

## Overview – 18<sup>th</sup> September 2013

We designed the Supply Market Indicators (SMI) to make the energy market clearer by showing trends in costs suppliers face and the bills they charge.

The SMI shows an up-to-date estimate of:

- the annual bill for an average dual fuel customer on a standard tariff, and
- the annual costs per customer a representative supplier incurs for delivering the electricity and gas.

The SMI also provides an indicative annual net margin, which is the difference between the customers' retail bills and the suppliers' costs. This is presented as a 'snapshot' margin for the year ahead and as a rolling average that smoothes fluctuations in the 'snapshot' margin. The latter approach better illustrates trends over time. The current values are:

- Snapshot net margin: £65
- Rolling average net margin: £65

The SMI does not seek to provide estimates of companies' profits, either collectively or individually. Detailed information on individual companies' revenues, costs and profits in both their generation and supply arms is available on a backward-looking basis in their Consolidated Segmental Statements. Ofgem requires the large vertically integrated companies to produce these annually, based on audited figures. The 2012 Statements can be found here. [Link: [2012 Consolidated Segmental Statements \(pdf\)](#)]

The SMI estimates are based on publicly available and verifiable data, where possible. We make proportionate and periodic adjustments to the data when the available evidence warrants it. We will consider including in the SMI any robust evidence stakeholders send us. For more detail, please see the SMI methodology. [Link: [Methodology for the Supply Market Indicators](#)]

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### **Updating the estimates we use for energy consumption**

*To calculate the SMI we use estimates of how much energy an average domestic consumer uses. Since January 2010 these have been set at 16,900 kilowatt hours (kWh) per year for gas and 4,000 kWh per year for electricity.*

*As of 13 September we are **lowering these estimates by 9 per cent for gas and 5 per cent in electricity**. This is because data [published](#) by the Department for Energy and Climate Change this year shows a sustained fall in consumption in recent years, especially household gas use.*

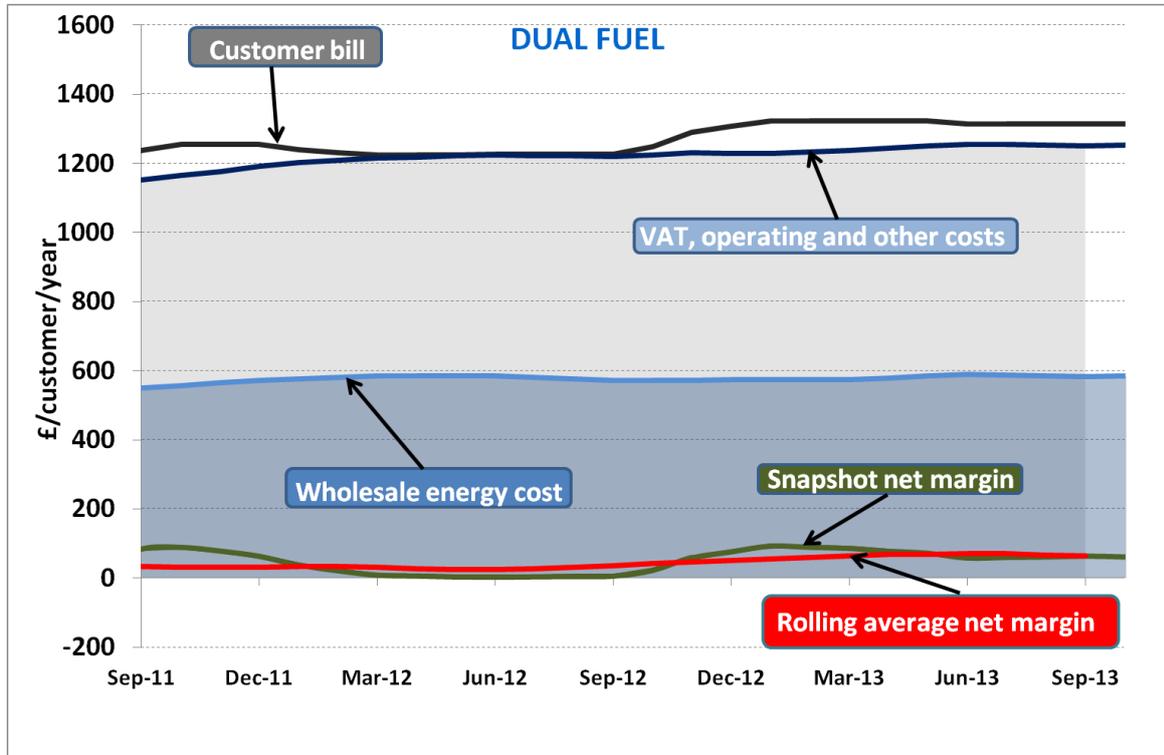
*The Office for National Statistics also recently highlighted this trend. Further information on their findings is available [here](#).*

*Using lower consumption values affects our estimate of suppliers' costs, revenues and, hence, margins. In general, the less energy a customer uses, the lower the margin a supplier earns on such customers (and vice versa).*

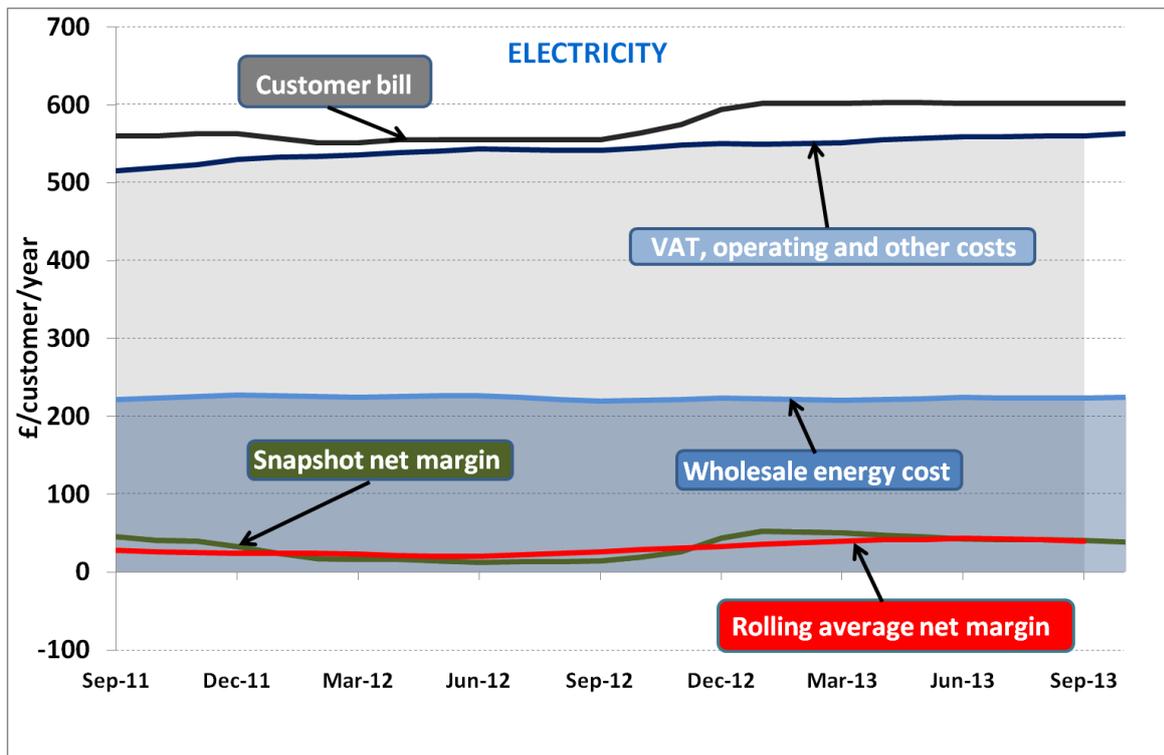
*To reflect the impact of lower consumption over time we are updating our SMI estimates for the last two years. Going further back, the Consolidated Segmental Statements provide information on the actual costs, revenues and margins of the Big Six suppliers-back to 2009.*

***The impact of these changes to consumption assumptions on our estimates of suppliers' forward looking margins and on average customer bills is illustrated in the graphs and tables directly below.***

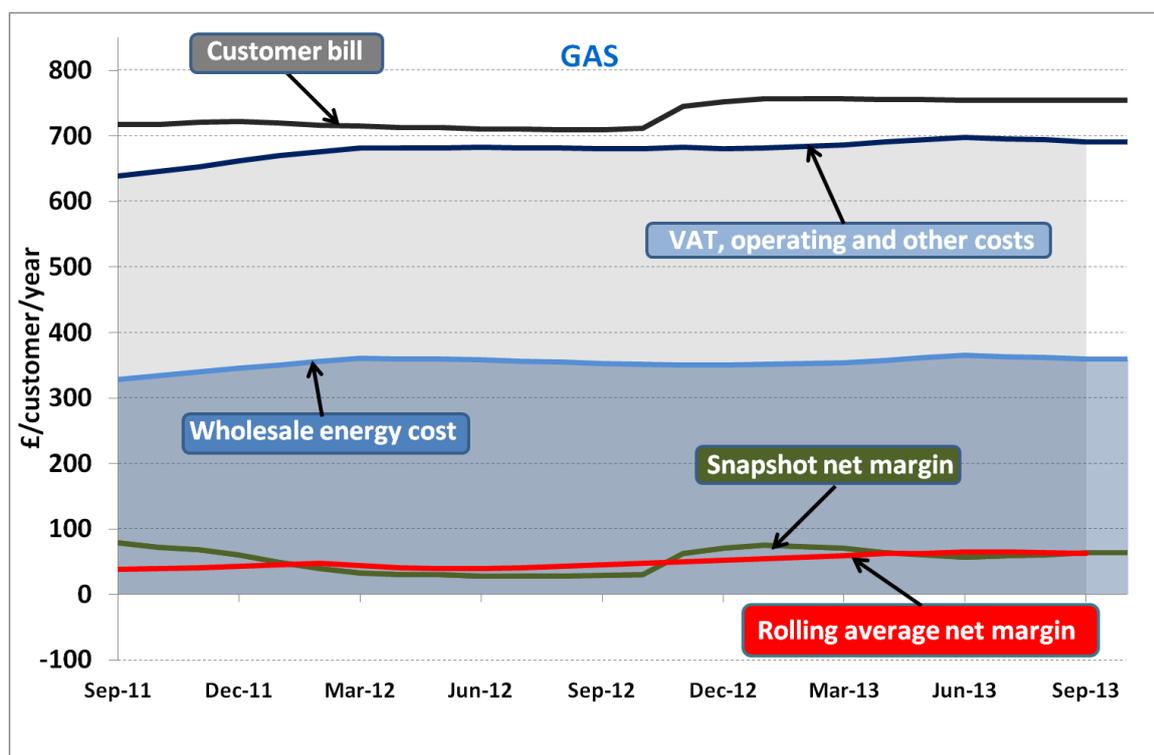
**Average dual fuel customer bill, costs and net margins for the next 12 months**



**Average electricity customer bill, costs and net margins for the next 12 months**



## Average gas customer bill, costs and net margins for the next 12 months



## Changes in retail bills, costs and net margins – September 2013

Dual fuel	Comparison of old and new annual values					
	Sep-11 (old)	Sep-11 (new)	Sep-12 (old)	Sep-12 (new)	Sep-13 (old)	Sep-13 (new)
Customer bill	£1,315	£1,235	£1,310	£1,225	£1,420	£1,315
Wholesale costs	£595	£550	£620	£575	£630	£580
VAT and other	£495	£470	£545	£520	£565	£535
Gross margin	£220	£215	£145	£135	£220	£195
Operating costs	£130	£130	£130	£130	£130	£130
Snapshot net margin	£90	£85	£15	£5	£90	£65
<b>Rolling net margin</b>	<b>£45</b>	<b>£35</b>	<b>£50</b>	<b>£35</b>	<b>£90</b>	<b>£65</b>

Notes: 1) Customer bill is for standard tariffs, weighted by payment method and market share. Average figures assume electricity consumption of 4MWh/yr for old values and 3.8MWh/yr for new values, and gas consumption of 16.9MWh/yr for old values and 15.3MWh/yr for new values. Figures rounded to nearest £5 and may not sum due to rounding. Gas and electricity bill values may not equal the dual fuel bill partly reflecting different market shares for dual fuel and single fuel customers, and dual fuel discounts.

2) The indicative net margin for a dual fuel customer may not equal the sum of the gas and electricity indicative net margins, partly reflecting different market shares for dual fuel and single fuel customers.

Electricity	Comparison of old and new annual values					
	Sep-11 (old)	Sep-11 (new)	Sep-12 (old)	Sep-12 (new)	Sep-13 (old)	Sep-13 (new)
Customer bill	£580	£560	£580	£555	£630	£600
Wholesale costs	£230	£220	£230	£220	£235	£225
VAT and other	£235	£230	£265	£255	£280	£270
Gross margin	£110	£110	£85	£80	£115	£105
Operating costs	£65	£65	£65	£65	£65	£65
Snapshot net margin	£45	£45	£20	£15	£45	£40
<b>Rolling net margin</b>	<b>£30</b>	<b>£30</b>	<b>£30</b>	<b>£25</b>	<b>£45</b>	<b>£40</b>
<i>Notes: Customer bill is for standard tariffs, weighted by payment method and market share. Average figures assume electricity consumption of 4MWh/yr for old values and 3.8MWh/yr for new values. Figures rounded to nearest £5 and may not sum due to rounding.</i>						

Gas	Comparison of old and new annual values					
	Sep-11 (old)	Sep-11 (new)	Sep-12 (old)	Sep-12 (new)	Sep-13 (old)	Sep-13 (new)
Customer bill	£775	£720	£775	£710	£825	£755
Wholesale costs	£365	£330	£390	£355	£400	£360
VAT and other	£265	£245	£280	£265	£285	£270
Gross margin	£150	£145	£100	£95	£140	£130
Operating costs	£65	£65	£65	£65	£65	£65
Snapshot net margin	£85	£80	£35	£30	£75	£65
<b>Rolling net margin</b>	<b>£45</b>	<b>£40</b>	<b>£55</b>	<b>£45</b>	<b>£75</b>	<b>£65</b>
<i>Notes: Customer bill is for standard tariffs, weighted by payment method and market share. Average figures assume gas consumption of 16.9MWh/yr for old values and 15.3MWh/yr for new values. Figures rounded to nearest £5 and may not sum due to rounding.</i>						

## Methodology

In March 2012, we moved from publishing our supply market indicators on a quarterly to a weekly basis. Our methodology has not changed from that used in the quarterly reports. The only difference was the addition of a rolling average net margin figure. We introduced this indicator to increase transparency about net margin levels. As the net margin figure can vary significantly in a year, in reaction to falling or rising costs, another measure is to consider the average margin over an extended period of time. This smoothes fluctuations in volatile net margin figures. You can find a link to our methodology here<sup>1</sup>.

Notwithstanding the introduction of a rolling average net margin figure, the SMI is a forward-looking estimate of the net margin on supplying an average, standard tariff, dual fuel customer. It is therefore likely to change over time as more information on costs and prices becomes available. It also does not capture all the discounted deals that may be available to consumers, including those available online.

More comprehensive information on individual energy companies' revenues, costs and profits in both their generation and supply arms is available on a backward-looking basis through their Consolidated Segmental Statements. These are produced annually by energy companies and are available on the Ofgem website. The requirement to produce these accounts was introduced by Ofgem following our [Energy Supply Probe in 2008](#).

## Updating our assumptions

Our estimate of net margin is based on numerous assumptions. These include assumptions about average household energy consumption and estimates of suppliers' costs. We will periodically review these components and update our assumptions as they change, including for example, updating our consumption values. We may also utilise requests for information where this is the most appropriate route to gather data. In the meantime, if suppliers wish to provide us with updated information, we will be happy to consider utilising it in the report.

Where we update our data, we will keep a log of when a change takes effect and a short description, as below.

## Updates to assumptions used

12 September 2013 - update to consumption assumptions

24 July 2013:

- updated suppliers' market shares and payment method shares
- to improve clarity of the graphs, operating costs have been included in the Other costs and VAT curve

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[http://www.ofgem.gov.uk/Markets/RetMkts/rmr/smr/Documents1/SMR\\_METHODODOLOGY.pdf](http://www.ofgem.gov.uk/Markets/RetMkts/rmr/smr/Documents1/SMR_METHODODOLOGY.pdf)

27 June 2013 - update to gas network charges in 'other costs'

23 May 2013 - updated suppliers' market shares

29 April 2013 - update to electricity network charges in 'other costs'

20 February 2013 - update to Renewable Obligation costs

13 February 2013 - update to electricity network charges in 'other costs'

06 February 2013 - updated assumptions for future Feed in Tariff costs

21 January 2013 - updated retail bill reflecting a price change announcement

16 January 2013 - updated suppliers' market shares

10 January 2013 - update to our assumptions for the Energy Company Obligation

12 December 2012 - updated retail bill reflecting a price change announcement

05 December 2012 - updated retail bill reflecting a price change announcement

28 November 2012 - updated retail bill reflecting a price change announcement

21 November 2012:

- updated retail bill reflecting a price change announcement
- update to our retail bill data based on information provided by suppliers

31 October 2012 - updated retail bill reflecting a price change announcement

24 October 2012:

- updated payment method shares (direct debit, standard credit and prepayment);
- updated retail bill reflecting price change announcements;
- updated assumption to forward network charges and balancing charges;
- update to cost of Feed in Tariffs;
- update to Renewable Obligation costs, accounting for higher obligation.

19 September 2012 - updated suppliers' market shares