

# **Domestic gas and electricity supply competition**

## **Recent developments**

June 2003

## Summary

This paper provides an overview of the development of competition within domestic gas and electricity supply based on the latest market data available, including data on customers' experiences, market share, switching behaviour and price and non-price offers. It complements last December's Ofgem paper on electricity prices.

The evidence in this paper shows that market activity continues at a high level. Healthy numbers of customers are switching, and express the intention to switch. Incumbent market shares continue to decline, although at a slower rate (largely as a result of more effective incumbent win-back); around half of customers have compared prices, and 70% of these say it is easy; and those who have not yet switched supplier have access to a good range of discounts.

Ofgem places particular weight on ensuring that vulnerable customers are benefiting from supply competition. The data presented here show vulnerable groups are more or less likely to have switched than average, depending on the group considered (as in our last survey in November 2001). Pensioners, who were significantly below the average, have caught up somewhat since 2001.

The evidence in this paper suggests there is competition for pre-payment meter customers: for example, those who have not switched have access to a good range of discounts. Indeed, customers in this group are marginally more likely to switch in the future and the incumbent share fell faster among gas pre-payment meter customers than among gas credit customers between December 2001 and September 2002.

Ofgem therefore believes that competition is continuing to develop well. This does not mean that there are no features of the markets that merit continuing close attention. In a number of respects today's supply markets are immature, which is unsurprising only five or so years after liberalisation. The introduction discusses Ofgem's view of today's market in the round, resulting from Ofgem's regular monitoring. It also outlines Ofgem's substantial programme of work to remove continuing obstacles to competition (for example, reviewing the transfer process, tackling misselling, reforming objections rules, improving competition for dynamically teleswitched customers, as well as enforcing competition law).

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# 1. Rationale

- 1.1. The purpose of this paper is to 'bridge' a significant gap in published data concerning domestic gas and electricity supply by publishing the latest market data available, including data on customers' experiences, incumbent market shares, switching behaviour and price and non-price offers.
- 1.2. Ofgem last published a detailed report on domestic gas and electricity supply in November 2001 and since then has published an occasional paper<sup>1</sup> with an update of key switching and market share trends in domestic electricity supply.
- 1.3. Ofgem will publish a further domestic competitive market review in early 2004.

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<sup>1</sup> Electricity Supply Competition, An Ofgem Occasional Paper, December 2002, 83/02.

## 2. Methodology

- 2.1. This document publishes data from several sources.
- 2.2. Data on customers' experiences of domestic gas and electricity supply draw upon the J.D. Power and Associates Domestic Gas and Electricity Customer Studies for 2001 and 2002. J.D. Power and Associates surveyed 3,277 gas customers in 2001 and 3,211 in 2002, and surveyed 5,009 electricity customers in 2001 and 4,505 electricity customers in 2002. Domestic customers were interviewed by telephone during July/August of 2001 and 2002 across Great Britain. The sample size of these studies is comparable to studies undertaken in previous years by MORI.<sup>2</sup>
- 2.3. Ofgem has utilised J.D. Power and Associates' data as it provides useful insights into a range of customer satisfaction and service measures, in markets where branding and product differentiation are of increasing importance.
- 2.4. Ofgem has also used customer survey data from the Electricity Association. This data is taken from a panel of around 15,000 households across Great Britain.
- 2.5. This document also includes data supplied by Meter Point Administration Service (MPAS) providers (i.e., distribution network operators) for domestic electricity. This document also presents data supplied by domestic gas and electricity suppliers.
- 2.6. Where percentages in tables do not sum to 100, this will be due to either rounding or exclusion of 'don't know' or 'no answer' categories.

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<sup>2</sup> Experience of the competitive domestic electricity and gas markets, Research study conducted for Ofgem by MORI, November 2001, 72/01.  
Domestic gas and electricity supply competition  
Office of Gas and Electricity Markets

## 3. Introduction

### **Purpose of this review**

- 3.1. Ofgem seeks a well informed public debate about the vigour of competition in domestic supply markets. Market analysis is not an exact science and Ofgem welcomes the contributions of others as to the significance of current indicators. Moreover, when public debate involves media, individual consumers hear the message that most of them could pay less for their energy if they changed suppliers, and Ofgem believes this is of considerable benefit to consumers.
- 3.2. Debate is healthiest if informed by up-to-date, empirical information. From time to time Ofgem therefore publishes digests of information about the state of competition, accompanied by Ofgem's view on the development of the market. This has generally involved a late-Autumn publication (a timetable driven initially by the price-control cycle), and in December 2002 Ofgem published "Electricity supply competition: An Ofgem occasional paper". That document focused on electricity prices, a topic of recent public interest, and Ofgem is conscious that the particular focus of the December document meant that a range of other data was not put into the public domain. This document, published outside the usual cycle, aims to fill this gap. Ofgem will begin work in the summer on a further review, to be published in early 2004.
- 3.3. As various indicators have been published in two different documents, this introductory chapter pulls together the evidence to describe Ofgem's current views on the state of competition in supply markets.

### **State of competition**

- 3.4. This document provides data on a large range of features of domestic energy supply markets, and it is difficult to summarise into a simple characterisation of the market. However, we can delineate boundaries for the discussion.

- 3.5. At the lower boundary, there are almost no remaining areas of monopoly power<sup>3</sup> in energy supply; even commentators expressing concern recognise that competition is a powerful force in these markets. This document includes evidence showing the extent of price competition. Customers who have not yet switched supplier have, in almost all cases, access to many cheaper offers. Discounts to switching customers continue to attract customers away from their former incumbent suppliers. Large numbers of customers are switching, and/or intend to switch. Suppliers are working hard to win new customers.
- 3.6. In February 2002 Ofgem published its decision to remove regulatory controls on retail prices.<sup>4</sup> This decision arose from consideration of how best, in the context of market conditions at that time, Ofgem could fulfil its statutory objectives and duties. In early 2002 it was already clear that competition was bringing substantial benefits to customers, including vulnerable customer groups. These benefits already included substantial price competition, and it was evident that suppliers were investing and innovating as a result of competitive pressure. These are benefits Ofgem judges could not be achieved through direct regulatory intervention. Ofgem's analysis in early 2002 was that, on the one hand, competition would provide greater benefits, for all customer groups, than price regulation; and on the other, that on-going price controls posed serious risks of braking or throwing into reverse the development of competition. These risks were judged to be the more serious if regulation were to be more tightly focused on prices paid by particular customer groups.
- 3.7. The evidence in this paper suggests that, over the ensuing year, competition has become an even more powerful influence on the behaviour of companies in the market, and is effective in creating a range of consumer benefits. Moreover, competition is producing these benefits for customers across the full range of payment types and social groups from AB to DE. Ofgem's view remains that competition is sufficiently advanced that price controls would be more harmful than helpful.

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<sup>3</sup> However, Ofgem is aware of small parts of the market where technical barriers can or could create monopoly power. Ofgem is working to ensure all suppliers can compete for the business of teleswitched customers, and of customers on independent gas transport networks.

<sup>4</sup> "Review of domestic gas and electricity competition and supply price regulation: Conclusions and final proposals", February 2002

3.8. This view is based on the evidence presented in this document:

- incumbent share within regional electricity markets continues to erode, as does British Gas' share of the domestic gas market, albeit at a slower rate than in previous years
- this relatively slow rate of erosion masks considerable activity, as incumbents are, in some months, recruiting nearly as many customers as they lose
- there is every prospect of this healthy level of market activity continuing, as good numbers of consumers are aware of the opportunity to switch (Tables 4.1 and 4.4), and say they are likely to switch within the next twelve months (Tables 5.3 and 5.7)
- vulnerable social groups are also benefiting from competition. Whether they are more or less likely to have switched than average varies by group (Tables 5.1 and 5.5), but in all cases substantial proportions have switched. Pensioners were the most important group where net switching lagged behind the average, and they have caught up some of this ground since 2001, and
- the extent to which pre-payment meter customers have benefited from competition has been a subject of continuing interest. The evidence in this paper suggests there is to some extent more fierce competition for their custom: they say they are marginally more likely to switch in the future (Tables 5.3 and 5.7), and the incumbent share has fallen faster for gas pre-payment meter customers than for gas credit customers (between December 2001 and September 2002) (Chapter 6).

### **Areas for continuing attention**

3.9. However, the energy markets (like many successful markets) are clearly not perfectly competitive. The February 2002 document explained that Ofgem did not believe this was a sector where no further regulatory intervention was

needed, or likely to be needed. On the contrary it said: "Ofgem's conclusion is that the best way of protecting customers' interests in the future is by vigorous use of its competition and consumer law powers rather than specific supply price controls. These powers will enable Ofgem to intervene to protect customers where appropriate."<sup>5</sup>

- 3.10. Today's energy supply markets possess a number of characteristics which some commentators have suggested may not be compatible with a mature market. These are discussed in turn below.

### **High incumbent market shares**

- 3.11. As outlined in the December occasional paper, Ofgem believes it remains appropriate to monitor domestic gas and electricity supply separately and regional electricity as regional markets. On this basis, the market shares of former monopolists remain high: between 55 per cent and 83 per cent (see section 6 below).
- 3.12. Market shares at this level do not, in themselves, mean that the competitive process is being distorted to consumers' detriment. In assessing whether accompany is dominant Ofgem would look at a range of other factors in addition to market share. However, as stated in the OFT guidelines<sup>6</sup> it is unlikely that an undertaking will be individually dominant if its market share is below 40%, although dominance could be established below that figure if other relevant factors (such as the weak position of competitors in that market) provided strong evidence of dominance. So long as market shares remain relatively high, Ofgem is likely to maintain close scrutiny, and would expect these incumbents themselves to be conducting close analysis of their activities to ensure their own compliance with competition law.

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<sup>5</sup> "Review of domestic gas and electricity competition and supply price regulation: Conclusions and final proposals", February 2002, Executive summary

<sup>6</sup> "The Chapter II Prohibition, OFT 402", March 1999, paragraph 3.13.

## Price competition focused on switchers

- 3.13. All customers have benefited from competition. The prices paid by electricity non-switchers have dropped on average by 8% in real terms since 1998. Suppliers are also innovating to defend their customer base; for example, supplier investments since the advent of competition have extended customer relationship management and billing capabilities, which have benefited all customers.
- 3.14. It is true, however, that suppliers' most attractive prices are generally targeted on customers outside their incumbent markets: in electricity, competitors' prices are up to 16 per cent below the regional ex-PES supplier; in gas, competitors' prices are up to 17 per cent below BGT's prices.<sup>7</sup> The December paper documents this pattern<sup>8</sup>, and more up-to-date information is given in Chapter 6.
- 3.15. Ofgem has been considering, in this young market, the implications for the development of competition of the current extent of two-tier pricing. Looking at maturely competitive markets, it is certainly not the case that all customers pay the same price. Customers buy a package of price and product features, and the buying decision is based on how the consumer's perception of the total package matches to that customer's individual desires. Thus price is only one dimension of the buying decision, and different consumers could be gaining equivalent value even though the price paid varied.
- 3.16. Ofgem is also aware that the rational price strategy for a former monopoly supplier may change over time. While that company's market share is near to 100%, the cost of reducing price to all customers clearly outweighs the benefit of retaining a marginal customer. However, as the share declines, this strategy of trading market share for profit will look increasingly short-sighted. At some point<sup>9</sup> it will be rational for the supplier to start competing on price for every customer; although, as noted above, this will require a much more sophisticated approach than merely collapsing two tiers of prices into one.

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<sup>7</sup> Based on direct debit prices calculated at medium consumption of 3300kWh in electricity and 19050kWh in gas.

<sup>8</sup> Chapter 2, Electricity Supply Competition, An Ofgem Occasional Paper, December 2002, 83/02.

<sup>9</sup> Modelling exactly when this flip-point arises is extremely complex, requiring knowledge of a number of factors, including the supplier's own scale curve (which varies between suppliers), and the projected likely behaviour of switching and non-switching customers.

### **Supplier profitability**

- 3.17. In the December paper, Ofgem outlined its view of supplier profitability: that margins are currently higher than historical levels, but that in a market where fluctuations in input prices take time to feed through to final prices, snap-shot analysis is not appropriate.

### **Scope for coordination**

- 3.18. Some commentators argue that six large supply groups is not a large enough cast of characters to ensure healthy competition. Others, however, suggest that six players, if they are competing vigorously, are easily enough to make a competitive market; that mergers have unlocked significant potential synergies, which competitive forces should ensure are at least partly passed to consumers; and that given the size of the market leader, Centrica, it is positively healthy to see large competitors.
- 3.19. Ofgem does not believe the number of current competitors is in itself a cause for concern. However, it has indicated that it will scrutinise extremely carefully any proposals for further consolidation in the domestic energy supply markets, in its role as advisor to the competent merger authorities.

### **Vertical integration**

- 3.20. Some commentators have expressed concerns that the vertical integration of some suppliers with generators creates scope for anti-competitive behaviour.
- 3.21. Ofgem has recently made public its views regarding Centrica's acquisition of Dynergy Storage Limited and Dynergy Onshore Processing UK Limited, where Ofgem highlighted Centrica's increased position in markets for winter gas and daily flexibility arising from the transaction. Ofgem expressed concerns that Centrica's strong presence in domestic markets, and the fact that all competing gas suppliers need access to flexible gas supplies, could provide an incentive for

Centrica to restrict storage capacity to reduce downstream gas supply competition. Ofgem has backed a remedy put forward by the Competition Commission for Centrica to sell Rough Gas Storage.

- 3.22. Ofgem generally considers that so long as both wholesale and retail markets are effectively competitive, vertical integration is not likely to be anti-competitive or damaging to consumers.
- 3.23. Ofgem keeps a close watch on wholesale markets, using the wide range of data sources available from the central systems, as well as publicly available information.

### **Ofgem's view: competitive but not mature**

- 3.24. As for retail markets, the discussion above illustrates why Ofgem believes the picture is complex. Today's supply markets are increasingly competitive, but evolutionary processes clearly have some way to go before Ofgem would expect to reduce its level of monitoring and readiness.
- 3.25. However Ofgem does not believe that the evidence presented in December and in this document supports the hypothesis that the development of competition has gone into reverse, or indeed deviated significantly from the course it began in the late 1990s.
- 3.26. It is not possible to predict future trends, but Ofgem is aware of a number of current trends which, if continued into the future, would assist the development of a mature and stable market:
- continuing reduction in net incumbent market share within regional markets would mean an end to the market power of ex-monopolists
  - continuing evolution from regional to national markets, and/or towards a dual fuel market, might mean incumbent market power is diluted in a wider market. This might arise, for example, from changing customer attitudes, from the growing power of new national brands, from suppliers adopting new pricing and marketing policies, or from other causes

- incumbents might reach a point where it was rational to move away from two-tier pricing, although we would expect to see this pattern dissolve into many tiers rather than “one price for all”. This more complex pattern will reflect brand equity (and, to the extent that branding continues to be regional, may still therefore have a regional pattern to it), but will also reflect more sophisticated market segmentation and marketing approaches
  - innovation, effective customer service and brand loyalty are likely to lead to economic rewards for successful suppliers, and declining profitability for others, and
  - prevailing profitability levels might lead to large-scale new entry by businesses not currently engaged in the energy markets.
- 3.27. Ofgem’s primary objective is to protect the interests of consumers, wherever appropriate by promoting effective competition. We also have a range of statutory duties, notably to have regard to the interests of the disabled and chronically sick, pensioners, consumers with low incomes and rural consumers.
- 3.28. Ofgem believes the best means it has available to it for protecting customers remains to ensure those customers have a range of good choices, put before them by suppliers whose incentives are driving them to innovate and invest.

## **Ofgem actions**

- 3.29. In the meantime, Ofgem is devoting substantial resources to making retail markets work for customers: monitoring the development of the markets, and tackling remaining barriers to customer choice.
- 3.30. In its monitoring work Ofgem keeps under review the full range of issues relating to market development. This includes the issues recommended to its attention by the National Audit Office, relating to suppliers' costs and the prices paid by non-switchers.
- 3.31. Ofgem is also engaged in a number of work-streams to remove barriers to customer power in supply markets:
- it has challenged the industry to simplify the transfer process, so as to ensure that customers are not put off by bureaucracy or concerns that the transfer might cause problems
  - it is tackling misselling, so as to ensure customers are not scared away from the competitive market by fears of being misled by sales agents. It imposed a £2m penalty on one supplier for failure to manage direct sales effectively, and has welcomed industry moves to more effective self-regulation
  - it is reforming the rules governing when suppliers can object to a customer transfer, placing power in the hands of consumers. It is also enforcing existing rules, and has recently proposed a £200,000 financial penalty on one supplier for incorrectly objecting to customer transfers
  - it is examining how to intensify competition for the business of consumers with dynamically teleswitched meters, and
  - it responds to allegations of anti-competitive behaviour, and remains alert to such behaviour from its own investigations.

## 4. Customers' experiences

### *Introduction*

- 4.1. This chapter presents new data taken from the 2001 and 2002 J.D. Power and Associates' domestic gas and electricity customer studies, shedding light on the extent to which customers feel informed about gas and electricity supply competition, and the extent to which they feel that can exercise their choice to change supplier.

### *Awareness*

#### **Gas**

- 4.2. Table 4.1 shows customers' awareness of gas suppliers other than BGT. It tables survey responses to the question "Were you already aware that you can now buy gas from suppliers other than your local gas supplier?" In 2001, the J.D. Power and Associates' study implied a higher level of awareness than the MORI results (95 per cent compared with 69 per cent). The difference in results may reflect differences in survey methodology. For instance, respondents were asked whether they could name more than one supplier in the MORI 2001 survey, whereas J.D. Power and Associates asks "are you aware you can be supplied gas by another supplier to BGT?"
- 4.3. Table 4.1 shows that there has been a slight reduction in awareness between 2001 and 2002. Ofgem has analysed these figures by payment method (Table 4.2) and region (Table 4.3). By payment method, the reduction in awareness between 2001 and 2002 is primarily due to a reduction in awareness among direct debit customers, with awareness dropping seven percentage points from 98 to 91 per cent.

**Table 4.1 Proportion of customers aware that they can purchase gas from suppliers other than BGT**

All gas customers	% of Customers 2001 (MORI 2001)	% of Customers 2002
Yes	95 (69)	92
No	5 (31)	8

Source: J.D. Power and Associates, base 2001 (3277)/ 2002 (3211)

**Table 4.2 Proportion of customers aware that they can purchase gas from suppliers other than BGT, differentiated by payment type.**

Customer Group Awareness	% of Customers 2001 (MORI 2001)		% of Customers 2002	
	Yes	No	Yes	No
By Payment type				
Direct Debit	98 (76)	2 (24)	91	9
Standard Credit	94 (63)	6 (37)	93	7
Prepayment	92 (60)	8 (40)	89	11

Source: J.D. Power and Associates, base 2001 (3251)/ 2002 (3177)

4.4. At a high level of regional grouping, similar reductions in the level of awareness between 2001 and 2002 appear evident for England & Wales but not for Scotland.

**Table 4.3 Awareness measured by region.**

Customer Groups by: Region	% of Customers 2001		% of Customers 2002	
	Yes	No	Yes	No
England & Wales	96	4	92	8
Scotland	90	10	90	10

Source: J.D. Power and Associates, base 2001 (3251)/ 2002 (3177)

## Electricity

- 4.5. Table 4.4 shows customers' awareness of electricity suppliers other than their ex - PES supplier. It tables survey responses to the question "Were you already aware that you can now buy electricity from suppliers other than your local electricity supplier?" As discussed in paragraph 4.2, the J.D. Power and Associates' awareness results contrast with MORI results for 2001.

**Table 4.4 Proportion of people aware of other suppliers (all customers)**

All electricity customers	% of Customers 2001 (MORI 2001)	% of Customers 2002
Yes	94 (77)	92
No	5 (23)	8

Source: J.D. Power and Associates, base 2001 (5009)/ 2002 (4505)

- 4.6. Tables 4.5 and 4.6 suggest a slight lowering of awareness levels across payment types and across regions between 2001 and 2002.

**Table 4.5: Customers' awareness of competitors other than the incumbent differentiated by payment type.**

Customer Group Awareness	% of Customers 2001 (MORI 2001)		% of Customers 2002	
	Yes	No	Yes	No
By Payment type				
Direct Debit	96 (82)	4 (18)	94	6
Standard Credit	94 (71)	6 (29)	92	7
Prepayment	92 (75)	8 (25)	86	14

Source: J.D. Power and Associates, base 2001 (5009)/ 2002 (4505)

**Table 4.6 Customer awareness measured by region.**

Customer Groups by: Region	% of Customers 2001		% of Customers 2002	
	Yes	No	Yes	No
England & Wales	96	4	92	7
Scotland	93	7	90	10

Source: J.D. Power and Associates, base 2001 (5009)/ 2002 (4505)

- 4.7. Ofgem considers that the sampling methodology applied in both 2001 and 2002 could in part explain the lower awareness figures in gas and electricity, and that the actual differences in awareness levels over time may not be significant.

## Satisfaction

4.8. Customer satisfaction illustrates the overall service and price offerings from suppliers. Customer satisfaction levels vary between customer groups such as switchers and non-switchers, by payment type and by region.

### Gas

4.9. Table 4.7 shows the varying levels of satisfaction that customers in Great Britain have gained from their supply company. The analysis is sub-divided by different customer groups reflecting opinion from satisfied to dissatisfied, drawing evidence from the J.D. Power and Associates' study.

**Table 4.7 Overall how would you rate your supplier as a provider of gas services to your home? Analysis by different customer groups reflecting opinion from very satisfied to dissatisfied.**

	2001 (MORI 2001)			2002		
Customer Group	Very Satisfied %	Fairly satisfied %	Dissatisfied %	Very Satisfied %	Fairly Satisfied %	Dissatisfied %
All Customers	77 (40)	18 (49)	4 (4)	81	16	2
<b>By Switching</b>						
Switchers	73 (33)	22 (50)	4 (6)	80	16	2
Non-Switchers	80 (41)	16 (50)	4 (3)	83	15	1
<b>By Payment Type</b>						
Direct Debit	78	19	2	83	15	1
Standard credit	78	16	5	82	16	1
Prepayment	76	17	7	75	19	5

Source: J.D. Power and Associates, base 2001 (3277)/ 2002 (3211)

- 4.10. The above results show that the majority of customers are satisfied with the service they receive from their gas supplier.<sup>10</sup> In 2001, 95 per cent of customers were very or fairly satisfied with their gas supplier (compared to 86 per cent with MORI). Between 2001 and 2002, the J.D. Power and Associates' results suggest a small increase in customer satisfaction, up 2 per cent to 97 per cent. In particular, satisfaction among switchers has increased from 73 to 80 per cent.
- 4.11. Switchers and non-switchers responded positively, with 80 per cent of switchers and 83 per cent of non-switchers satisfied. Customers on each payment type are also satisfied, with satisfaction ranging from 98 per cent for direct debit to 94 per cent for prepayment customers.

### **Electricity**

- 4.12. Table 4.8 shows the varying levels of satisfaction that customers have gained through service provision by their supply company. Generally, customer satisfaction levels for electricity customers are roughly 10 per cent below that for gas.

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<sup>10</sup> The MORI figures do not add up to 100, since we have not included survey respondents who were neither satisfied nor dissatisfied.

**Table 4.8 Overall how would you rate your supplier as a provider of electricity services to your home? Analysis by different customer groups reflecting opinion from very satisfied to dissatisfied.**

Customer Group	2001 (MORI 2001)			2002		
	Very Satisfied %	Fairly Satisfied %	Dissatisfied %	Very Satisfied %	Fairly Satisfied %	Dissatisfied %
All Customers	70 (37)	25 (50)	4 (3)	74	23	2
<b>By Switching</b>						
Switchers	65 (33)	29 (28)	5 (5)	73	24	3
Non-Switchers	73 (41)	23 (50)	4 (2)	74	22	2
<b>By Payment Type</b>						
Direct Debit	70	26	3	74	23	2
Standard Credit	69	26	4	73	24	2
Prepayment	72	22	5	74	21	4

Source: J.D. Power and Associates, base 2001 (5009)/ 2002 (4505)

## *Ease/perception of ease of making price comparisons*

### Gas

4.13. Table 4.9 identifies how easy or difficult it was for gas customers to compare bills between the various supply companies in 2001 and 2002. In 2002, while a third of customers indicated they found it very/fairly easy, almost 50 per cent responded that they did not know how easy or difficult it was to make comparisons (i.e., 'don't know'). 56 per cent of switchers found making price comparisons very/fairly easy, while only 24 per cent of non-switchers perceived comparing prices to be easy. Respondents on all payment types indicated similar ease of making comparisons (35 per cent for prepayment, 36 per cent for standard credit and 37 per cent for direct debit).

**Table 4.9 How easy was it to compare prices between suppliers?**

Customer Group	2001				2002			
	% Very/fairly easy	% Not easy	Don't know	Sample size	% Very/fairly easy	% Not easy	Don't know	Sample size
All Customers	38	13	49	3,277	36	13	50	3,211
<b>By Switching</b>								
Switchers	58	18	24	2,256	56	17	27	2,200
Non-Switchers	27	10	63	1,021	24	11	65	1,011
<b>By Payment Type</b>								
Direct Debit	40	16	44	1,768	37	16	47	1,798
Standard Credit	35	12	53	1,184	36	12	51	1,059
Prepayment	40	7	53	299	35	7	58	320

Source: J.D. Power and Associates 2001 base (3277)/ 2002 base (3211)

- 4.14. Of those customers who had actually compared gas prices, 35 per cent responded they had obtained information enabling them to make a comparison from a door step sales agent, 24 per cent from their gas company, 10 per cent from magazines or newspapers, 9 per cent from telesales representatives, and 5 per cent from the internet.

### ***Electricity***

- 4.15. Table 4.10 identifies how easy or difficult electricity customers have found comparing prices between the various supply companies in 2001 and 2002. In 2002, while a third of customers perceived making a price comparison to be very or fairly easy, over 50 per cent responded 'don't know'. As in gas, 48 per cent of switchers found making price comparisons easy, while only 24 per cent of non-switchers perceived such comparisons to be easy. Direct debit electricity customers were more likely to find making price comparisons easy than prepayment customers (38 per cent for direct debit and 29 per cent for prepayment).
- 4.16. Ofgem is aware of suggestions that prepayment meter customers may be switching to more expensive suppliers. Given the lower actual/perceived ease of comparing prices among these customers, it will consider again how it might be possible to assess if these concerns are well founded.
- 4.17. Of those who had compared electricity prices, 33 per cent responded they had obtained information enabling them to make a comparison from a door step sales agent, 21 per cent from their electricity company, 12 per cent from magazines or newspapers, 9 per cent from telesales representatives, and 6 per cent from the internet.

**Table 4.10 How easy was it to compare prices between suppliers?**

Customer Group	2001				2002			
	% Very/fairly easy	% Not easy	Don't know	Sample size	% Very/fairly easy	% Not easy	Don't know	Sample size
<b>All Customers</b>	34	16	51	5009	34%	14%	52%	4505
<b>By Switching</b>								
Switchers	50	22	28	1,420	48	19	33	1,511
Non-Switchers	24	12	64	3,589	24	11	65	2,994
<b>By Payment Type</b>								
Direct Debit	38	19	43	2,138	38	18	45	1,883
Standard Credit	32	15	53	1,776	33	13	54	1,687
Prepayment	27	10	63	1,027	29	7	64	898

Source: J.D. Power and Associates 2001 base (5009)/ 2002 base (4505)

### ***Ease/perception of ease of switching***

4.18. Gas and electricity switchers were positive about their switching experiences when asked how easy they found the process. 56 percent of gas switchers found the process very easy, and 22 per cent fairly easy (78 per cent overall found the process easy or very easy). Only 11 per cent responded 'Not easy at all'. In electricity 57 per cent of customers found the process very easy, with 28 per cent finding it fairly easy (85 per cent overall found it easy or very easy). Only 8 per cent of electricity switchers found the process not easy at all.

## ***Reasons for switching***

- 4.19. In both gas and electricity the majority of customer cited costs or price savings as the reason for their decision to switch (80 per cent in gas and 81 in electricity). Better customer service was also cited as another reason (5 per cent of customers in both gas and electricity).

## 5. Customer switching

5.1. An important measure of the degree of supply competition is customer switching between suppliers, including the likelihood of customers switching between suppliers in the future. This chapter provides evidence and reports on customers' switching patterns between domestic gas and electricity suppliers. Ofgem presents the latest data on the following measures of switching behaviour:

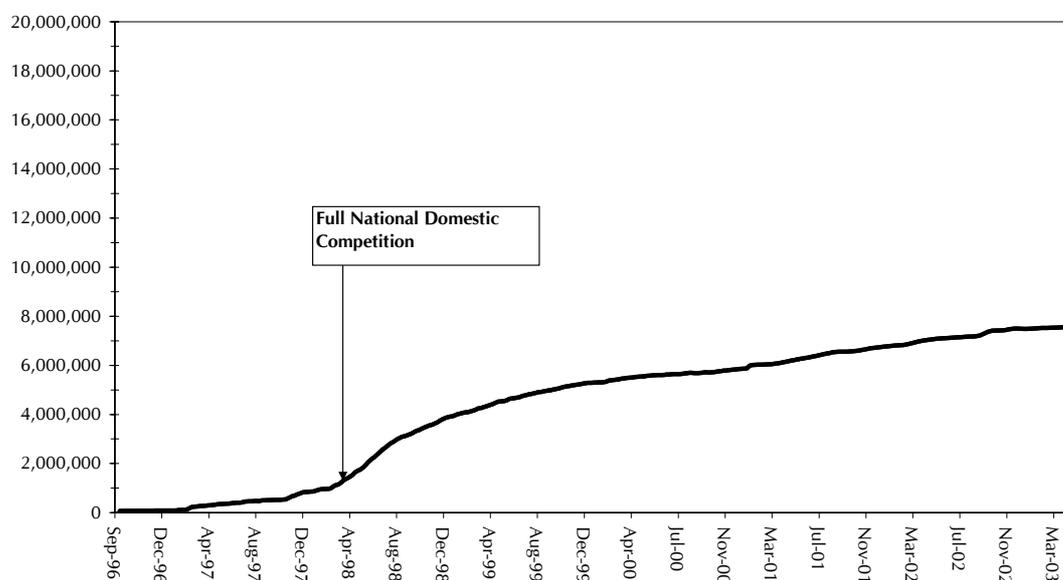
- the proportion of customers no longer with BGT or their incumbent ex-PES (i.e., net switching or erosion of incumbent customer share). This measure looks at the net effect of customers moving away from BGT/ex-PES supplier after deducting customers who have returned to their incumbent. This shows how many customers are no longer with their former monopoly supplier at a point in time and over time provides a measure of how quickly an incumbent's market share is being eroded through competition
- the proportion of customers who have ever switched (often referred to as gross switching). This metric provides an overall measure of market activity in the sector, and
- the proportion of customers who are multiple switchers. Some customers may switch several times, including returning to their former supplier, or switching to another non-incumbent or new entrant. Multiple switching as a share of total switching is rising, and illustrates a more complex switching pattern in domestic supply compared to when competition was introduced. For example, BGT and the ex-PES suppliers continue to win-back significant numbers of multiple switchers.

## Gas

### Net switching

- 5.2. Figure 5.1 shows the extent of net switching since the introduction of gas competition up to March 2003.<sup>11</sup> In gas, the net movement of customers away from BGT rose sharply in 1998/99, with a slowdown in net switching since that period. At March 2003, 7.6 million customers were no longer supplied gas by BGT, representing a net switching level of 37 per cent.

**Figure 5.1 Net switching in domestic gas supply (Sept 1996 – March 2003)**



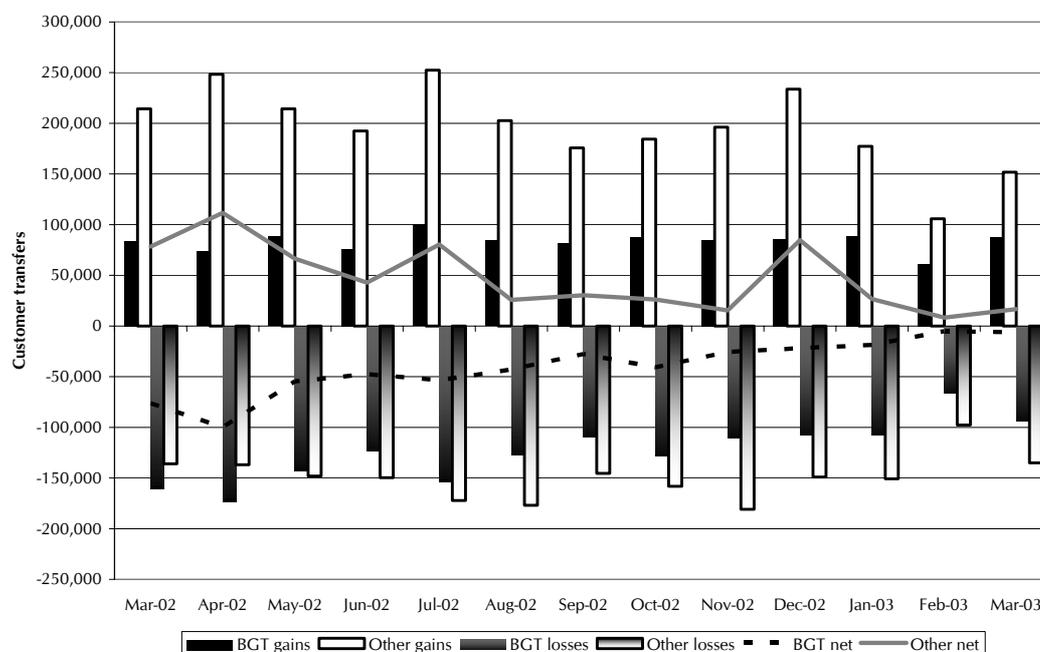
Source: Ofgem/Domestic gas suppliers

- 5.3. As discussed in paragraph 5.1, net switching reflects the net effect of customers moving away from the incumbent (referred to as 'gross losses') after deducting customers moving back to the incumbent (referred to as 'gross gains').
- 5.4. Figure 5.2 illustrates these underlying determinants of net switching, identifying the underlying gross losses and gains for BGT in each month between March 2002 and March 2003. The figure illustrates how recent net switching rates are underscored by a substantial two way movement of customers between BGT and competing suppliers. The shaded bars below the horizontal axis represent

<sup>11</sup> Ofgem/Domestic gas suppliers.  
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switchers who are transferring away from BGT, while the filled bars above the horizontal axis represents customers that BGT has acquired. Since all customers were with BGT prior to competition, these gains must represent acquisition of multiple switchers who have returned to BGT.

**Figure 5.2 Gross gains, gross losses and net switching, gas (2002 –2003)**



Source: Domestic gas suppliers

- 5.5. The dotted line below the horizontal axis represents the net movement of customers away from BGT in each month, and hence represents the netting off of gains (filled bars above the horizontal axis) from the losses (shaded bars below the horizontal axis). The figure shows that BGT's net losses have fallen from a high of 100,000 in April 2002 (175,000 gross losses less 75,000 gains) to almost zero in March 2003 (over 90,000 gross losses less nearly 90,000 gross gains).<sup>12</sup>
- 5.6. Ofgem considers that net switching is a useful measure of the level of competition in domestic supply since, over time, net switching represents the erosion of an incumbent's market share. However, net switching should not be looked at in isolation from the gross gains and losses that comprise the measure.

<sup>12</sup> The shaded line above the horizontal axis represents net gains by all other competitors, and nets off 'other losses' (outlined shaded bars below the horizontal axis) from 'other gains' (outlined unfilled bars above the horizontal axis). The shaded line representing net gains is (roughly) a mirror image of the dotted line below representing net losses (since net losses from BGT is equal to competitors' gains).

- 5.7. For instance, Figure 5.2 illustrates how a near zero net switching rate does not imply no switching activity. On the contrary, in the case of gas, it is underscored by a business environment in which suppliers must work hard to offset significant gross customer losses.
- 5.8. The above analysis suggests that, in the absence of win-backs, the erosion of BGT's market share would be significantly greater than the current rate. In December, Ofgem identified incumbent win-back strategies as an area of increasing market activity. Ofgem will continue to monitor win-back strategies to ensure that they are not anti-competitive and customers continue to benefit from this form of offering.
- 5.9. Ofgem also analyses trends in net switching for gas for different customer groupings, including socio-economic groups, payment types and income level. Table 5.1 identifies trends in net switching for these groupings since March 2002.
- 5.10. At January 2003, net household switching in gas reached 38 per cent. This figure is based on household survey data and is not significantly different from the 37 per cent estimate based on Ofgem and domestic gas supplier data (see Figure 5.1).
- 5.11. Customers across all social groupings continue to switch away from BGT. At January 2003, the proportion of customers in social group C2 and DE who had switched was close to the average for all groups (38 per cent and 35 per cent compared to the average of 38 per cent). Net switching for over 65s remains below the average (31 per cent), while for single parent families switching lies above the average (39 per cent), at October 2002.
- 5.12. Customers across all payment types continue to switch away from BGT, with the increase in net switching among prepayment customers being similar that among credit customers over the last three quarters. At January 2003, the level of net switching was highest for direct debit customers (46 per cent), with lower levels of net switching for credit and prepayment customers (32 and 28 per cent, respectively).

**Table 5.1 Household net switching in gas**

Customer Group	Level of household net switching (% of total households)			
	April 2002	July 2002	October 2002	January 2003
<b>All domestic gas customers</b>	33	36	37	38
<b>Socio-economic groups</b>				
AB	36	40	40	41
C1	35	38	38	39
C2	33	35	37	38
DE	29	33	34	35
<b>Other groups</b>				
Over 65s	na	na	31	na
Single parent family	na	na	39	na
<b>By Payment Type</b>				
Direct Debit	32	44	44	46
Standard Credit	24	32	30	32
Prepayment	20	27	32	28
<b>By Income (£)</b>				
Benefits	na	na	32	na
< 10,000	33	35	36	33
10,000 – 20,000	33	36	36	37
20,000 – 35,000	34	38	37	40
> 35,000	36	41	41	44

Source: Electricity Association: base 15,000

- 5.13. It should be noted that Table 5.1 counts switchers by 'destination' payment type (i.e., payment type they switch 'to'), not from where they switched. Coupled with the fact that most switchers who simultaneously change their payment method do so to direct debit, the switching figures exaggerate the proportion of direct debit customers no longer with their incumbent supplier, and consequently understates net switching for credit and prepayment types.<sup>13</sup>
- 5.14. Customers at all income levels continue to switch away from BGT, with those on incomes below £10,000, and between £10,000 and £20,000 having switched away from BGT in proportions slightly below the average (33 and 37 per cent compared to an average of 38 per cent) at January 2003. Those customers receiving benefits also continue to switch in proportions slightly lower than the average (32 per cent compared to 37 per cent). As net switching represents erosion of incumbent share, reductions in net switching levels among customers with incomes below £10,000, and among pre-payment customers, show that win-back is particularly prevalent among these groups.

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<sup>13</sup> Measuring net switching by destination payment types means that a prepayment customer who switches supplier and simultaneously switches payment type to direct debit is counted as a direct debit switcher, not a prepayment switcher. Given the increasing numbers of customers moving to direct debit, this effect is likely to be material. Ofgem currently has no data about the original payment method of switchers.

## Gross Switching

5.15. Table 5.2 identifies those customers who have ever switched since Summer 1998. Ofgem does not have a reliable source on data to measure gross switching at present, and hence no update can be provided for 2002 or 2003.

**Table 5.2 Proportion of gas customers who have ever switched**

	Gross switching as a proportion of total customers (%)
Summer 1998	17
Summer 1999	25
Summer 2000	29 <sup>14</sup>
Summer 2001	37
Summer 2002	N/A

Source: Ofgem/MORI

5.16. Going forward however, data is available on customers' intentions to switch in the future, which can provide an estimate of future gross switching rates.

Table 5.3 identifies gas customers' likelihood of switching to another supplier over the next 12 months. The table also considers likelihood to switch by switcher/non-switcher groups, payment types, and by region.

5.17. Between 2001 and 2002, there has been only a slight change in the proportion of customers likely to switch in the next 12 months, from 13 per cent to 12 per cent. This increased likelihood is particularly strong among prepayment customers.

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<sup>14</sup> The figure for 2000 is weighted based on Ofgem's estimation of switching rates as opposed to that for 2001 which is **not**. MORI suggested the figure for 2000 represents an underestimate of the actual gross customer switching.

## Likelihood of switching gas supplier

**Table 5.3 Likelihood of gas customers switching within the next 12 months**

Customer Group	Proportion of group that are likely to switch (%)	
	Summer 2001	Summer 2002
All domestic gas customers	13	12
<b>By switching group</b>		
Switchers	14	16
Non-switchers	12	9
<b>By payment type</b>		
Direct Debit	14	13
Standard Credit	14	8
Prepayment	6	16
<b>By region</b>		
England & Wales	14	12
Scotland	9	9

Source: J.D. Power and Associates base 2001 (3277)/2002 (3211)

5.18. Those who have switched are more likely to switch in the future than non-switchers (16 compared to 9 per cent), reinforcing the notion that multiple switching is rising relative to first time switching. Prepayment customers are most likely to switch over the next 12 months (16 per cent) compared to credit customers (only 8 per cent expect to switch).

5.19. Table 5.3 shows that a continuing, sizeable proportion of customers will seek to switch their supplier in the future.

## ***Multiple switching***

5.20. The table below identifies how many times customers have switched.

**Table 5.4 How many times have you switched your gas supplier? (switchers only)**

Customer Group	2001 (%)			2002 (%)		
	1	2	3+	1	2	3+
All customers	65	23	11	59	27	14
Direct Debit	65	24	11	60	27	13
Standard Credit	64	26	8	59	26	15
Prepayment	69	20	11	53	16	25 <sup>15</sup>

Source: J.D. Power and Associates, base 2001(3207)/2002(3173)

5.21. The results confirm that first time switchers still make up the bulk of total switchers. However, by 2002, there is a discernable increase in the multiple switcher share.

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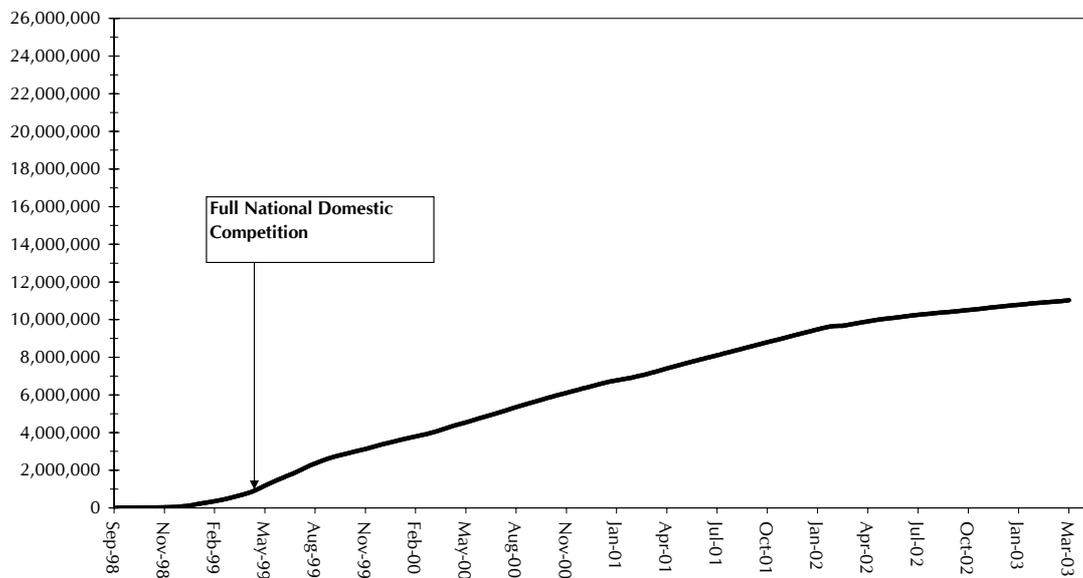
<sup>15</sup> Ofgem queries the result for prepayment customers which suggests more prepayment customers switched three or more times, than those who have switched twice.

# Electricity

## Net switching

5.22. Figure 5.3 shows the extent of net switching since the introduction of electricity competition up to March 2003.<sup>16</sup> In electricity, the proportion of customers transferring away from the ex-PESs has caught up with the net transfer of customers away from BGT in gas. At March 2003, 11 million customers were no longer supplied electricity by their ex-PES incumbent, representing a net switching level of 38 per cent.<sup>17</sup>

**Figure 5.3 Net switching in domestic electricity supply (Sept 1998 – March 2003)**



Source: MPAS providers

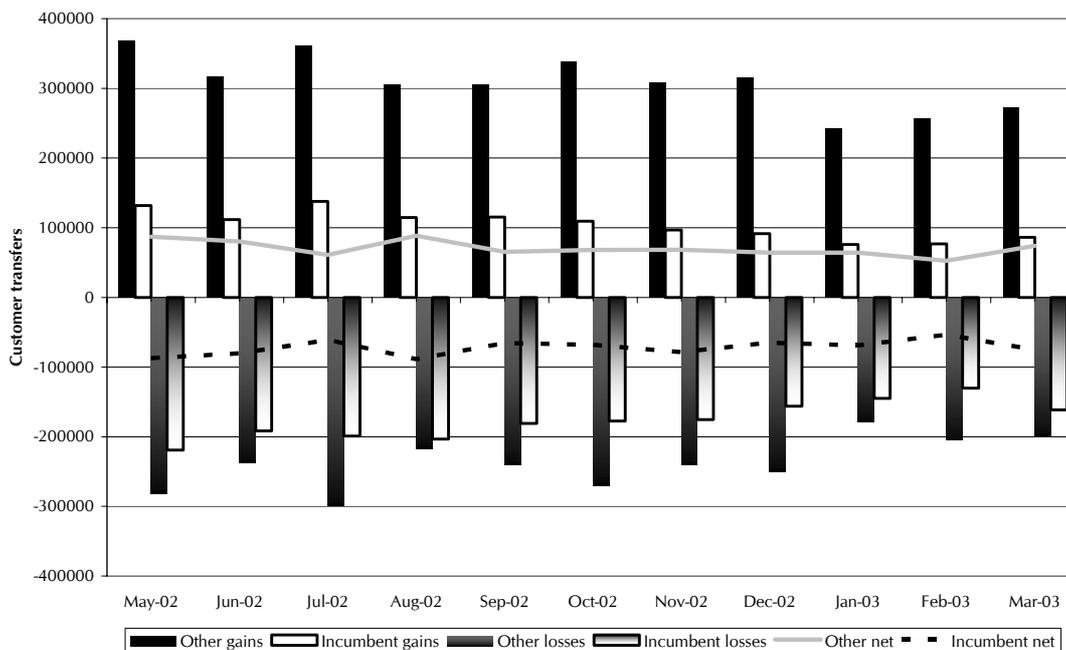
5.23. Figure 5.4 illustrates the underlying determinants of net switching, identifying the aggregate underlying in-area gross losses and gains for the ex-PESs in each month since May 2002. Again, the figure illustrates how recent net switching rates in electricity reflect substantial two-way movement of customers to and from the incumbent ex-PES suppliers. The outlined, shaded bars below the horizontal axis represent switchers who are transferring away from their

<sup>16</sup> The data used for this trend is non-half hourly (NHH) since switching data is not available for the domestic sector prior to January 2002.

<sup>17</sup> The NHH net switching figure is comparable to the figure of 37.4 per cent obtained from 'domestic' meter point data obtained from MPAS providers.

incumbent ex-PES, while the unshaded bar above the horizontal axis represents customers whom the ex-PESs have acquired in-area.<sup>18</sup> Since all domestic electricity customers were with their incumbent ex-PES at some point, these gains represent acquisition of multiple switchers who have returned to the ex-PESs (e.g., win-backs).

**Figure 5.4 Gross gains, gross losses and net switching, electricity (2002 –2003)**



Source: MPAS providers

5.24. The dotted line below the horizontal axis represents the aggregate net movement of customers away from incumbent ex-PESs in each month, and hence represents the netting off of gains (unfilled bars above the horizontal axis) from the losses (outlined shaded bars below the horizontal axis). The figure shows that in aggregate, ex-PES in-area gross losses trend downward from over 200,000 a month in July/August 2002 to over 150,000 in March 2003. Ex-PES in-area gross gains also trend downwards, from almost 150,000 in July 2002, to between 75,000 and 90,000 in early 2003.<sup>19</sup>

5.25. The dotted line in Figure 5.4 shows that ex-PES net losses have been relatively static since May 2002, as losses continue to outweigh gains on average by

<sup>18</sup> The reason for examining gross losses and gains in-area, is because we are interested in continuing the tracking of incumbent ex-PES in-area customer shares. Hence gross losses and gains are assessed on an in-area basis.

<sup>19</sup> The shaded line above the horizontal axis represents net gains by 'others', and nets off 'others losses' (shaded bars below the horizontal axis) from 'others gains' (filled bars above the horizontal axis).

around 75,000 each month, despite falls in both gross gains and gross losses over the period.

- 5.26. Figure 5.4 provides a similar illustration to that provided in gas (Figure 5.2), namely that in the absence of gross gains (e.g., win-backs) erosion of incumbent market share would effectively be up to twice as high as the current rate.
- 5.27. Ofgem will continue to monitor trends in net switching, including trends in gross gains and losses.
- 5.28. Ofgem also analyses trends in net switching for different customer groupings, including socio-economic groups, payment types and income level. Table 5.5 identifies trends in net switching for these groupings since March 2002.
- 5.29. At January 2003, net household switching reached 39 per cent. This figure is comparable to both the net switching figure using the NHH measure (38 per cent at March 2003 in Figure 5.3), and the figure based on domestic meter points (37.4 per cent at March 2003).
- 5.30. Customers across all social groupings continue to switch away from their ex-PES supplier. At January 2003, the proportion of customers in social group C2 and DE who had switched was close to the average for all groups (40 per cent and 37 per cent for both groups compared to an average of 39 per cent). Net switching for over 65s remains slightly below the average (33 per cent), while for single parent families switching lies above the average (45 per cent), at October 2002.
- 5.31. Customers across all payment types continue to switch away from the ex-PES supplier. At January 2003, the level of net switching was highest for direct debit customers (46 per cent), with lower levels of net switching for credit and prepayment customers (34 and 33 per cent respectively).

**Table 5.5 Household net switching in electricity**

Customer Group	Level of household net switching (% of total households)			
	April 2002	July 2002	October 2002	January 2003
<b>All domestic electricity customers</b>	34	36	37	39
<b>Socio-economic groups</b>				
AB	35	36	37	40
C1	36	38	38	41
C2	34	36	36	40
DE	32	34	36	37
Other groups				
Over 65	na	na	33	na
One parent family	na	na	45	na
<b>By Payment Type</b>				
Direct Debit	40	43	42	46
Standard Credit	30	30	32	34
Prepayment	26	30	31	33
<b>By Income (£)</b>				
Benefits	na	na	34	na
< 10,000	33	33	34	36
10,000 – 20,000	34	34	35	36
20,000 – 35,000	36	36	38	37
> 35,000	36	36	38	41

Source: Electricity Association: base 15,000

- 5.32. It should be noted that Table 5.5 counts switchers by 'destination' payment type (i.e., payment type they switch 'to'), not from where they switched. Coupled with the fact that most switchers who simultaneously change their payment method do so to direct debit, the switching figures exaggerate the proportion of direct debit customers no longer with their incumbent supplier, and consequently understates net switching for credit and prepayment types.<sup>20</sup>
- 5.33. Customers at all income levels continue to switch away from their incumbent, with those on incomes below £10,000, and between £10,000 and £20,000 having switched away from their ex-PES in roughly the same proportions as the average (36 per cent and 42 per cent compared to an average of 37 per cent) at January 2003. Those customers receiving benefits also continue to switch in proportions slightly lower than the average (34 per cent compared to 37 per cent).

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<sup>20</sup> Measuring net switching by destination payment types means that a prepayment customer who switches supplier and simultaneously switches payment type to direct debit is counted as a direct debit switcher, not a prepayment switcher. Given the increasing numbers of customers moving to direct debit, this effect is likely to be material. Ofgem currently has no data about the original payment method of switchers.

## ***Gross switching***

5.34. Table 5.6 identifies the proportion of domestic electricity customers who have switched, on an annual basis from Summer 1999 and then on a quarterly basis since March 2002.

**Table 5.6 Proportion of electricity customers who have EVER switched**

	<b>Gross switching as a proportion of total customers (%)</b>
Summer 1999	11
Summer 2000	19 <sup>21</sup>
Summer 2001	38
Quarterly 2002/03	
March 2002	38
June 2002	40
December 2002	42
March 2003	43

Source: MORI, MPAS providers

5.35. Gross switching has increased 5 percentage points from March 2002 to 43 per cent at March 2003. Ofgem estimates that if the current switching rates continue, by 2004, 50 per cent of all domestic electricity customers will have switched since competition was introduced in April 1999.

5.36. Table 5.7 identifies customers' expectations that they will switch their supplier over the course of the next 12 months. For all customers, 14 per cent indicate they would seek to change to another supplier (down 4 percentage points from

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<sup>21</sup> The figure for 2000 is weighted based on Ofgem's estimation of switching rates as opposed to that for 2001 which is **not**. MORI suggested the figure for 2000 represents an underestimate of the actual gross customer switching.

18 percent in 2001). More switchers have indicated they will switch again (18 per cent), compared to non-switchers (9 per cent).

5.37. These results suggest that gross switching rates may continue at a healthy level, albeit slightly below historically high levels.

### Likelihood of switching electricity supplier

**Table 5.7: Likelihood of electricity customers switching within the next 12 months**

Customer Group	Proportion of group that are likely to switch (%)	
	Summer 2001	Summer 2002
All domestic electricity customers	18	14
<b>By switching group</b>		
Switchers	22	18
Non-switchers	15	9
<b>By payment type</b>		
Direct Debit	19	13
Standard Credit	16	13
Prepayment	17	15
<b>By region</b>		
England & Wales	18	14
Scotland	17	14

Source J.D. Power and Associates base 2001 (5009)/2002 (4505)

## ***Multiple switching***

5.38. Table 5.8 identifies how many times customers have switched.

**Table 5.8 How many times have you switched your electricity supplier? (switchers only)**

Customer Group	2001 (%)			2002 (%)		
	1	2	3+	1	2	3+
All customers	68	22	11	66	21	12
Direct Debit	66	25	9	65	23	12
Standard Credit	69	20	11	69	17	14
Prepayment	82	14	5	66	19	14

Source: J.D. Power and Associates, base 2001(1511)/2002(1501)

5.39. The results from table 5.8 confirm that first time switchers still make up the bulk of total switchers. For prepayment customers, there is a discernable increase in the multiple switcher share by 2002.

5.40. As a proportion of all multiple switchers, Ofgem estimates that the ex-PES suppliers have won back 43 per cent of all multiple switchers.<sup>22</sup>

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<sup>22</sup> MPAS providers, NHH data, March 2003.  
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## 6. Market share

- 6.1. This chapter updates previously published information on suppliers' market shares within domestic gas and electricity supply. Specifically, this chapter identifies latest market share data for BGT and the incumbent ex-PES suppliers, in domestic gas, electricity and dual fuel supply, as well as trends in market shares for non-incumbents and new entrants.
- 6.2. Ofgem monitors market shares as they can give an indication of the extent of a firm's market power. For instance, a firm with a large market share relative to other firms in the same market may have the ability to raise its price independently of other firms, at least to some extent.
- 6.3. However, a firm with a large market share will not always be able to exert market power. Other features of the market, such as the extent of switching and price and non-price offers, will affect a firm's ability to exercise its market power. Accordingly, market shares must be examined alongside other indicators presented in this document.

### **Gas**

#### **BGT's market share**

- 6.4. Table 6.1 shows BGT's share of the domestic gas customers up to March 2003. The table illustrates how BGT's decline in market share has slowed in recent years compared to the early stages of the introduction of competition.
- 6.5. Chart 6.1 breaks down new entrant market share by competing supplier group. Organic growth and acquisitions since September 2001 have altered the market shares of new entrants. BGT remains the largest supplier with 63 per cent of all domestic gas customers. Powergen's market share rose from 4 per cent at September 2001 to 12 per cent at March 2003, making it the second largest gas supplier as a result of its acquisition of TXU Energi. npower's market share of 9 per cent makes it the third largest gas supplier. LE Group's acquisition of Seaboard, in addition to organic growth, increased its market share from 2 per cent at September 2001 to 5 per cent at March 2003.

**Table 6.1 BGT's share of domestic gas customers over time**

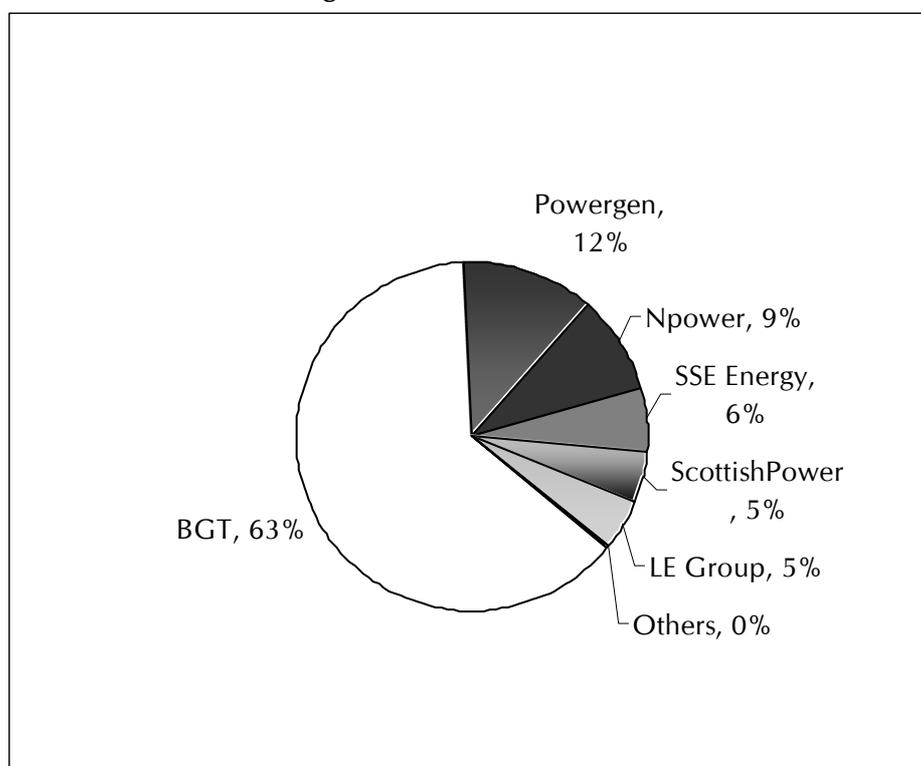
	BGT Market Share (%)	Competitors (%)
September 1999	84	16
September 1998	75	25
September 2000	71	29
September 2001	67	33
September 2002	64	36
March 2003	63	37

Source: Ofgem/ Domestic gas suppliers

6.6. SSE has also increased its gas market share through organic growth and purchase of customers from independent suppliers.

6.7. Chart 6.1 illustrates that 6 suppliers now serve almost 100 per cent of domestic gas customers.<sup>23</sup>

**Chart 6.1 Domestic gas market shares (March 2003)**



Source: Domestic gas suppliers

<sup>23</sup> The category 'Others' refers to Atlantic Electric and Gas (0.3 per cent, rounded to zero).  
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6.8. Table 6.2 examines BGT's and new entrants' share of domestic gas customers by payment method. While BGT's market share of direct debit and prepayment customers continues to fall, BGT has seen its share of gas credit customers between 2001 and 2002 fall slightly.

**Table 6.2 Gas market shares by payment type by customer numbers**

	BGT share (%)			Other suppliers' share (%)		
	Monthly DD	Standard Credit	Prepayment	Monthly DD	Standard Credit	Prepayment
Sep-99	70	78	88	30	22	12
Sep-00	67	74	83	33	26	17
Sep-01	61	67	78	39	33	22
Sep-02	57	66	74	43	34	26

Source: Domestic gas suppliers

## *Electricity*

6.9. Table 6.3 shows supply group market shares within Great Britain. Consolidation over the course of 2002 has seen material changes in group market shares, and changes in ranking of supplier by market share. As at March 2003, BGT is the largest electricity supplier (23 per cent), followed closely by Powergen (22 per cent), and then npower (16 per cent).

**Table 6.3 Principal electricity supplier groups shares of domestic electricity supply in Great Britain by customers supplied**

<b>Group</b>	<b>September 2000</b>	<b>September 2001</b>	<b>September 2002</b>	<b>March 2003</b>
<b>Powergen</b>	8%	8%	23%	22%
<b>TXU Energi</b>	17%	15%		
<b>BGT</b>	14%	17%	22%	23%
<b>npower</b>	8%	19%	17%	16%
<b>Northern Electric</b>	4%			
<b>Yorkshire</b>	7%			
<b>LE Group</b>	10%	10%	15%	15%
<b>Seeboard</b>	6%	6%		
<b>SSE Energy</b>	14%	14%	13%	14%
<b>ScottishPower</b>	10%	10%	10%	10%
<b>Others</b>	0.04%	1.32%	0.23%	0.34%

Source: MPAS providers

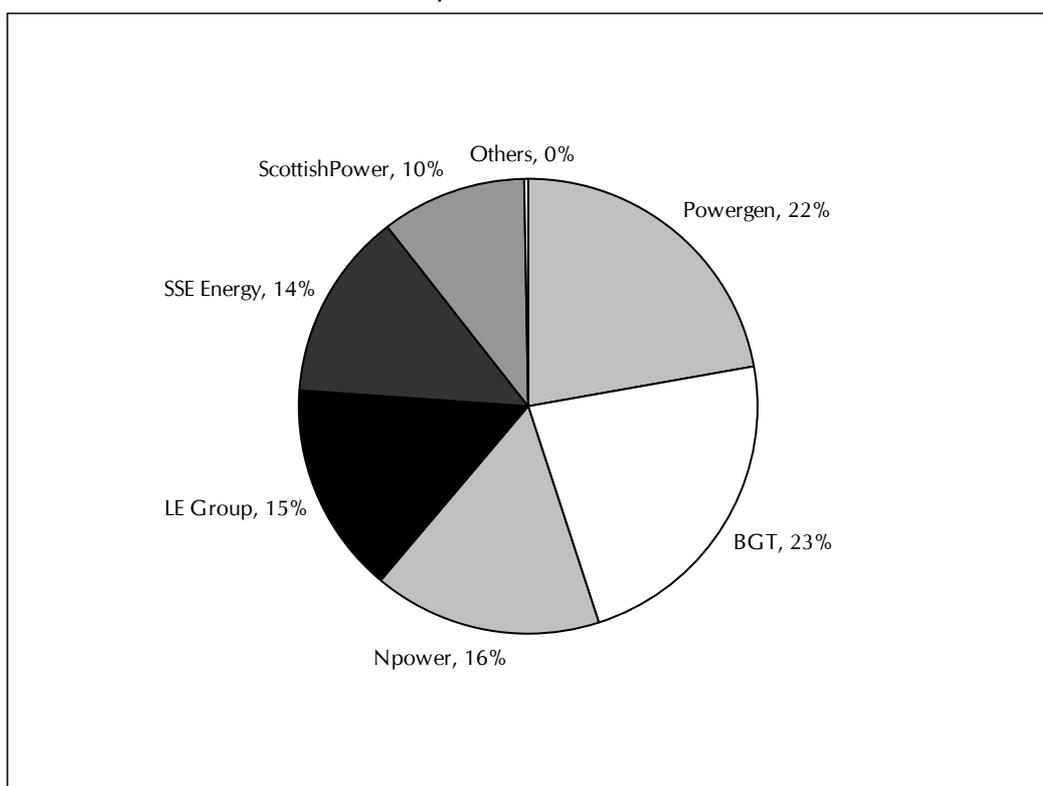
6.10. Increases in market share between September 2001 and March 2003 have reflected both organic growth and mergers and acquisitions. Powergen's acquisition of TXU Energi raised Powergen's national market share from 8 per cent (ranked 7th) in September 2001 to 22 per cent (ranked 2nd) at March 2003. LE Group's acquisition of Seeboard lifted its national market share from 10 per cent (ranked 5th) to 15 per cent (ranked 4th).

6.11. BGT has continued to increase its market share, through organic growth, from 17 per cent (ranked 1st) at September 2001 to 23 per cent (ranked 1st) at March

2003. npower has lost market share falling from 17 per cent (ranked 2nd) in September 2001 to 16 per cent (ranked 3rd) at March 2003.

6.12. Chart 6.2 illustrates the pattern of supplier market share for domestic supply at March 2003.<sup>24</sup>

**Chart 6.2 Domestic electricity market shares (March 2003)**



Source: MPAS providers

6.13. Table 6.4 identifies the market shares of ex-PES suppliers in-area up to March 2003. In 2002 and 2003, the table distinguishes between the market share of the group operating within each PES region, and the market share of each in-area ex-PES licensee.

6.14. This distinction makes transparent the effect of increased consolidation in domestic supply i.e., comparing shaded and unshaded columns for September 2002. For instance, Powergen's in-area shares experienced an increase when they acquired TXU Energi (in-area market shares in increased by approximately 3 percentage points for both Powergen and TXU Energi).

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<sup>24</sup> The category 'Others' refers to other suppliers in aggregate who account for 0.34 per cent .  
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**Table 6.4 Market shares by customers supplied of the ex-PES suppliers 'in-area'**

Group	Area	Sep-99	Sep-00	Sep-01	Sep-02	Sep-02	Mar-03	Mar-03
		Licence	Licence	Licence	Group	Licence	Group	Licence
<b>npower</b>	Midlands	89	78	68	60	60	57	58
	Yorkshire	91	80	69	64	61	62	60
	Northern	89	75	64	63	58	60	56
<b>Powergen</b>	East Midlands	88	76	66	63	60	61	59
	Eastern	89	78	71	68	64	66	62
	North West	91	79	67	61	57	58	55
<b>SSE Energy</b>	Southern	91	80	71	68	68	68	68
	North Scotland	94	89	83	83	83	83	83
	South Wales	90	82	72	68	68	68	68
<b>Scottish Power</b>	South Scotland	93	82	72	65	65	64	64
	Manweb	90	79	68	60	60	58	59
<b>London</b>	London	92	82	73	68	67	68	67
	South West	95	85	75	70	68	68	67
	South East	89	81	70	67	64	66	64
<b>All areas</b>	All areas	90	80	70	66	65	65	64

Source: MPAS providers

**Table 6.5 Average market shares by customers supplied by payment method of ex-PES suppliers 'in area' compared to other suppliers**

	Ex- PES suppliers 'in-area' market share (%)			Other suppliers' shares (%)		
	Direct Debit	Other credit	Prepayment	Direct Debit	Other credit	Prepayment
Mar-00	78	85	94	22	15	6
Sep-00	72	80	90	28	20	10
Mar-01	67	76	85	33	24	15
Jun-01	64	73	80	36	27	20

Source: Domestic electricity suppliers

6.15. In Table 6.4, the all areas figure for incumbent market share above represents the simple arithmetic average of incumbent market shares in each region. On a

Great Britain wide basis, the proportion of customers with their incumbent is calculated by dividing all ex-PES incumbents' meter points by total meter points in Great Britain. This measure provides slightly lower incumbent share results (e.g., by licensee, 64 per cent and 63 per cent for September 2002 and March 2003 respectively). This difference is due to differing numbers of customers within each of the 14 regions.

- 6.16. Table 6.5 examines the average of the ex-PES suppliers and new entrant share of domestic electricity customers by payment method. At present, Ofgem does not have reliable data on market share by payment type for 2002 and 2003.

## ***Dual Fuel***

**Table 6.6 Dual Fuel market shares by customer numbers (%)**

	<b>Summer 2001</b>	<b>Summer 2002</b>
British Gas	45	46
London Electricity	2	3
Northern Electric	4	-
npower	11	14
Powergen	9	19
SSE Energy	9	8
Scottish Power	6	7
Seeboard	2	4
TXU Energi	10	-
Unweighted Sample Size	3899	4296

Source: J.D. Power and Associates Gas and Electricity Surveys 2001 and 2002

- 6.17. Table 6.6 identifies suppliers' shares of customers taking both fuels from the same supplier, as a measure of supplier share of dual fuel customers. BGT has the largest share of dual fuel customers, with 46 per cent. Powergen has increased its share of dual fuel primarily through its acquisition of TXU Energi,

with a combined share of 19 per cent, followed by npower with 14 per cent, and SSE with 8 per cent.

- 6.18. Again, increases in dual fuel market share reflect a combination of organic growth and through mergers and acquisitions since September 2001.

## ***Summary***

- 6.19. Both organic growth (through marketing and sales activity) and mergers and acquisitions have been important determinants of changes in supplier market shares since September 2001.
- 6.20. In gas, BGT's market share continues to fall over time, albeit at a slower rate than when competition was first introduced. Competitors are increasing their shares through consolidation and acquisition of former BGT customers.
- 6.21. In electricity, ex-PES in-area market shares continue to fall by licensee and by supplier group. Again, the erosion of market share is slowing compared to historic rates. In contrast, at a national level, market share has increased significantly for Powergen and LE Group, with 22 and 15 per cent of the national market respectively.
- 6.22. At a dual fuel level, BGT has the largest market share.

## 7. Price and non-price offers

7.1. This chapter identifies key trends in price and non-price offerings available to domestic customers, and how prices have changed since the last competitive market review in November 2001. Ofgem closely monitors price trends, including BGT and ex-PES suppliers' pricing to their existing customers, as well as discounts available to customers who have not yet switched from their incumbent supplier.

### Gas

7.2. Competitors to BGT continue to offer discounts. Table 7.1 shows the number of suppliers offering discounts to BGT, and the maximum discounts available. The table shows that there between 5 and 13 suppliers offering lower gas prices than BGT, depending on payment type and consumption. The extent of discounts continues to widen, with discounts of up to 23 percent offered to direct debit customers, 19 per cent offered to credit customers and 12 per cent offered to prepayment customers.

**Table 7.1 Range of offers for gas customers: all payment types, high, medium and low consumption levels, May 2003 (excludes internet discounts)**

	Direct Debit		Credit		Prepayment	
	No. of suppliers offering discounts	Maximum discount (%)	No. of suppliers offering discounts	Maximum discount (%)	No. of suppliers offering discounts	Maximum discount (%)
<b>Low</b> <b>(10,000 kWh pa)</b>	12	23	12	15	8	12
<b>Average</b> <b>(19,050 kWh pa)</b>	12	16	12	19	6	10
<b>High</b> <b>(28,000 kWh pa)</b>	12	14	12	15	5	8

Source: Ofgem

## Electricity

7.3. Competitors continue to offer a range of discounts to the incumbent ex-PES suppliers.

**Table 7.2 Range of offers for electricity customers: all payment types, high, medium and low consumption levels, May 2003 (excludes internet discounts)**

Consumption level	Direct Debit		Credit		Prepayment	
	No. of suppliers offering discounts	Maximum discount (%)	No. of suppliers offering discounts	Maximum discount (%)	No. of suppliers offering discounts	Maximum discount (%)
<b>Low (1650 kWh pa)</b>	1 – 11	0-20	2 – 11	2 - 17	1 - 8	8 – 13
<b>Medium (3300 kWh pa)</b>	10 - 11	9 - 17	9 - 11	9 - 16	1-10	9 - 12
<b>High (4950 kWh pa)</b>	10 - 11	12 - 19	9 - 11	9 - 18	2 - 10	9 - 12

Source: Ofgem

7.4. Table 7.2 shows that customers on all payment types and at all levels of consumption are able to make substantial savings by switching away from their incumbent ex-PES supplier. For instance, a direct debit customer can take advantage of a best discount of up to 20 per cent (depending on region and consumption), for credit, best savings are up to 17 per cent (depending on region and consumption), and for prepayment, best savings are up to 13 per cent. Direct Debit and credit customers face the largest number of suppliers competing for their custom (up to 11) although the number is slightly lower for prepayment (up to 10).

7.5. For customers at low consumption levels, there are some regions in which there are few or no suppliers competing on price terms against the incumbent ex-PES. For example, in the Midlands region, no competitor offers cheaper direct debit prices at low consumption levels than npower. However, taking an average of the number of suppliers offering discounts across the 14 ex-PES regions, there

are, on average, 9 suppliers offering discounts in direct debit, 7 in credit and 6 in prepayment at the low consumption level.

7.6. Tables 7.3, 7.4 and 7.5 identify in more detail the range of price offers available to domestic electricity customers.

**Table 7.3 Standard Domestic incumbent suppliers' high consumption bills and best discounts for electricity**

	Direct Debit		Standard Credit		Prepayment	
	Incumbent	Best Discount (%)	Incumbent	Best Discount (%)	Incumbent	Best Discount (%)
<b>East Midlands</b>	326	13	336	9	345	10
<b>Eastern</b>	322	14	339	12	345	10
<b>London</b>	347	14	356	9	358	10
<b>Manweb</b>	376	15	390	14	395	10
<b>Midlands</b>	350	16	361	12	370	10
<b>Northern</b>	359	19	369	18	390	11
<b>Norweb</b>	335	13	345	10	360	10
<b>Scottish Hydro</b>	379	17	400	16	400	9
<b>Scottish Power</b>	393	17	410	15	413	9
<b>Seeboard</b>	345	17	354	14	369	11
<b>Southern</b>	353	14	372	13	392	12
<b>Swalec</b>	391	12	413	11	429	12
<b>SWEB</b>	385	14	394	12	394	10
<b>Yorkshire</b>	337	15	348	12	371	10

Source: Ofgem

**Table 7.4 Standard Domestic incumbent suppliers' medium consumption bills and best discounts for electricity**

	Direct Debit		Standard Credit		Prepayment	
	Incumbent	Best Discount	Incumbent	Best Discount	Incumbent	Best Discount
<b>East Midlands</b>	226	10%	236	7%	244	10%
<b>Eastern</b>	226	13%	239	12%	243	10%
<b>London</b>	242	12%	250	9%	255	10%
<b>Manweb</b>	266	14%	279	15%	284	10%
<b>Midlands</b>	233	11%	243	9%	259	10%
<b>Northern</b>	243	15%	253	15%	276	11%
<b>Norweb</b>	234	12%	242	9%	258	10%
<b>Scottish Hydro</b>	269	17%	283	16%	283	9%
<b>Scottish Power</b>	277	16%	291	16%	294	9%
<b>Seeboard</b>	236	14%	244	13%	250	10%
<b>Southern</b>	252	14%	266	14%	280	12%
<b>Swalec</b>	276	11%	291	9%	306	12%
<b>SWEB</b>	264	12%	273	10%	277	10%
<b>Yorkshire</b>	230	9%	240	10%	266	10%

Source: Ofgem

**Table 7.5 Standard Domestic incumbent suppliers' low consumption bills and best discounts for electricity**

	Direct Debit		Standard Credit		Prepayment	
	Incumbent	Best Discount (%)	Incumbent	Best Discount (%)	Incumbent	Best Discount (%)
<b>East Midlands</b>	125	5	136	7	144	10
<b>Eastern</b>	127	11	134	11	141	10
<b>London</b>	137	10	145	8	152	11
<b>Manweb</b>	156	15	168	16	173	10
<b>Midlands</b>	115	0	126	2	148	10
<b>Northern</b>	126	6	137	7	162	11
<b>Norweb</b>	132	15	139	11	155	10
<b>Scottish Hydro</b>	158	20	165	17	165	8
<b>Scottish Power</b>	160	17	172	17	175	11
<b>Seeboard</b>	126	11	135	13	131	10
<b>Southern</b>	148	16	154	14	169	13
<b>Swalec</b>	161	11	168	9	184	12
<b>SWEB</b>	144	8	152	7	161	10
<b>Yorkshire</b>	122	2	133	3	162	12

Source: Ofgem

## Dual Fuel

7.7. Tables 7.6 and 7.7 present dual fuel savings, relative to the double incumbent supply position (i.e., gas supplied by BGT and electricity supplied by incumbent ex-PES, by region), for direct debit and standard credit customers as at May 2003.

**Table 7.6 Dual fuel savings from switching – Direct Debit**

<b>BGT/ex-PES</b>	<b>Double incumbency bill</b>	<b>Best Dual Fuel offer</b>	<b>£ Saving</b>	<b>% Saving</b>
<b>East Midlands</b>	544	482	62	11
<b>Eastern</b>	544	478	66	12
<b>London</b>	560	491	69	12
<b>Manweb</b>	584	510	75	13
<b>Midlands</b>	551	488	63	11
<b>Northern</b>	561	488	72	13
<b>Norweb</b>	552	487	65	12
<b>Scottish Hydro</b>	587	505	81	14
<b>Scottish Power</b>	595	514	80	14
<b>Seeboard</b>	554	483	71	13
<b>Southern</b>	570	496	74	13
<b>Swalec</b>	594	523	71	12
<b>SWEB</b>	583	510	72	12
<b>Yorkshire</b>	548	486	62	11

Source: Ofgem

**Table 7.7 Dual fuel savings from switching – Standard Credit**

<b>BGT/ex-PES</b>	<b>Double incumbency Bill</b>	<b>Best Dual Fuel offer</b>	<b>£ Saving</b>	<b>% Saving</b>
<b>East Midlands</b>	592	522	70	12
<b>Eastern</b>	595	507	88	15
<b>London</b>	607	529	78	13
<b>Manweb</b>	635	539	97	15
<b>Midlands</b>	599	518	82	14
<b>Northern</b>	609	515	95	16
<b>Norweb</b>	598	516	82	14
<b>Scottish Hydro</b>	639	544	95	15
<b>Scottish Power</b>	647	546	101	16
<b>Seeboard</b>	600	509	91	15
<b>Southern</b>	622	525	97	16
<b>Swalec</b>	647	562	84	13
<b>SWEB</b>	629	551	78	12
<b>Yorkshire</b>	596	516	80	13

Source: Ofgem

- 7.8. Table 7.6 shows customers can make savings of between £62 and £81 (11 and 14 per cent) depending on region.
- 7.9. Table 7.7 shows credit customers can make even larger savings, between £70 and £101 (12 and 16 per cent) depending on region.

### ***Drivers of prices***

- 7.10. Prices today are set by competitive forces, and Ofgem no longer monitors in detail how suppliers organise their businesses or allocate their costs. However, in the December document it laid out its best understanding of how suppliers' costs had changed during the years since the final introduction of competition (and the finalisation of NETA design) in 1998. Chapter 3 of that document describes a number of changes to electricity supplier costs during that period: cost reductions from lower wholesale prices, and lower distribution and transmission costs; and cost increases from higher supply costs and environmental costs. It describes the effect of suppliers' long-term wholesale purchase portfolios, which prevents suppliers gaining full benefit from short-term drops in wholesale prices. Taken together, these factors suggested that the price-

reductions captured by switchers were at the top end of the range of suppliers' cost-savings, but that customers who have not switched have benefited less.

- 7.11. The December paper also outlined how increases in wholesale gas costs had significantly reduced the profitability of gas supply. For dual fuel suppliers, changes in electricity and gas wholesale costs will net out to some extent. This will mean that dual fuel customers are gaining benefits from lower electricity wholesale costs that are not apparent just from electricity retail prices.

## ***Non-price offers***

### **Affinity Deals**

- 7.12. Affinity partnerships continue to be an important feature of domestic gas and electricity supply. Customers and suppliers continue to benefit from partnerships with other leading retail brands in other sectors through bundled offers, loyalty points, and better customer retention and acquisition channels. Partnerships include ScottishPower/Sainsbury's, Scottish and Southern/Argos, and TXU Energi/Tesco's.<sup>25</sup>

### **Green tariffs**

- 7.13. Many suppliers now offer 'green' tariffs, which source energy from renewable energy sources. In April 2002 Ofgem published guidelines to help customers make an informed choice when choosing an environmentally friendly electricity supply. The guidelines set out the criteria that Ofgem recommends suppliers adhere to when they advertise a supply as being green.<sup>26</sup>

### **Product differentiation**

- 7.14. Many suppliers are differentiating their services, to improve customer services and thereby improve customer retention and acquisitions. For example, BGT provides customers with free bill payment cover to protect customers in the case

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<sup>25</sup> "Marketing Alliances in the UK Energy Retail Sector, Adrian Dineen Consulting, September 2002.

<sup>26</sup> [http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/1997\\_31green\\_supply\\_offerings\\_guidelines.pdf](http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/1997_31green_supply_offerings_guidelines.pdf)

of accidental death. Seeboard's Self Read Saver offers customers a £20 pound saving off their bills if they read their meters themselves.<sup>27</sup>

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<sup>27</sup> 2002 UK residential Supply Review – 2003: Opportunists & Consolidators? Datamonitor (02/2003)  
Domestic gas and electricity supply competition  
Office of Gas and Electricity Markets