

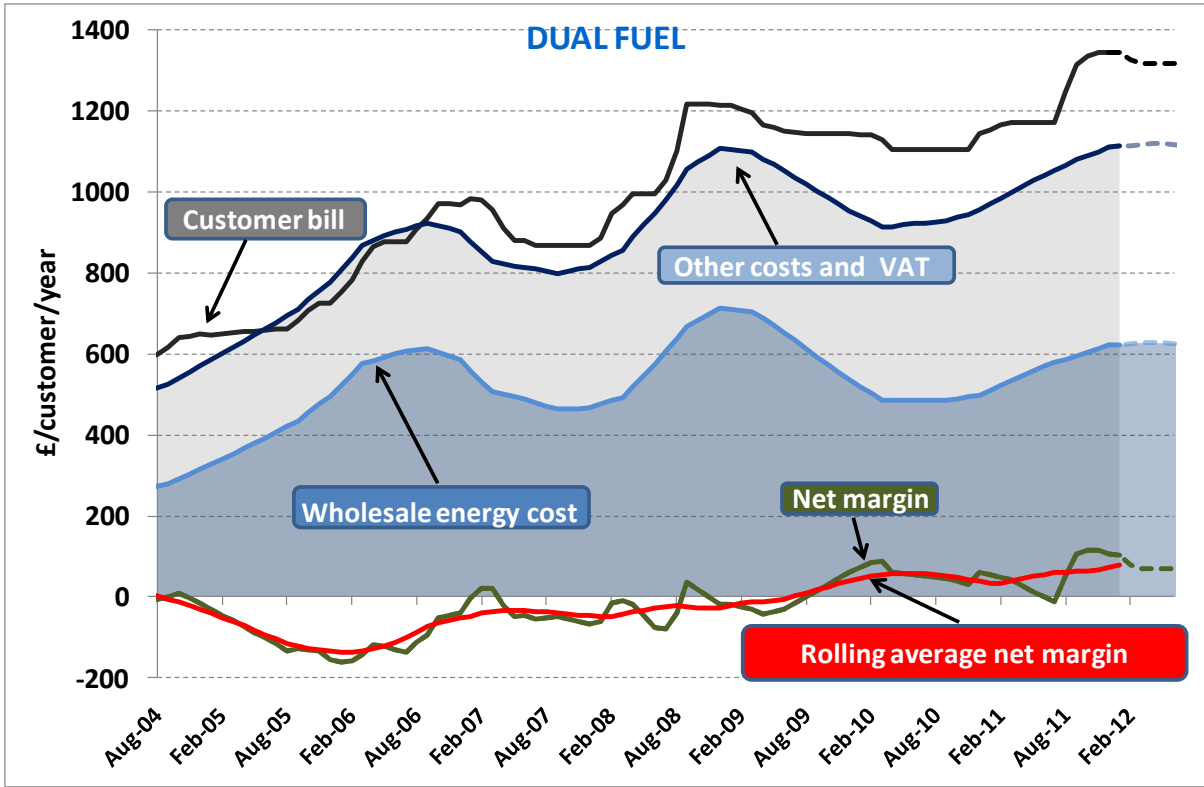
Overview

Ofgem produces regular snapshot estimates of the net margin on supplying a typical, standard tariff, dual fuel customer. Previously these estimates were provided in a quarterly Supply Market Report. However we will move towards updating this information on a weekly basis via our website, and will begin the process of making this change following publication of this report.

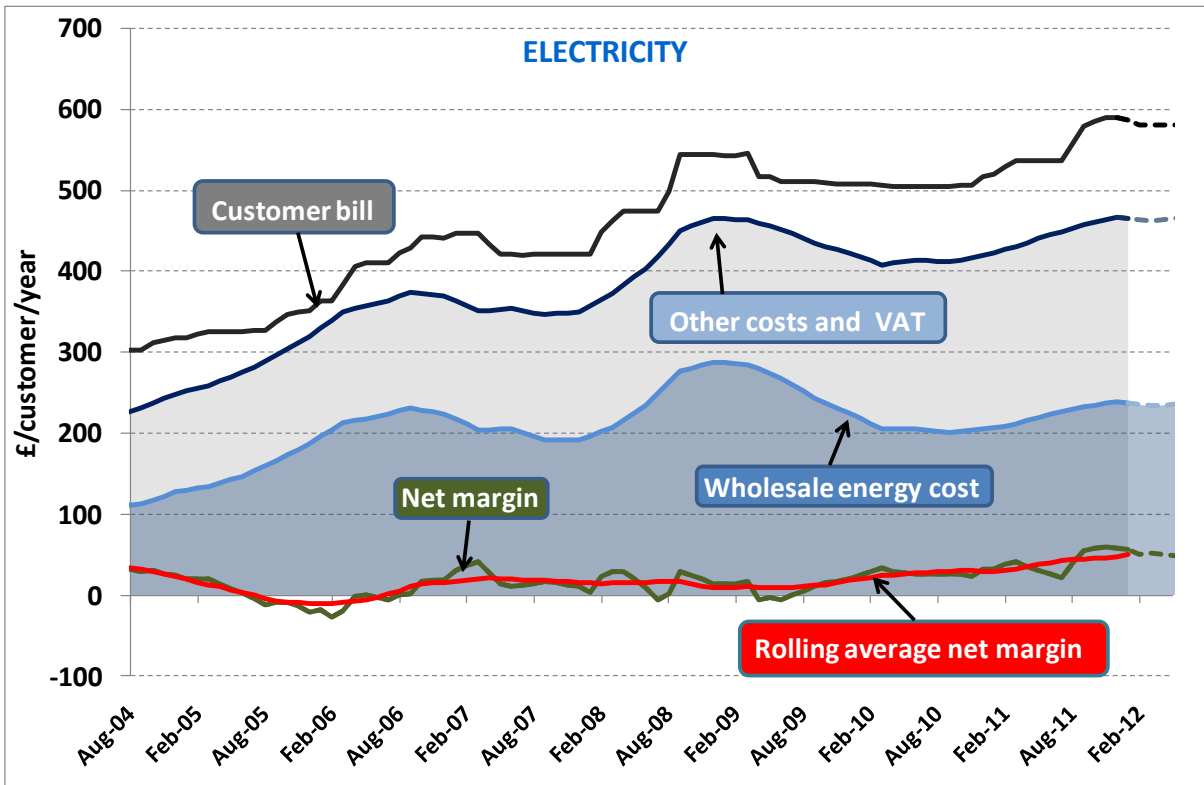
Our latest calculations show that the net margin for a typical, standard tariff dual fuel customer is approximately £100 per customer for the year from January 2011. This represents a £5 reduction from our previous quarterly report in December 2011. We expect this margin to fall further to around £70 over the next six months, partly as the recently announced electricity and gas price cuts from the 'Big 6' take effect. However there are many uncertainties, not least wholesale prices, which could affect this figure. The 12 month rolling average net margin is £80, which is an average of the previous 6 months, the current month, and the next 6 months' net margin data. A detailed description of the rolling average net margin indicator can be found in our method statement.

British Gas announced a 5% cut on the price of its electricity effective from 12th January. This has reduced the average bill of a 'Big 6' standard tariff dual fuel customer from £1,355 in December 2011 to £1,345 in January 2012¹. The other suppliers' price cuts will be factored into subsequent weekly updates as they take effect.

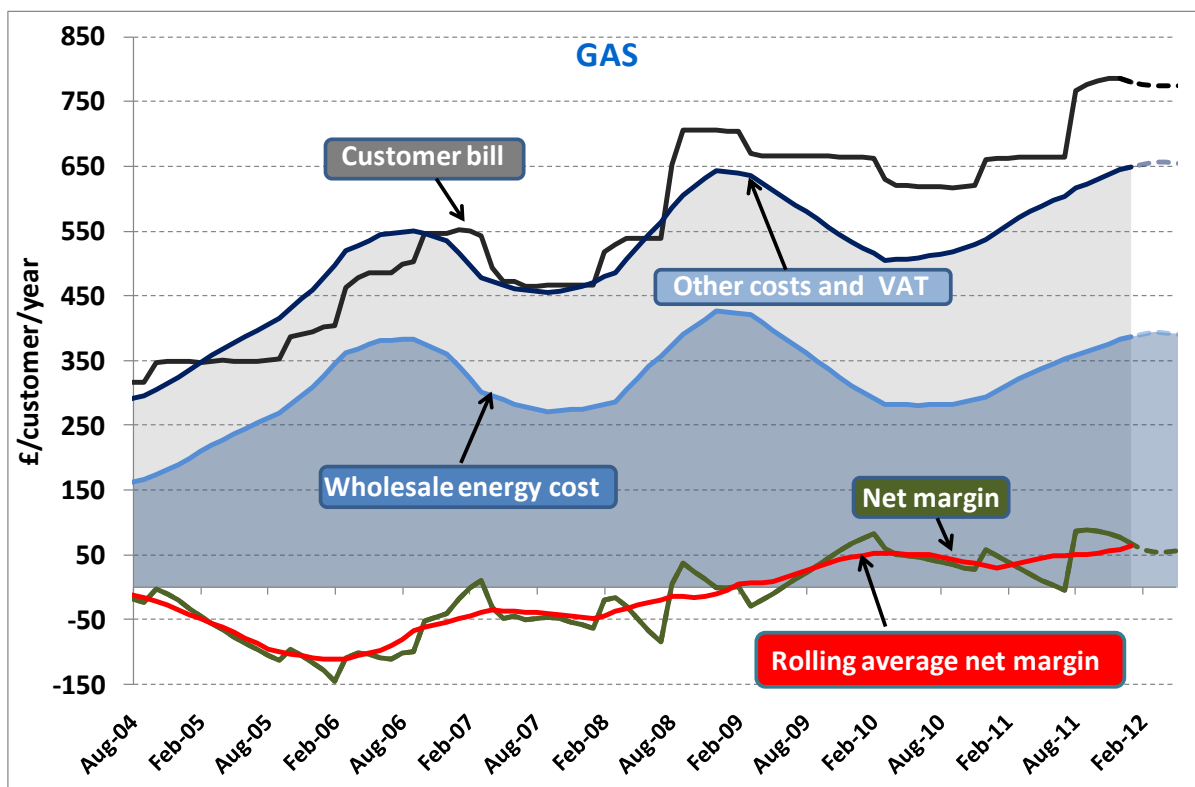
¹ It should be noted that we have revised our December 2011 estimate from £1,345 to £1,355.



Typical electricity customer bill, costs and net margin



Typical gas customer bill, costs and net margin



Change in retail bills, costs and implied net margin January 2008 – January 2012

Dual Fuel	Year				
	Jan-08	Jan-09	Jan-10	Jan-11	Jan-12
Customer bill	£885	£1,215	£1,140	£1,155	£1,345
Wholesale costs	£475	£710	£520	£510	£625
VAT and other costs	£350	£395	£420	£460	£490
Gross margin	£60	£110	£200	£185	£235
Operating costs	£120	£125	£130	£130	£130
Implied net margin	-£60	-£20	£75	£55	£100

Notes: Customer bill is for standard tariffs, weighted by payment method and market share. Average figures assume electricity consumption of 4MWh/yr, gas consumption of 16.9MWh/yr. Figures rounded to nearest £5 and may not sum due to rounding

Electricity	Year				
	Jan-08	Jan-09	Jan-10	Jan-11	Jan-12
Customer bill	£420	£545	£505	£520	£585
Wholesale costs	£195	£285	£220	£205	£235
VAT and other costs	£160	£180	£200	£215	£230
Gross margin	£65	£80	£90	£100	£120
Operating costs	£60	£65	£65	£65	£65
Implied net margin	£5	£15	£25	£30	£55

Notes: Customer bill is for standard tariffs, weighted by payment method and market share. Average figures assume electricity consumption of 4MWh/yr. Figures rounded to nearest £5 and may not sum due to rounding

Gas	Year				
	Jan-08	Jan-09	Jan-10	Jan-11	Jan-12
Customer bill	£465	£705	£665	£660	£780
Wholesale costs	£280	£425	£300	£305	£385
VAT and other costs	£190	£215	£225	£245	£260
Gross margin	-£5	£65	£140	£115	£130
Operating costs	£60	£65	£65	£65	£65
Implied net margin	-£65	£0	£75	£50	£65

Notes: Customer bill is for standard tariffs, weighted by payment method and market share. Average figures assume gas consumption of 16.9MWh/yr. Figures rounded to nearest £5 and may not sum due to rounding