

Consumer Choice Cultivates Competition

By

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January 2017



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Consumer choice cultivates competition. This fundamental principle is demonstrated by recent developments in the electricity market. Electricity is important to residential consumers and business consumers (“consumers”) alike. It touches almost all aspects of Jamaican lives. Simple household chores would become mammoth tasks without the aid of washing machines, electric irons and vacuum cleaners. Appliances such as air conditioning units and television sets which provide us with comfort and entertainment would no longer function. Businesses need electricity to provide goods and services to their customers. With the high reliance on electricity and very little alternative to the only public power company, JPS Co; consumers have a dire need for choices.

Is there scope for competition in today’s electricity sector?

Consumer choice is the foundation of competitive markets. Consumer choice provides businesses with adequate incentives to supply goods and services at affordable prices. This is true even for the electricity market where JPS Co holds an exclusive licence to supply electricity to the public. Despite the exclusive license to supply electricity, consumers can choose to generate electricity for own use. To generate own electricity, consumers install renewable energy systems which convert renewable energy to electricity; most systems convert either wind energy or sunlight. These energy sources, however, are available only intermittently during a 24-hour period. Consequently, the supply of electricity from renewable energy sources is interrupted whenever the energy source is unavailable. Until recently, generating own electricity was not a viable option for most consumers because of the associated relatively high costs of securing an uninterrupted supply. Consumers had to use expensive batteries in conjunction with the systems to maintain a steady supply of electricity. Batteries store the electricity that is generated but not consumed immediately then return this “stored electricity” during periods when the renewable energy is unavailable to generate electricity. Therefore, the necessity of batteries to enable an uninterrupted supply of electricity from renewable energy systems made these systems an inferior alternative to JPS Co.

In the absence of a close alternative to JPS Co, it appears the only path to introducing competition in the electricity sector is to revoke the JPS’ exclusive licence so that the market may be opened to multiple providers. With the recent implementation of the net-billing programme, however, generating one’s electricity is now a viable choice for consumers. Under this programme, the JPS Co grants access to its electricity grid so that consumers who generate electricity from renewable energy sources may sell it to the power company. This access also allows system owners to purchase electricity from JPS Co when their systems are not generating. With this arrangement, system owners enjoy an uninterrupted supply of electricity without the use of batteries and consequently avoid the high cost associated with batteries.

The net-billing programme represents a first step to introducing competition in the electricity market by widening consumer choices. Without choices available to consumers, power supply companies will most likely operate inefficiently. This was confirmed by a study conducted by

the Jamaica Productivity Centre which demonstrates that Jamaica produces electricity less efficiently than other countries in the Caribbean and Latin American region. Additionally, Jamaica has one of the highest electricity prices in the region. This has implications for local businesses since high electricity prices diminish their competitiveness both locally and abroad. Residential consumers are also adversely affected by high electricity bills since they have less income available to satisfy other needs. The net-billing programme provides JPS Co with a credible threat of a decline in demand. The prospect of a decline in demand will likely provide the public power company with adequate incentives to use scarce resources more efficiently and pass on the savings to consumers.

Generating one's electricity under the net-billing programme provides consumers with an alternative to JPS Co; the choice set to consumers, however, can be expanded. For instance, the ability of consumers to send electricity to the grid could be extended to any public power company. These power companies could then sell directly to consumers, providing more choices for consumers and ultimately increasing the level of competition in the electricity market. The main consideration for increasing the number of power companies as a means of expanding the choice set for consumers will be further explored in subsequent articles.

Note: This article was first published in the Gleaner on Wednesday, February 1, 2017.