitive, so their high prices will continue, so limiting economic growth within the UK. On the other hand, OF-GEM have only just been given the powers to investigate and properly punish the companies' wrong-doing. As rebelliously they could only give fines of £1. This meant the energy providers didn't care if they were caught as the fines were so low they just didn't see the point of following the laws. Now they can enforce satisfactory fines and punishments, hopefully this will help prevent this from happening in the future.

BEFOG are currently investigating into all of the big 6 for illegal activity of forming cartels to raise the price and exploit the British consumers. So overall after looking at the positives and the negatives within the UK energy market, I believe the country would benefit the most if they were to increase regulations as they would make the big 6 reduce their prices, therefore people will have more disposable income which would help bring the country out of recession as people will spend more in their local economy.

However if they over regulate the industry to the extent where it becomes unprofitable, forcing businesses to leave the UK creating an unstable market and a shortage of energy production would have a detrimental effect on the UK. So it's all about finding a happy medium of regulation that complies with both sides, so the consumer receive a lower bill, but the providers can still make a profit.