

08 February 2007

## **ENERGY COMPANIES HAVE A CHOICE: CUT PRICES OR LOSE CUSTOMERS**

Responding to today's announcement of energy price cuts by British Gas, Ofgem's Chief Executive Alistair Buchanan said: "British Gas has today fired the first shot in what Ofgem expects will be the start of another battle for customers. Their price cut demonstrates just how valuable customers are in the competitive retail market.

"Over four million customers changed energy supplier last year and companies know they have to offer customers a good deal to compete effectively in the market. The heat is now on British Gas' rivals who will have to consider how to respond to this price cut.

"On one of the coldest days in the year we particularly welcome British Gas' laudable moves to help low income and other vulnerable customers.

"Today's announcement means that domestic customers will start to enjoy the benefits of lower prices after a difficult period of high prices. Ofgem has sought to provide reliable information for consumers about how the market works and today's price drop provides further evidence and confidence that it does."

British Gas' price cut follows falls in wholesale gas prices as the result of Britain's competitive energy market attracting over £10 billion of investment in new gas import projects which have started to come on stream this year.

**ends**

### **Notes to Editors**

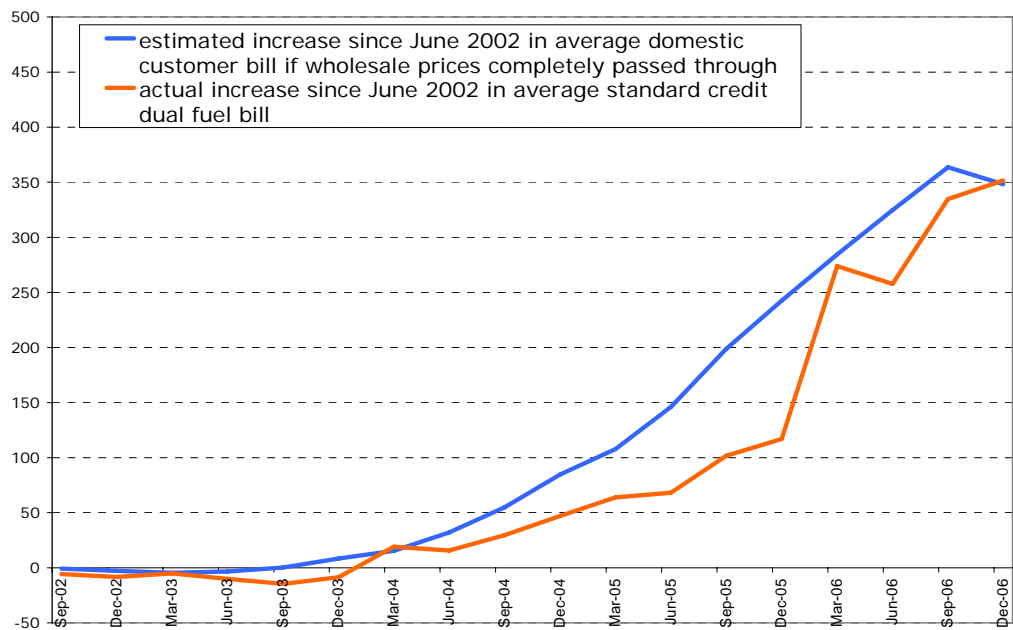
#### **1) Time lag between wholesale and retail markets**

Energy suppliers buy much of their gas and electricity for domestic customers in advance. This helps them to deliver security of supply and means that domestic prices do not track movements in the price of gas from day to day. This allowed suppliers to delay putting up prices when wholesale gas prices began to increase.

It is a myth that companies were swift to increase prices and slow to cut them in line with wholesale price changes. Wholesale prices started increasing sharply in June 2003 but it wasn't until June 2004 that

customers saw the effects. Since then, energy companies have continued to fight to hold onto or gain customers by absorbing substantial amounts of the wholesale cost increases they were incurring. One analyst report – unchallenged - showed that all but one of the companies made a loss in their retail businesses last year.

The chart below shows how retail price increases have been smaller than might have been expected given the impact of wholesale price increases on suppliers' energy costs. On average, customers have saved approximately £572 through this delay in passing through wholesale costs.



2) Ofgem is the Office of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority, the regulator of the gas and electricity industries in Great Britain. Ofgem's aim is to bring choice and value to all gas and electricity customers by promoting competition and regulating monopolies. The Authority's powers are provided for under the Gas Act 1986, the Electricity Act 1989 and the Utilities Act 2000.

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