

Future regulation of domestic gas and electricity supply markets – final proposals

Summary

- Ofgem's first duty by law is to protect gas and electricity customers – we take this duty very seriously.
- The gas and electricity supply markets were fully opened to competition more than two years ago. These are now hugely competitive markets – much has changed.
- Today, everyone is benefiting from competition:
 - 15 million customers have switched supplier – a level of switching second only to car insurance
 - Switching has been across the board. Customers on pre-payment (PPM) tariffs are today switching at the same rate as customers on standard tariffs. Customers on lower incomes are switching at the same rate as those who are better off
 - 90% of those who have switched have found it easy or very easy
 - Customers who have not switched have also gained as suppliers have had to respond to pressure from competitors
 - Gas prices have fallen by 37% and electricity by 28% in real terms since privatisation began.

As things have moved on so much, Ofgem believes that the best way now for it to protect customers is by policing gas and electricity companies through a combination of competition law, existing licence requirements and other consumer law.

70% of all gas customers and 50% of electricity customers are on tariffs whose prices are not now regulated by Ofgem. From April, price controls will be lifted from the remainder of tariffs.

Also from this time, Ofgem will dedicate its resources to monitoring and investigations work. It will also not hesitate to use the full range of sanctions, including fines, to safeguard customers where this is necessary.

Protecting domestic customers in the future

Ofgem is committed to working with consumer and other relevant groups to ensure that everyone benefits from competition and vulnerable customers are protected.

From April, there will be a new regulatory regime for domestic customers. Ofgem will be taking forward work on three fronts:

- Monitoring, investigations and enforcement
- Research and information
- Social Action Plan initiatives.

The new regulatory regime

Monitoring, investigations and enforcement

Monitoring and investigations

Ofgem has a dedicated team monitoring developments in the retail market by conducting regular market reviews and analysing complaints data that is supplied by energywatch.

This team also investigates complaints under the Competition Act 1998. Here work will focus on investigating any unjustified differences between the different tariffs offered by suppliers.

We also monitor, on a quarterly basis, suppliers' compliance with Codes of Practice which require them to give advice to vulnerable customers about the special services available to help them.

Enforcement

Ofgem has a range of powers. It can:

- Agree undertakings with companies to ensure they improve their performance, e.g. on marketing or customer transfers
- Enforce suppliers' licences
- Under new consumer laws, issue 'Stop Now' orders which do just as they say
- Fine companies up to 10 per cent of turnover under Utilities Act powers which will be available shortly. We also have powers under the Competition Act 1998 to fine companies
- 'Name and shame' companies which are performing badly – a strong deterrent in a highly competitive market.

Ofgem will launch, in April, a new website to report action taken against poor performers.

Ofgem will not hesitate to use any of these powers as and when necessary.

Pre-payment meter customers

Independent research shows that PPM customers are benefiting from the competitive market. Research undertaken since last November, when these proposals were first recommended shows that suppliers are more actively targeting this customer group.

- Today, every PPM customer in Britain has at least four better dual fuel offers to choose from than those offered by British Gas and their regional electricity company, with some customers saving up to £40 a year.

They also have as many as nine better single fuel offers to choose from. In gas, savings of up to £20 a year are possible. In electricity, some customers can save up to £30 a year.

- The rate of switching among PPM customers is nearly double the rate of switching among Direct Debit customers when price controls were removed from these tariffs in 2000.

- Suppliers are required to offer free PPMs, to allow customers to budget as they would with a PPM. British Gas and Southern all offer these services.

Ofgem's commitment to PPM customers

- to monitor developments in the market to ensure PPM tariffs continue to benefit from competition
- to ensure that PPM customers who are not on a PPM are aware of the choices available
- under the Social Action Plan, working with suppliers to improve the Fuel Direct Scheme –

Research and information

Ofgem will constantly review the retail market and identify areas where customer take-up of choice is low. We will work to understand the causes and identify if further action is needed, e.g. under our Social Action Plan.

We will back this work up with targeted information and awareness campaigns to help build customers' confidence in the retail markets.

Key areas of activity in the forthcoming year will be:

- Research into customers' experience of doorstep selling practices
- A joint campaign with Age Concern to encourage older people to switch
- Further work on ways to help customers with poor credit records, customers who live in rural areas and customers for whom English is not a first language.

Social Action Plan initiatives

Ofgem has also been working, under its Social Action Plan, to help the 4 million households, on a range of tariffs, who are in fuel poverty.

Lower energy prices were responsible for lifting 1 million of the 1.5 million customers removed from fuel poverty since 1996.

A range of innovative services have been launched by energy companies for the fuel poor – around 12 schemes serving 200,000 customers.

Examples include a service for older people to buy energy at a fixed price, and cheaper payment services for customers who do not have bank accounts.

Ofgem continues to work to encourage initiatives like these. We are also continuing to research the causes of fuel poverty and develop measures to deal with these.

requent cash payment schemes as an alternative to get and pay for their energy in the same way as gas, London Electricity, Powergen, TXU and Scottish

ners is:

market, to ensure that customers who remain on om competition

o can, and want, to switch to another payment available

ng with the Department of Work and Pensions (DWP) an alternative to PPM for customers on benefits.

Scotland

Competition in the Scottish retail market is sufficiently strong for price controls to be lifted. In electricity, switching is lower than in England and Wales – 28 per cent of electricity customers have switched, compared to the national average of 38 per cent for electricity.

The reasons behind this are being tackled by Ofgem.

- We have just announced proposals which will enable more than 30,000 customers in the north of Scotland to switch their supplier more easily, some for the first time, and make savings of almost £800,000.

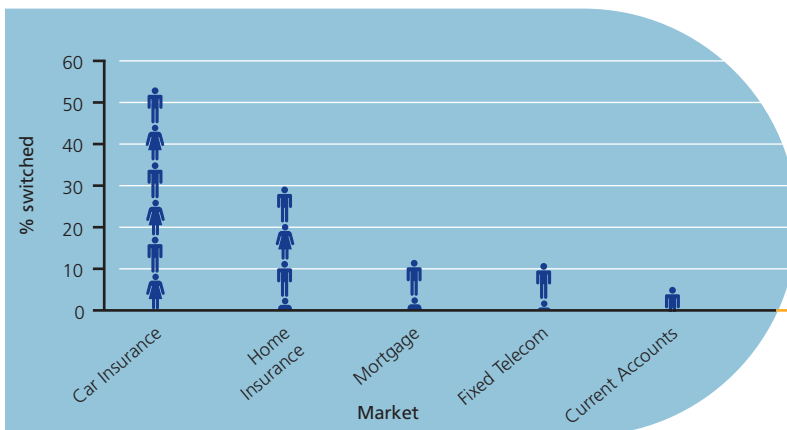
These followed a review of the state of competition among customers with shared or communal supplies and those with storage heaters controlled by dynamic teleswitches.

- We are also working on major reforms to the Scottish wholesale market to bring in more competitive arrangements like those which exist in England and Wales. The reforms to create British Electricity Trading and Transmission Arrangements (BETTA) will bring more competition to Scotland and put more pressure on customer prices.

How competition is developing

Proportions of customers who have switched one or more times	Switching in electricity – percentage of each group who are switchers		Switching in gas – percentage of each group who are switchers	
	1999	2001	1999	2001
Special Needs				
Pensioner only	13	30	32	29
Disabled	13	44	30	35
Very low income	7	43	29	38
One parent family	11	43	24	39
Social Class				
AB	14	36	20	37
C1	11	38	23	40
C2	9	41	29	37
DE	10	36	28	36
Methods of payment				
Direct debit	15	44	28	43
Cash Cheque	11	32	28	32
PPM	3	31	14	28
Budget card/plan	6	40	23	32

Number of customers who have switched suppliers in different markets



38% of electricity customers and 37% of gas customers have switched supplier – 2001

Source: DTI Research on switching suppliers report, July 2000