

Domestic Retail Market Report - March 2006

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Target audience: All parties interested in the state of competition in the supply of energy to households in Great Britain.

Overview:

This report shows that competition remains effective and vigorous in all segments of the domestic energy market. Although energy suppliers have raised their prices significantly to recover much higher wholesale energy costs, there remain wide variations between the prices they charge. The most expensive suppliers are charging over £100 more on average than the cheapest for dual fuel supply. Customers on all payment methods, including prepayment meters, can make significant savings from switching.

Customers are responding and switching levels are at their highest for over four years - in March this year alone, around 900,000 customers changed their gas or electricity supplier. The market shares of the former monopoly suppliers continue to fall.

Suppliers are trying to help customers manage as energy bills rise. They have launched a range of new fixed and capped rate deals lasting up to five years. They have also introduced a range of special tariffs to try to protect their most vulnerable customers.

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Context

Ofgem's principal objective is to protect the interests of consumers, where appropriate by promoting effective competition. We also have a number of secondary duties, including a requirement to have regard to the principles of best regulatory practice such as proportionality and transparency.

Our last in-depth review of the domestic market concluded that competition was effective and so we decided to stop undertaking regular, extensive market reviews. However, we continue to monitor market developments to assess the extent to which residential energy consumers continue to be protected by effective competition.

We therefore publish updated information on indicators of the state of competition when we think that this would help us to meet our statutory objectives. Analysing the domestic market and collecting information places burdens on both suppliers and Ofgem. Given our assessment that the market is competitive and our commitment to better regulation, we continue to evaluate carefully the benefits of providing reports and analysis on the domestic energy market.

We think that this report covering the period up to the end of March 2006 is useful given the political and general interest in how the residential energy market responded to the testing events of winter 2005/06. During this period, suppliers continued to face rising wholesale energy costs. In addition, for the first time we used our powers to appoint a Supplier of Last Resort when a number of suppliers left the market. This report will also be a useful complement to our forthcoming consultation document on the review of the gas and electricity supply licences.

The information contained in this report should not be used by energy customers to decide whether or not to change to a particular supplier. Prices change regularly and the price comparisons used in this report are for customers with average gas and electricity consumption.

If a customer is thinking about changing supplier, they should consult the energywatch website at the following address:

http://www.energywatch.org.uk/help_and_advice/how_to_change_supplier/index.asp

Associated Documents

- Domestic Retail Market Report - September 2005, February 2006 (Ref. No. 23/06)
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13816_2306.pdf?wtfrom=/ofgem/work/index.jsp§ion=/areasofwork/retailcompetition

Table of Contents

| | |
|---|-----------|
| Summary | 1 |
| 1. Market overview | 3 |
| Energy Review | 3 |
| Product innovation | 3 |
| Social issues | 3 |
| Industry costs | 4 |
| Supplier of Last Resort | 5 |
| Metering..... | 6 |
| Europe | 6 |
| Customer experience..... | 6 |
| Energy efficiency | 7 |
| Other data sources | 7 |
| 2. Switching | 8 |
| 3. Annual bills | 10 |
| 4. Market shares | 18 |
| Appendices | 20 |
| Appendix 1 - Data tables | 21 |
| Appendix 2 - Feedback | 24 |
| Appendix 3 - The Authority's Powers and Duties | 25 |
| Appendix 4 - Glossary | 27 |

Summary

There has been considerable interest from politicians, the media, consumer groups, academics and the capital markets in understanding how the residential energy market in Great Britain responded to the testing events of winter 2005/06. We have therefore decided to publish this report containing information on key indicators of competition and developments of note in the sector (up to March 2006). The report shows that competition remains effective in the domestic gas and electricity sectors for all customers.

Switching

The announcement of a number of price increases over winter 2005/06 was followed by a jump in the number of consumers switching supplier in March 2006. This increase in switching rates is consistent with survey findings that price is the most popular reason to change energy supplier. Given the time it takes for consumers to initiate and complete transfers in response to price rise announcements, we expect that high switching levels will have persisted into April 2006 at least.

Over 500,000 residential electricity consumers and 350,000 residential gas consumers changed their supplier in March 2006. This means that in a single month, about two per cent of the residential customer base for each fuel switched supplier. The number of residential energy customers switching supplier in March 2006 was the highest monthly total recorded for at least four years. The number of completed switches was around 200,000 higher than the total recorded in March 2005.

Annual bills

In response to rising wholesale energy costs, each of the six largest residential energy suppliers increased prices at least once during winter 2005/06. The frequency and size of these price increases varied across different suppliers.

Despite these price rises, there remain significant savings on annual bills available to consumers if they switch supplier. This is true for all payment methods, including prepayment. It applies particularly to customers who have yet to switch away from the standard offering of their former monopoly energy supplier. For example, by switching to the cheapest standard credit offer available at the end of March 2006, consumers currently with the incumbent supplier could have saved the equivalent of nearly £100 a year in gas and around £40 a year in electricity.

Market share

The market share of the former monopoly suppliers continues to fall as customers switch away from them. For example, the market share of the electricity incumbent has now fallen below 50 percent in four of the fourteen electricity regions in Great Britain.

Product innovation

Suppliers have responded to rising energy costs by extending their range of fixed and capped price tariffs. They have also further developed offerings that are specifically designed to protect vulnerable customers.

Role of Ofgem

Ofgem's principal objective is to protect the interests of consumers, where appropriate by promoting effective competition. There are a number of different tools that we use in retail energy markets to work towards achieving this aim.

We seek to empower all consumers to manage their energy bills effectively, particularly those who have yet to change either payment method or supplier. For example, Energy Smart is a joint initiative by Ofgem and energywatch, which aims to ensure that consumers have all the information they need to save money on their fuel bills and get the advice and support they need. Further information on the EnergySmart campaign is available from:

http://www.energywatch.org.uk/help_and_advice/energysmart/index.asp

and:

<http://www.ofgem.gov.uk/ofgem/shared/template1.jsp?assortment=/workingforcustomers/cust05>

We work to remove barriers to transparent and effective competition, both through our policies and by contributing to the public debate on issues, such as the Government's Energy Review. For example, in early July, we will publish our consultation document on the supply licence review. This project aims to ensure that the supply licences provide proportionate regulation in view of both wider market developments and our powers under competition and general consumer law. When necessary, we will use these powers to tackle any anti-competitive behaviour or practices.

One requirement of healthy and dynamic competition is that arrangements are in place to allow companies to leave as well as enter the market. During winter 2005/06, we used our powers to appoint Suppliers of Last Resort (SoLR) to protect customers from the risk of disconnection following the failure of three small residential energy suppliers. As this was the first time that we have used these powers, we will review the lessons learnt from the SoLR process to ensure that we have procedures in place that protect consumers as effectively as possible.

1. Market overview

Chapter Summary

This chapter provides information on a number of broader indicators. It also highlights recent developments of interest in the energy sector, particularly those directly related to residential energy supply in Great Britain. Therefore, it complements the subsequent chapters that focus on specific quantitative indicators of competition.

Energy Review

1.1. In January 2006, the Department of Trade and Industry published a consultation paper "Our Energy Challenge - Securing clean, affordable energy for the long-term". The document poses five key questions and invites comments on the Government's four energy policy goals. These are: reducing carbon emissions, maintaining reliable energy supplies, promoting competitive markets in the UK and beyond and ensuring that every home is affordably heated.

1.2. Ofgem set out its answers to the main questions included in the consultation document in " 'Our Energy Challenge': Ofgem's response". This document was published on 8 May 2006 and is available at:
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/15081_8206.pdf

Product innovation

Fixed and capped price deals

1.3. Over the period to March 2006, and in response to rising energy prices, suppliers have begun to offer a wider range of fixed and capped price tariffs. These are aimed at domestic customers who want protection from further price increases.

1.4. Ofgem will continue to monitor new pricing offers and how customers have responded to these products. As part of this work, we will consider how best to present the results of this monitoring in future Domestic Retail Market Reports (DRMRs). We invite views on what information we should provide on these offers.

Social issues

Offers for vulnerable customers

1.5. In addition, several suppliers introduced new offerings for vulnerable customers, such as trust funds and discounts and rebates on certain tariffs. Ofgem welcomes these developments and will continue to work with suppliers in promoting best practice in delivering help to vulnerable customers.

Implications of Supply Licence Review for vulnerable customers

1.6. On 7 March 2006 Ofgem published an initial consultation document "Supply Licence Review - Implications for Vulnerable Customers". The document invited comments from consumer groups and other stakeholders on how the supply licence conditions should protect vulnerable customers. The document is available at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/14157_4206.pdf?wtfrom=/ofgem/whats-new/archive.jsp

1.7. Ofgem's further thoughts on these issues will be included in a consultation document that covers all aspects of the Supply Licence Review. This is expected to be published in early July 2006.

Social Action Strategy

1.8. In the past, Ofgem has published quarterly updates on various indicators that are used to monitor the progress of its Social Action Strategy. These updates include information on payment methods, debt, disconnection, priority services and prepayment meters. The Q4 2005 update and Annual 2005 report are available from Ofgem's website at the following address: <http://www.ofgem.gov.uk/ofgem/work/index.jsp?section=/areasofwork/socialactionplan>

1.9. Ofgem has now revised the reporting arrangements for monitoring domestic energy suppliers' performance under their Codes of Practice. The first set of data collected under the revised arrangements will relate to Q1 2006. Ofgem intends to publish this information on our website in July 2006. Details of the revised arrangements are set out in an guidance document published on 31 March 2006. This document is available at http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/15026_guidancerevision1.pdf?wtfrom=/ofgem/work/index.jsp§ion=/areasofwork/socialactionplan

1.10. Ofgem will shortly be publishing an update on progress under the Social Action Strategy. This update will report on progress in 2005/06 and will set out our work programme for the coming year.

Industry costs

1.11. Information on the main costs that make up household gas and electricity bills is available in a Ofgem factsheet entitled 'Household energy bills explained'. This factsheet was updated in April 2006 and is available at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/14692_energypriceupdateapr6.pdf?wtfrom=/ofgem/press/fact-sheets.jsp

Wholesale energy costs

1.12. Wholesale energy costs are the largest component of the final bill for both gas and electricity. Wholesale prices continued to rise during winter 2005/06. Forward annual wholesale gas and electricity prices in Q1 2006 were 10 to 15 per cent higher than those reported in Q3 2005.

1.13. These wholesale price increases reflect the rise in oil, carbon, coal and in particular gas prices. There were testing conditions in the market this winter. In addition to North Sea gas supplies declining faster than expected, the closure of the Rough gas storage facility in February led to a loss of 10 per cent in gas supplies. Ofgem asked the European Commission to investigate instances in which the interconnector flows did not relate to price differences between the British and European markets. We estimate that this could have added around £1 billion to British wholesale gas prices. There have also been short-term problems in offshore production and unused capacity at Isle of Grain LNG terminal.

Supplier of Last Resort

1.14. If a supply company fails and their licence is revoked, Ofgem has powers to protect customers from the risk of disconnection by appointing a new supplier for them. These powers to appoint a Supplier of Last Resort (SoLR) are contained in Standard Licence Condition 29 of the Gas and Electricity Supply Licence.

1.15. Where suppliers have failed in the past a market solution has always emerged, with the administrator selling the portfolio of customers to another market participant. However, market conditions last winter meant that a trade sale was not secured for three small domestic gas and electricity suppliers. Ofgem was required to revoke the supply licence and appoint a SoLR as follows:

- on 2 December 2005, Ofgem appointed npower as the SoLR for the gas and electricity customers of The Team Group of Companies
- on 19 January 2006, Ofgem appointed London Energy as the SoLR for the electricity customers for Utility Link Limited, and
- on 4 February 2006, Ofgem appointed British Gas Trading Limited as the SoLR for the electricity customers for Zest 4 Electricity.

1.16. The relevant documents are published on Ofgem's website at the following address:

<http://www.ofgem.gov.uk/ofgem/work/index.jsp?section=/areasofwork/supplyshipperfailure>

Metering

1.17. Ofgem published a "Domestic Metering Innovation - Consultation Document" on 1 February 2006. The document set out our initial thoughts on the benefits and costs of putting more innovative gas and electricity metering into people's homes and invited views on the issues and policy options.

1.18. On 30 June 2006, Ofgem published its decision document, which sets out the direction that we now intend to take on the issues related to domestic metering innovation.

1.19. These documents and related information are available on Ofgem's website at: <http://www.ofgem.gov.uk/ofgem/work/index.jsp?section=/areasofwork/metering#>

Europe

Energy Strategy for Europe

1.20. In March 2006, the European Commission set out its vision for an Energy Strategy for Europe. The paper outlines how a European Energy Policy could meet the three core objectives of: sustainable development, competitiveness, and security of supply. It calls on EU leaders to coordinate their approach to energy. It also urges member countries to diversify energy supplies and transit routes, reduce demand, boost energy efficiency, and develop renewable energy sources.

1.21. The paper is available on the European Commission's website at: http://europa.eu.int/comm/energy/green-paper-energy/index_en.htm

Customer experience

energywatch complaints data

1.22. energywatch publish information on the number of complaints they receive from customers about domestic energy suppliers. These complaints are divided into three categories - account and billing, transfer, and direct selling.

1.23. Information on complaints received up to April 2006 is available at the following address: http://www.energywatch.org.uk/help_and_advice/complaints_received/index.asp

Energy efficiency

The Energy Efficiency Commitment 2005-2008 (EEC)

1.24. EEC 2005-2008 sets targets on energy suppliers to achieve improvements in energy efficiency by providing energy efficiency measures to households across Great Britain. Energy suppliers are required to provide quarterly progress reports to indicate the energy savings their schemes have achieved and are forecast to deliver. Ofgem publishes EEC updates based on these reports.

1.25. EEC Update 16 was published in May 2006. It is available from Ofgem's website at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/14841_eecmay06.pdf?wtfrom=/ofgem/work/index.jsp§ion=/areasofwork/energyefficiency

Other data sources

Department of Trade and Industry (DTI)

1.26. In addition to its annual publication of the Digest of United Kingdom Energy Statistics, the DTI provides regular updates of a range of energy sector statistics. As well as pricing data, these statistics include incumbent market share by region and payment method for gas and electricity. These statistics are available at the following address: <http://www.dti.gov.uk/energy/statistics/publications/index.html>

2. Switching

Chapter Summary

The monthly transfer figures included in this chapter represent the total number of domestic meter points transferred between supply groups in each month. The number of meter points is used as a proxy for the number of customers. Although a small number of households may have more than one meter point, most will only have one.

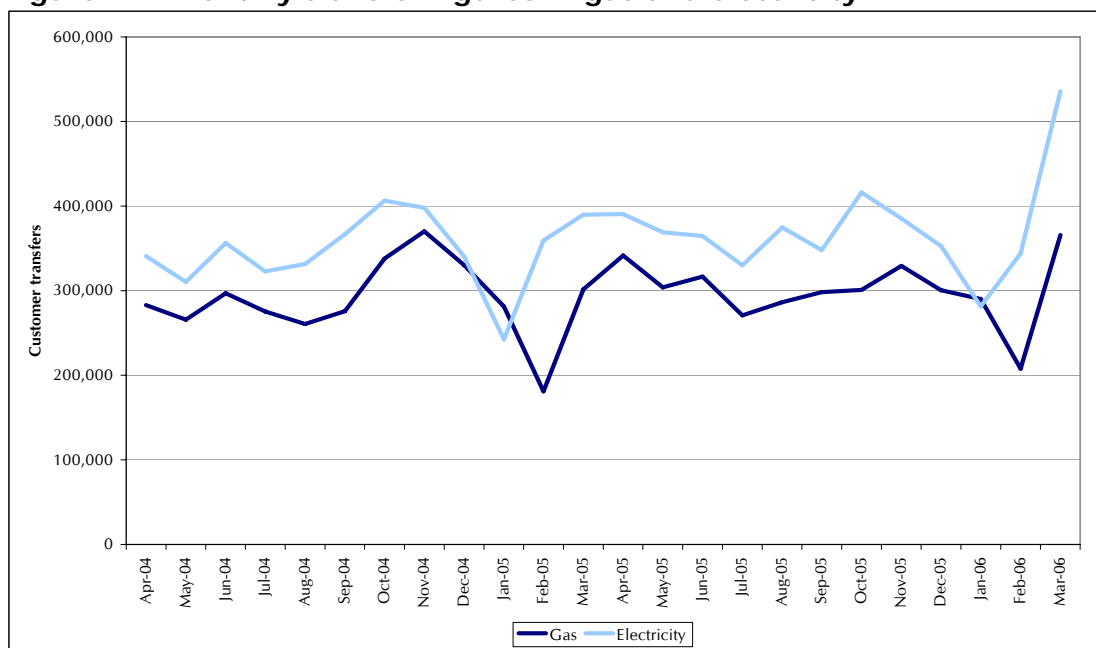
The figures in this chapter highlight the activity that is taking place behind the relatively more slow moving movements in market shares (which reflect net changes).

Figure 2.1 shows the total number of domestic customers who successfully transferred supplier each month in gas and electricity (up to March 2006).

There was a high number of transfers completed in March 2006 in both gas and electricity. This shows customers have responded to the price increases announced in Q1 2006. Given the time it takes for consumers to initiate and complete transfers in response to price rise announcements, we expect that high switching levels will have persisted into April 2006 at least.

The number of completed transfers typically increases in March after a dip in January and February. However, compared to March 2005, the number of transfers in March 2006 was a third higher in electricity and a fifth higher in gas.

Figure 2.1: Monthly transfer figures in gas and electricity

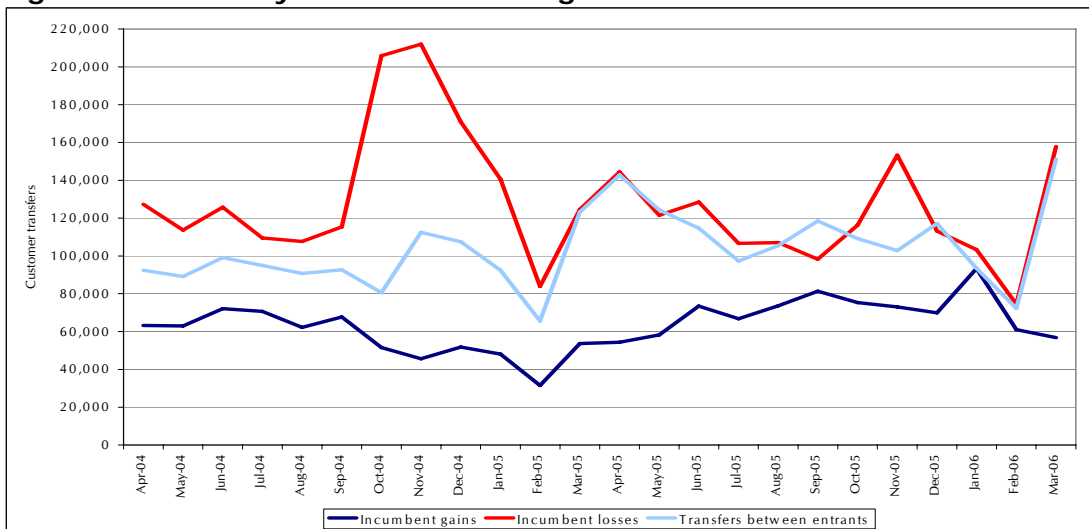


Source: Domestic gas suppliers and electricity distribution companies

Figures 2.2 and 2.3 show the number of transfers completed each month to ("incumbent gains") and from ("incumbent losses") the incumbent supply group. The charts also show the number of transfers completed each month between entrants. The figures for electricity incumbents reflect the overall experience of the five different incumbent supply groups across the fourteen regions.

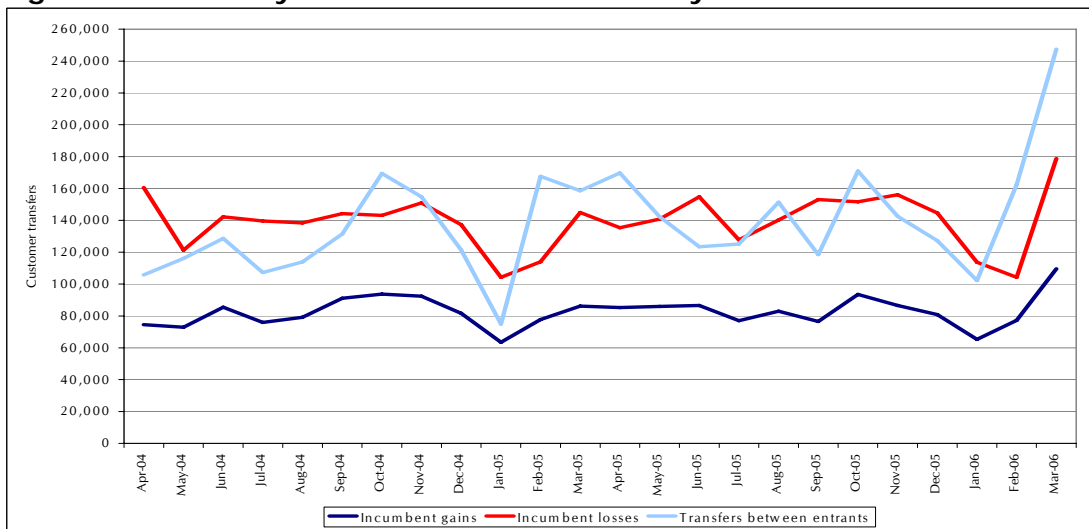
The charts show that each month, the gas and electricity incumbents lose more customers than they gain each month. The rise in transfers in March 2006 is primarily a mixture of an increased number of customers moving away from the incumbents and more customers transferring between entrants.

Figure 2.2: Monthly transfer flows in gas



Source: Domestic gas suppliers

Figure 2.3: Monthly transfer flows in electricity



Source: Electricity distribution companies

3. Annual bills

Chapter Summary

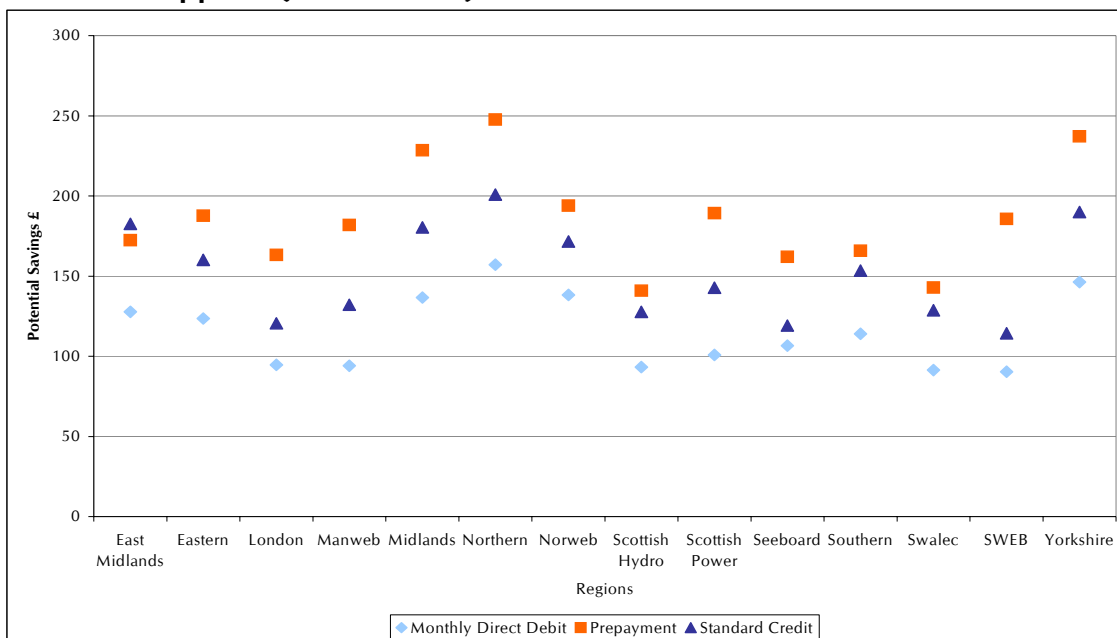
Annual bill values included in this chapter are calculated for customers with medium consumption (20,500 kWh for gas and 3,300 kWh for electricity) on standard tariffs available to new customers. This chapter does not therefore contain information on non-standard tariffs, such as internet tariffs, fixed-price, capped-price or tracker deals, and tariffs requiring payment of a membership fee.

National figures are calculated by taking the mean values of the relevant regional figures. For the purposes of this report, a dual fuel customer is defined as someone who takes gas and electricity from the same supplier.

Figure 3.1 provides a snapshot of the difference between the gas and electricity incumbents' tariffs and the lowest gas and electricity tariffs (as of 31 March 2006). These differences are calculated by comparing the sum of annual incumbent bills for gas and electricity with the cheapest combined annual bill for gas and electricity. This is defined as the minimum of the best dual fuel offer and the sum of the best individual offers for gas and electricity.

In all regions and for all payment methods, annual savings of over £90 were available to customers still on standard tariffs with both incumbent suppliers. In general, the greatest savings are available to customers on prepayment. This reflects the impact of the decision of at least one supplier to delay the implementation of announced increases in prepayment tariffs.

Figure 3.1: Potential savings for energy customers who have never switched supplier (March 2006)



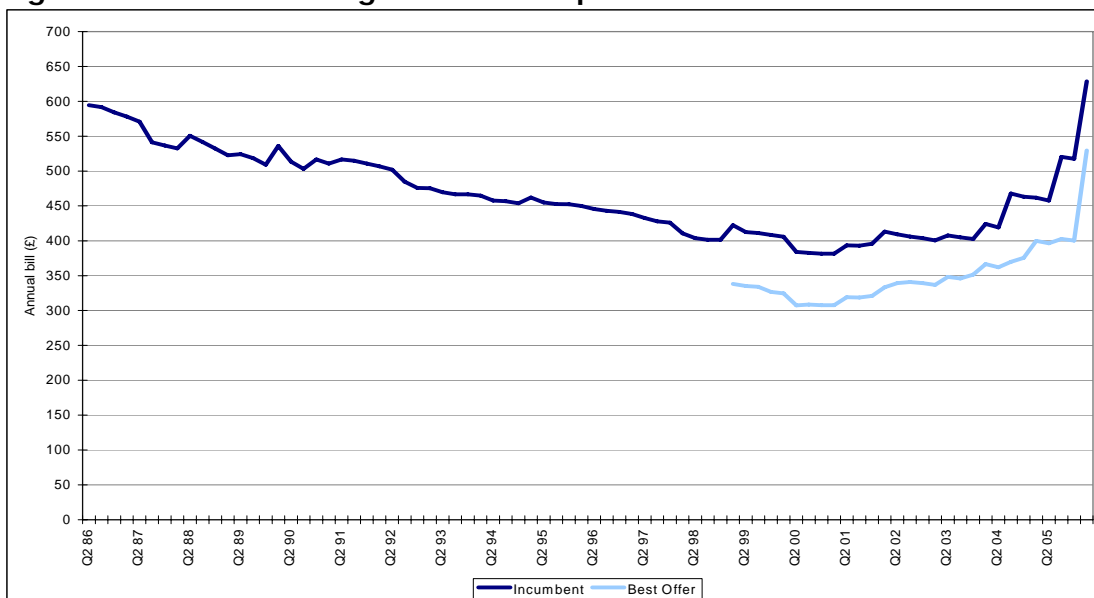
Source: Ofgem
 Tariff data source: TheEnergyShop.com

Figures 3.1 and 3.2 show the standard credit offer from the incumbent and the cheapest standard credit offer available in the market at the end of each quarter.

Following recent price increases, the incumbent bill is now £34 higher in real terms than at privatisation for gas. However, the incumbent electricity figure is still cheaper by £14 than the equivalent figure at privatisation.

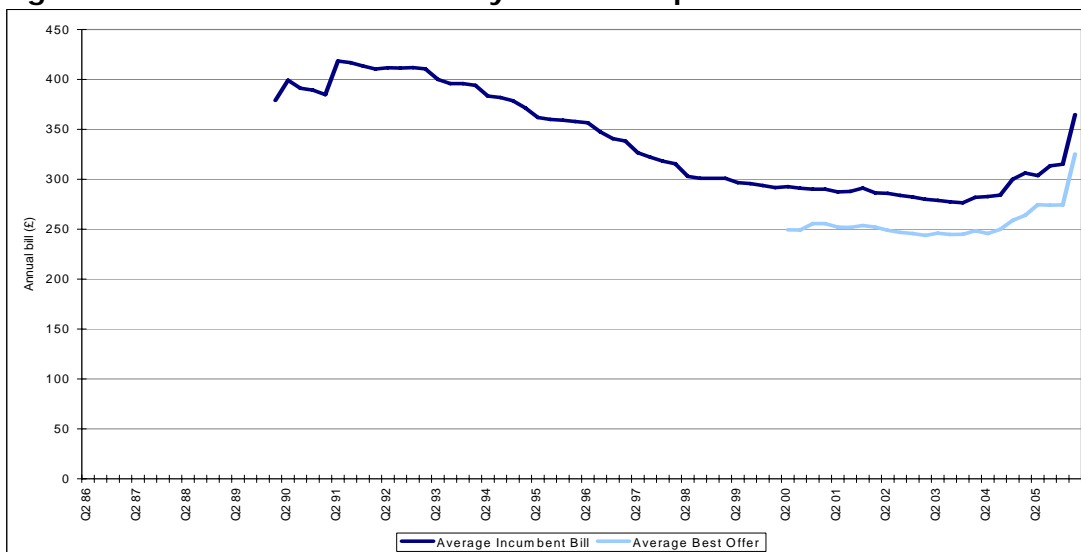
The best standard credit offer for gas is £65 lower than the incumbent bill at privatisation.

Figure 3.1: Real annual gas bills since privatisation



Source: Ofgem

Figure 3.2: Real annual electricity bills since privatisation



Source: Ofgem

Table 3.1 illustrates the annual difference between the incumbent's standard tariff and the cheapest standard tariff open to new customers (as of 31 March 2006).

The gas incumbent and all the electricity incumbents implemented price rises in the first three months of this year. Consequently, at the end of March 2006, customers still on the standard tariff with both gas and electricity incumbents were paying at least £102 a year more than customers on the cheapest available standard tariffs.

The largest savings were available to prepayment customers still with the incumbent supplier. In gas in particular, this reflects the impact of the decision of at least one supplier to delay the implementation of announced increases in prepayment tariffs.

Table 3.1: Potential savings compared to incumbents (March 2006)

| Fuel Type | Monthly Direct Debit (MDD) | | Standard Credit (SC) | | Prepayment (PPM) | |
|---------------------|----------------------------|----------------------|----------------------|----------------------|--------------------|----------------------|
| | Incumbent Bill (£) | Potential Saving (£) | Incumbent Bill (£) | Potential Saving (£) | Incumbent Bill (£) | Potential Saving (£) |
| Electricity | 349 | 41 | 365 | 41 | 367 | 49 |
| Gas | 564 | 61 | 629 | 99 | 629 | 137 |
| Electricity and gas | 913 | 102 | 993 | 140 | 996 | 186 |
| Dual Fuel | n/a | 115 | n/a | 151 | n/a | 177 |

Source: Ofgem

Tariff data source: TheEnergyShop.com

Table 3.2 shows the difference in bills paid by customers who are with the same supplier but use different payment methods (as of 31 March 2006). The average entrant figure is the median value for non-incumbent suppliers.

The savings available for switching from standard credit to monthly direct debit are comparable to the levels seen in September 2005. However, for gas customers not with the incumbent, the savings available for switching away from prepayment are much lower than previously seen. This is largely due to the fact that some suppliers delayed the implementation of an increase in prepayment tariffs. Therefore, the savings for switching away from prepayment are not expected to remain this low over a sustained period.

Table 3.2: Potential savings available for switching between different payment methods (March 2006)

| Fuel Type | Saving made by switching from SC to MDD | | Saving made by switching from PPM to SC | | Saving made by switching from PPM to MDD | |
|---------------------|---|---------------------|---|---------------------|--|---------------------|
| | Incumbent (£) | Average Entrant (£) | Incumbent (£) | Average Entrant (£) | Incumbent (£) | Average Entrant (£) |
| Electricity | 16 | 13 | 3 | 11 | 19 | 29 |
| Gas | 65 | 23 | 0 | -1 | 65 | 21 |
| Electricity and gas | 81 | 37 | 3 | 10 | 83 | 50 |
| Dual Fuel | n/a | 57 | n/a | 32 | n/a | 96 |

Source: Ofgem

Tariff data source: TheEnergyShop.com

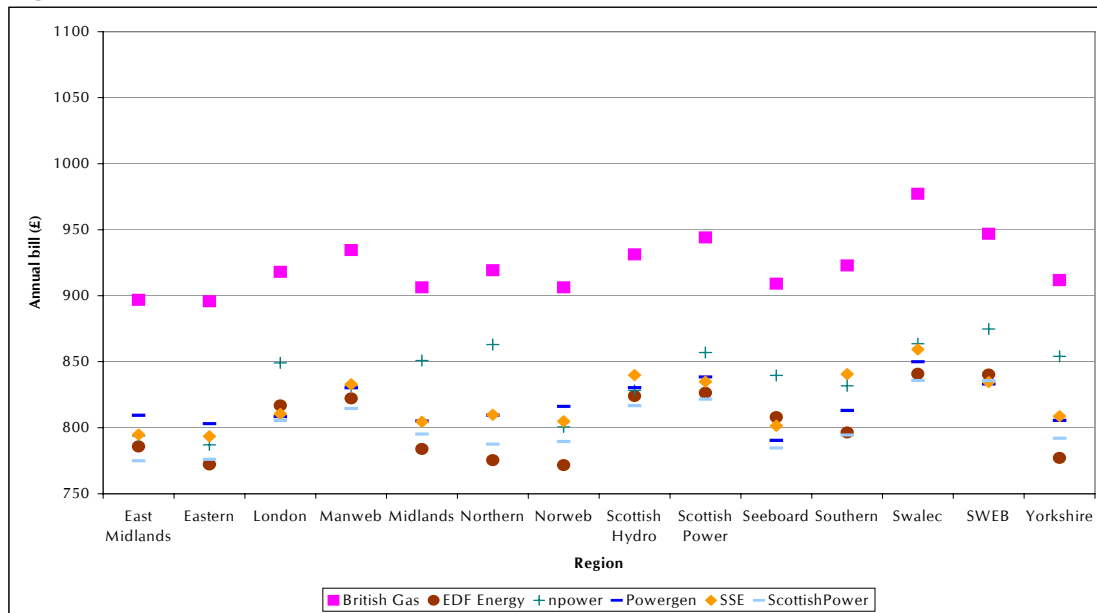
Figures 3.4 to 3.12 provide information on standard price offers available to new customers on 31 March 2006. The nine charts show the offers available for each payment method for dual fuel, for electricity and for gas. These charts provide information on indicators of interest, such as the range and distribution of annual bills. They also illustrate the extent to which suppliers differentiate their pricing strategy between their incumbent and non-incumbent sectors.

Each chart is only a snapshot which captures suppliers' prices on a given date. Therefore, the timing of a supplier's pricing changes may affect its relative position in the chart. Previous reports include similar charts showing offers available at different points in time between 30 June 2004 to 30 September 2005. Therefore, those charts can be combined with figures 3.4 to 3.12 to build a fuller picture of pricing patterns in the domestic energy supply market. Comparing charts produced for different dates will highlight the impact of price changes on pricing patterns in the market, as well as illustrating the potential implications of entry and exit by suppliers.

Figures 3.4 to 3.12 show that for all payment methods and fuel types, there remains a range of offers available in all regions. For each payment method, suppliers generally continue to set different electricity prices in each region but offer the same gas tariff across all regions.

The figure below should not be used to compare prices of individual suppliers when making switching decisions as it only provides a snapshot of standard price offers available to new customers on 31 March 2006. The chart is only calculated for medium consumption and does not take account of preserved tariffs or non-standard offers, such as internet tariffs, fixed-price, capped-price or tracker deals, and tariffs requiring payment of a membership fee. Information making a more comprehensive and up-to-date price comparison is available from the energywatch website (www.energywatch.org.uk).

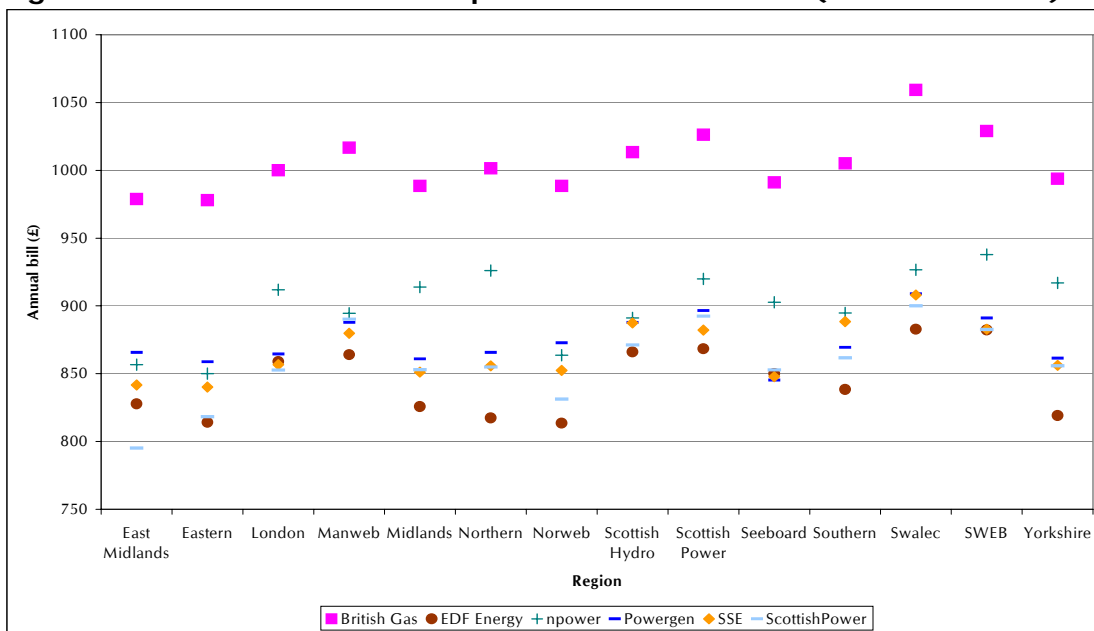
Figure 3.4: MDD dual fuel bills - open to new customers (31 Mar 2006)



Source: Ofgem

Tariff data source: TheEnergyShop.com

Figure 3.5: SC dual fuel bills - open to new customers (31 March 2006)

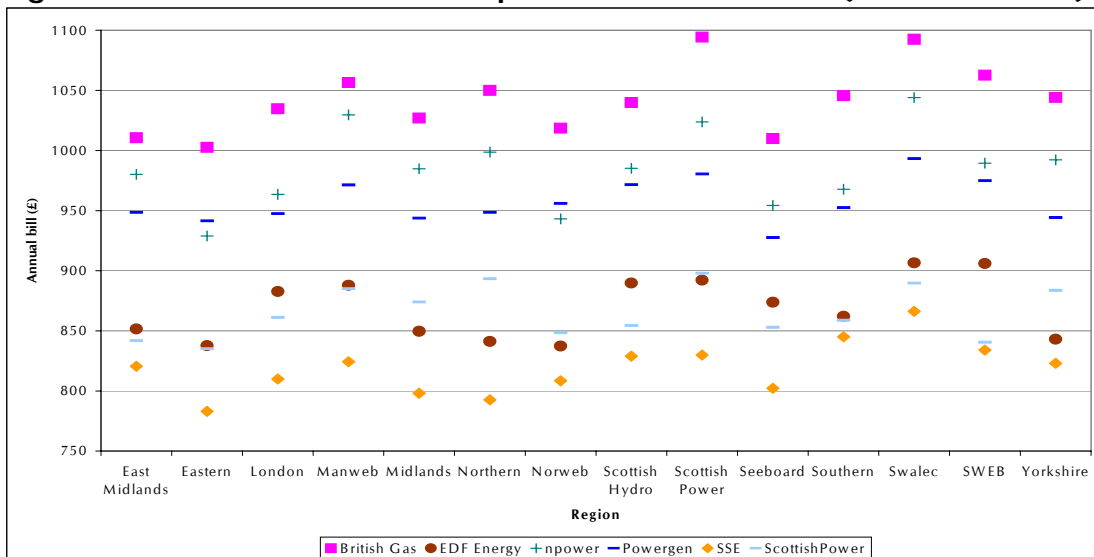


Source: Ofgem

Tariff data source: TheEnergyShop.com

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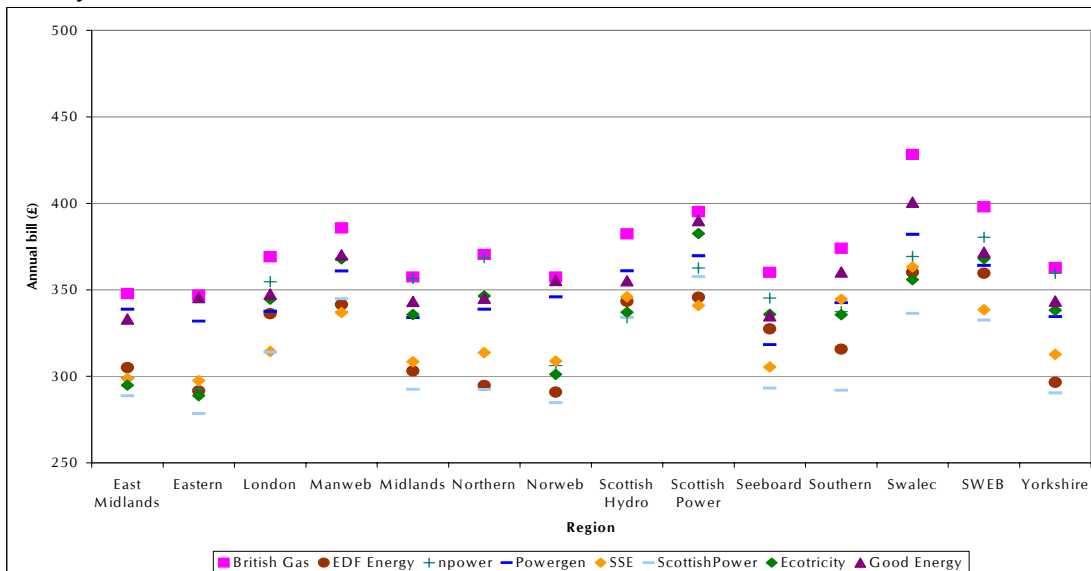
Figure 3.6: PPM dual fuel bills - open to new customers (31 March 2006)



Source: Ofgem

Tariff data source: TheEnergyShop.com

Figure 3.7: MDD electricity bills – open to new customers (31 March 2006)

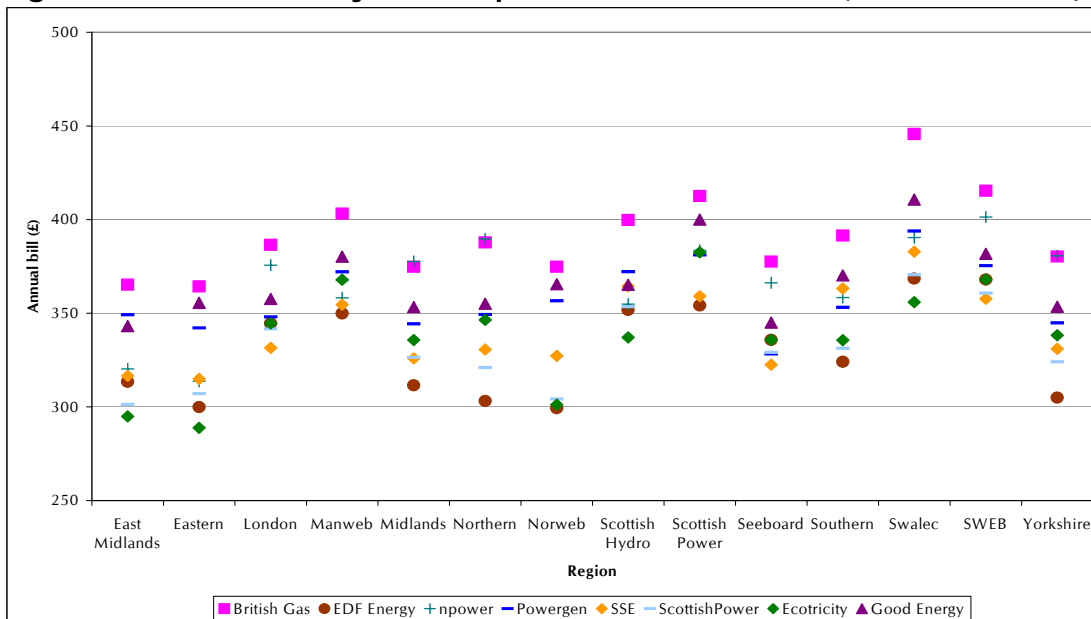


Source: Ofgem

Tariff data source: TheEnergyShop.com

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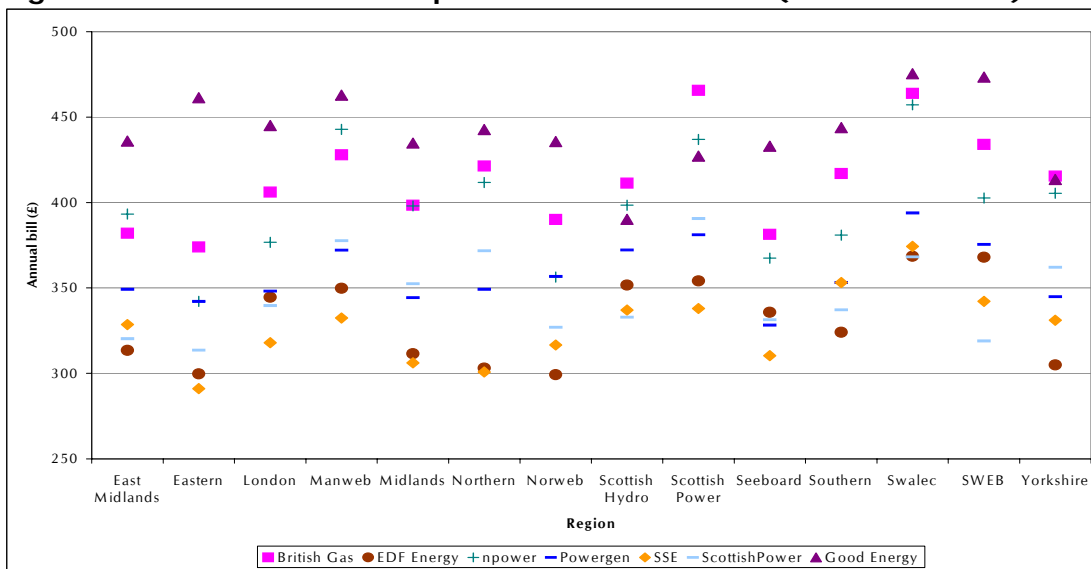
Figure 3.8: SC electricity bills – open to new customers (31 March 2006)



Source: Ofgem

Tariff data source: TheEnergyShop.com

Figure 3.9: PPM elec bills – open to new customers (31 March 2006)

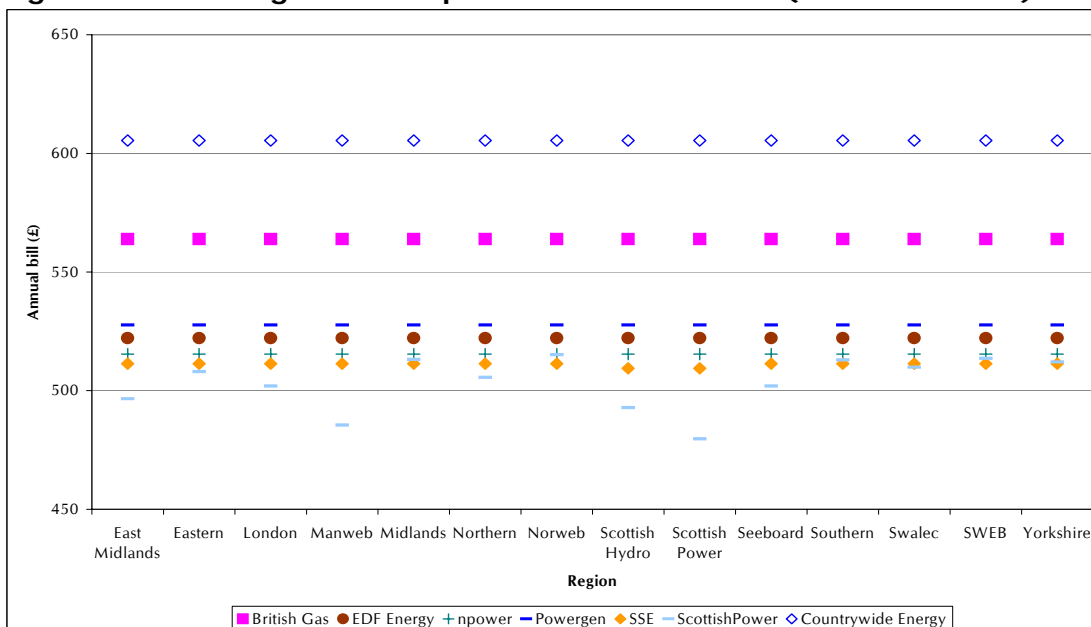


Source: Ofgem

Tariff data source: TheEnergyShop.com

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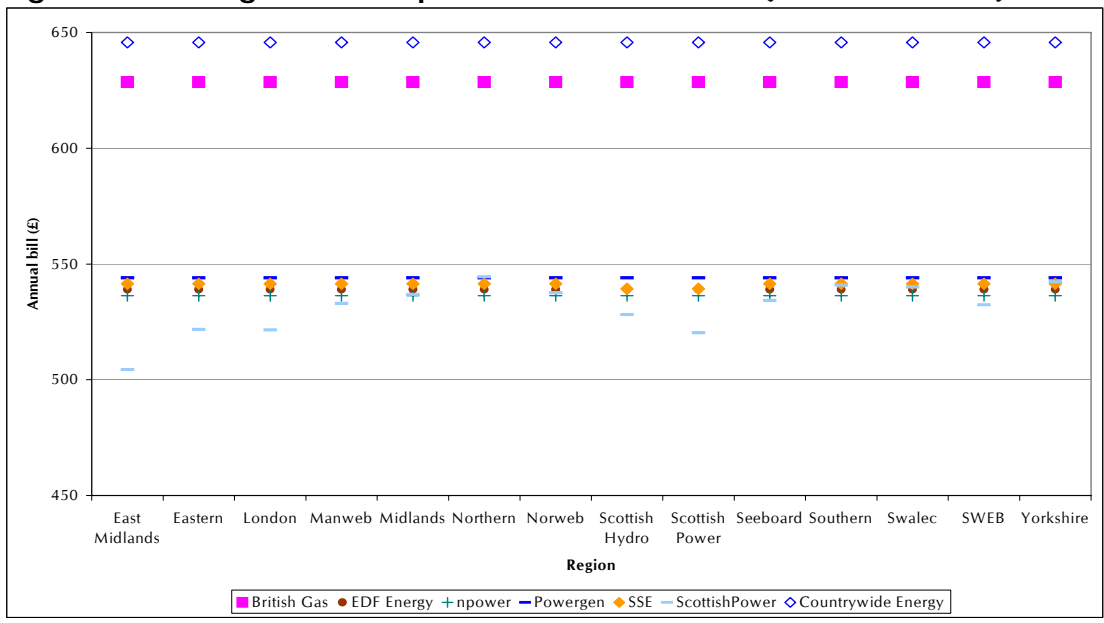
Figure 3.10: MDD gas bills - open to new customers (31 March 2006)



Source: Ofgem

Tariff data source: TheEnergyShop.com

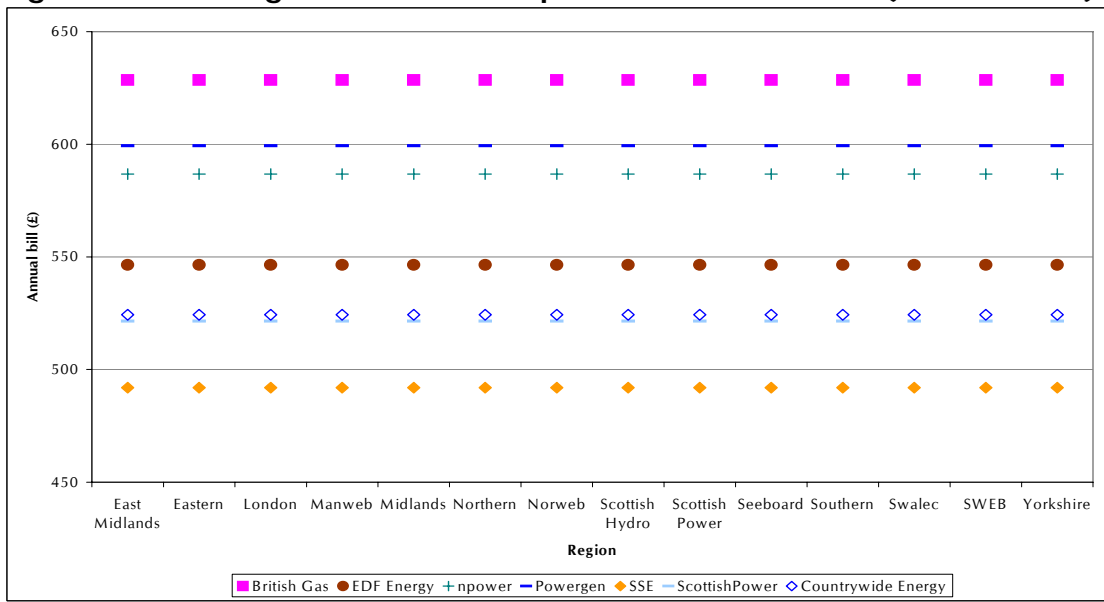
Figure 3.11: SC gas bills – open to new customers (31 March 2006)



Source: Ofgem Tariff data source: TheEnergyShop.com

These figures should not be used to compare prices of individual suppliers when making switching decisions as they only provide a snapshot of standard price offers available to new customers on 31 March 2006. The charts are only calculated for medium consumption and do not take account of preserved tariffs or non-standard offers, such as internet tariffs, fixed-price, capped-price or tracker deals, and tariffs requiring payment of a membership fee. Information making a more comprehensive and up-to-date price comparison is available from the energywatch website (www.energywatch.org.uk).

Figure 3.12: PPM gas bills – offers open to new customers (31 Mar 2006)



Source: Ofgem Tariff data source: TheEnergyShop.com

4. Market shares

Chapter Summary

The market share figures included in this chapter represent the proportion of total customers within a sector that are registered to a particular supply group. The number of meter points is used as a proxy for the number of customers. Although a small number of households may have more than one meter point, most will only have one.

Tables 4.1 and 4.2 show the national market shares of the six biggest domestic energy supply groups (up to 31 March 2006).

National market shares reflect net changes over all regions. The pattern of switching shown in figures 2.2 and 2.3 mean that national market shares are quite slow moving, particularly in electricity. Therefore, an apparently static national market share may mask a situation where a supply group is losing customers in its incumbent areas but is gaining them in other regions.

Table 4.1: National market shares in gas

| Group | Dec-02 | Jun-03 | Dec-03 | Jun-04 | Dec-04 | Jun-05 | Mar-06 |
|---------------|--------|--------|--------|--------|--------|--------|--------|
| BGT | 63% | 62% | 61% | 59% | 57% | 53% | 52% |
| Powergen | 12% | 12% | 12% | 12% | 13% | 14% | 13% |
| SSE | 6% | 6% | 7% | 8% | 8% | 9% | 10% |
| npower | 9% | 9% | 9% | 9% | 9% | 9% | 10% |
| ScottishPower | 5% | 5% | 6% | 7% | 8% | 9% | 9% |
| EDF Energy | 5% | 5% | 5% | 5% | 5% | 5% | 6% |
| Others | 0% | 0% | 1% | 0% | 0% | 0% | 0% |

Source: Domestic gas suppliers

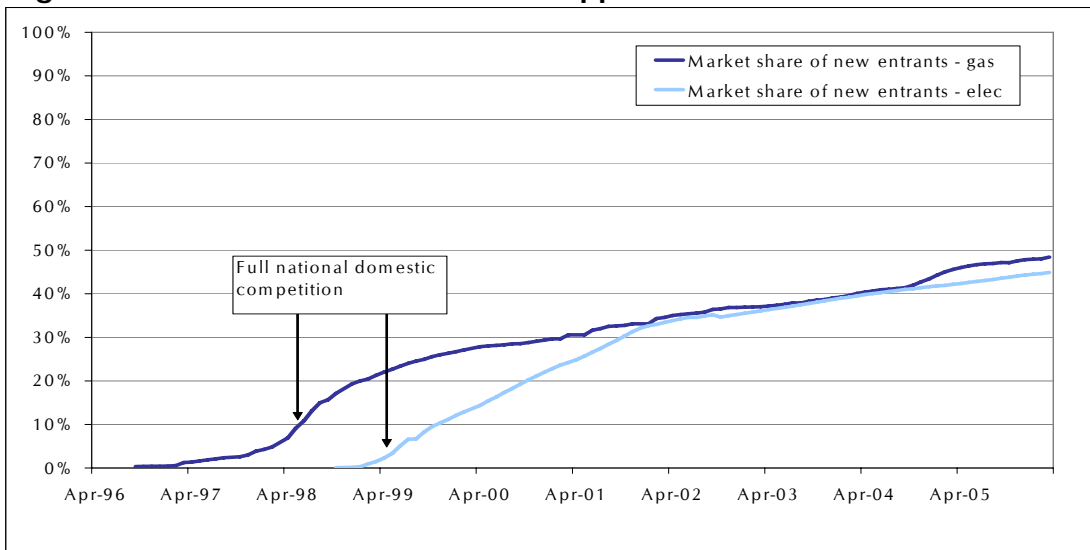
Table 4.2: National market shares in electricity

| Group | Dec-02 | Jun-03 | Dec-03 | Jun-04 | Dec-04 | Jun-05 | Mar-06 |
|---------------|--------|--------|--------|--------|--------|--------|--------|
| BGT | 22% | 23% | 24% | 24% | 23% | 22% | 22% |
| Powergen | 22% | 22% | 21% | 21% | 21% | 21% | 20% |
| SSE | 13% | 14% | 14% | 15% | 15% | 16% | 16% |
| npower | 16% | 16% | 15% | 15% | 15% | 15% | 15% |
| EDF Energy | 15% | 15% | 14% | 14% | 13% | 13% | 13% |
| ScottishPower | 10% | 10% | 11% | 12% | 13% | 13% | 13% |
| Others | 0% | 1% | 1% | 0% | 0% | 1% | 0% |

Source: Electricity distribution companies

Figure 4.1 illustrates the extent of net switching in the household energy market. It shows the proportion of gas and electricity customers no longer with the incumbent suppliers (up to 31 March 2006)

Figure 4.1: Market share of entrant suppliers

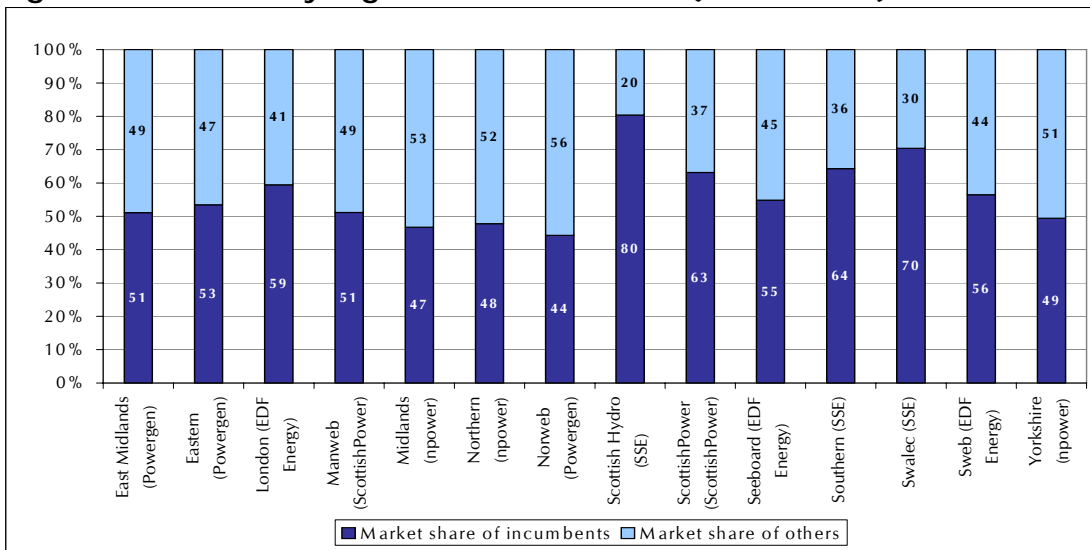


Source: Domestic gas suppliers and electricity distribution companies

Figure 4.2 shows the electricity market share of the incumbent supply group in each region (as of 31 March 2006). The incumbent supply group is identified in brackets alongside the name of the region.

There are now four regions in which the incumbent market share is below 50%.

Figure 4.2: Electricity regional market shares (March 2006)



Source: Electricity distribution companies

Appendices

Index

| Appendix | Name of Appendix | Page Number |
|----------|-----------------------------------|-------------|
| 1 | Data tables | 21 |
| 2 | Feedback | 24 |
| 3 | The Authority's Powers and Duties | 25 |
| 4 | Glossary | 27 |

Appendix 1 - Data tables

Switching

Table A.1: Monthly transfer figures in gas and electricity

| | Gas | Electricity |
|--------|---------|-------------|
| Apr-04 | 283,025 | 340,958 |
| May-04 | 265,796 | 310,330 |
| Jun-04 | 296,992 | 356,338 |
| Jul-04 | 275,282 | 322,869 |
| Aug-04 | 260,536 | 331,384 |
| Sep-04 | 275,701 | 366,782 |
| Oct-04 | 338,054 | 406,345 |
| Nov-04 | 370,006 | 398,040 |
| Dec-04 | 330,206 | 340,444 |
| Jan-05 | 281,108 | 242,589 |
| Feb-05 | 180,984 | 359,311 |
| Mar-05 | 301,525 | 389,804 |
| Apr-05 | 341,475 | 390,523 |
| May-05 | 303,993 | 368,951 |
| Jun-05 | 316,609 | 364,734 |
| Jul-05 | 270,792 | 329,983 |
| Aug-05 | 286,198 | 374,575 |
| Sep-05 | 298,082 | 348,119 |
| Oct-05 | 300,733 | 416,099 |
| Nov-05 | 329,156 | 385,182 |
| Dec-05 | 300,321 | 352,808 |
| Jan-06 | 290,075 | 281,311 |
| Feb-06 | 207,773 | 344,026 |
| Mar-06 | 365,703 | 535,759 |

Source: Domestic gas suppliers and electricity distribution companies

Table A.2: Monthly transfer flows in electricity

| | Incumbent gains | Incumbent losses | Transfers between entrants |
|--------|-----------------|------------------|----------------------------|
| Apr-04 | 74,593 | 160,590 | 105,775 |
| May-04 | 72,873 | 121,371 | 116,086 |
| Jun-04 | 85,553 | 142,148 | 128,637 |
| Jul-04 | 75,935 | 139,604 | 107,330 |
| Aug-04 | 79,146 | 138,335 | 113,903 |
| Sep-04 | 91,080 | 144,215 | 131,487 |
| Oct-04 | 93,700 | 143,205 | 169,440 |
| Nov-04 | 92,378 | 150,886 | 154,776 |
| Dec-04 | 81,693 | 137,273 | 121,478 |
| Jan-05 | 63,418 | 104,279 | 74,892 |
| Feb-05 | 77,774 | 113,939 | 167,598 |
| Mar-05 | 86,249 | 144,967 | 158,588 |
| Apr-05 | 85,272 | 135,456 | 169,795 |
| May-05 | 85,993 | 140,781 | 142,177 |
| Jun-05 | 86,616 | 154,702 | 123,416 |
| Jul-05 | 77,024 | 127,770 | 125,189 |
| Aug-05 | 82,909 | 140,274 | 151,392 |
| Sep-05 | 76,555 | 153,032 | 118,532 |
| Oct-05 | 93,530 | 151,631 | 170,938 |
| Nov-05 | 86,548 | 156,109 | 142,525 |
| Dec-05 | 80,902 | 144,685 | 127,221 |
| Jan-06 | 65,328 | 113,755 | 102,228 |
| Feb-06 | 77,244 | 104,314 | 162,468 |
| Mar-06 | 109,508 | 178,786 | 247,465 |

Source: Electricity distribution companies

Prices

Table A.3: Real annual standard credit gas bills since privatisation

| | Incumbent | | | | Best offer | | | |
|------|-----------|-----|-----|-----|------------|-----|-----|-----|
| | Mar | Jun | Sep | Dec | Mar | Jun | Sep | Dec |
| 1986 | | 595 | 592 | 584 | | | | |
| 1987 | 578 | 571 | 541 | 537 | | | | |
| 1988 | 532 | 551 | 542 | 532 | | | | |
| 1989 | 523 | 524 | 519 | 509 | | | | |
| 1990 | 536 | 514 | 503 | 517 | | | | |
| 1991 | 511 | 517 | 515 | 511 | | | | |
| 1992 | 507 | 502 | 485 | 476 | | | | |
| 1993 | 475 | 470 | 467 | 467 | | | | |
| 1994 | 465 | 458 | 457 | 454 | | | | |
| 1995 | 462 | 455 | 453 | 452 | | | | |
| 1996 | 450 | 445 | 443 | 441 | | | | |
| 1997 | 439 | 433 | 428 | 426 | | | | |
| 1998 | 411 | 404 | 402 | 402 | | | | |
| 1999 | 422 | 412 | 411 | 408 | 338 | 335 | 334 | 327 |
| 2000 | 406 | 384 | 383 | 382 | 307 | 309 | 308 | 308 |
| 2001 | 382 | 394 | 393 | 396 | 308 | 319 | 319 | 321 |
| 2002 | 413 | 409 | 406 | 404 | 333 | 339 | 341 | 339 |
| 2003 | 401 | 408 | 405 | 403 | 337 | 348 | 346 | 351 |
| 2004 | 424 | 419 | 468 | 463 | 366 | 362 | 370 | 376 |
| 2005 | 462 | 458 | 520 | 518 | 400 | 396 | 403 | 400 |
| 2006 | 629 | | | | 530 | | | |

Source: Ofgem

Table A.4: Real annual standard credit electricity bills since privatisation

| | Incumbent | | | | Best offer | | | |
|------|-----------|-----|-----|-----|------------|-----|-----|-----|
| | Mar | Jun | Sep | Dec | Mar | Jun | Sep | Dec |
| 1986 | | | | | | | | |
| 1987 | | | | | | | | |
| 1988 | | | | | | | | |
| 1989 | | | | | | | | |
| 1990 | 379 | 399 | 391 | 389 | | | | |
| 1991 | 385 | 418 | 417 | 413 | | | | |
| 1992 | 410 | 412 | 411 | 412 | | | | |
| 1993 | 411 | 400 | 396 | 396 | | | | |
| 1994 | 394 | 383 | 382 | 379 | | | | |
| 1995 | 371 | 362 | 360 | 359 | | | | |
| 1996 | 358 | 356 | 347 | 341 | | | | |
| 1997 | 338 | 327 | 322 | 318 | | | | |
| 1998 | 315 | 303 | 301 | 301 | | | | |
| 1999 | 301 | 297 | 296 | 294 | | | | |
| 2000 | 292 | 293 | 291 | 290 | 249 | 249 | 256 | 256 |
| 2001 | 290 | 287 | 288 | 291 | 256 | 252 | 252 | 254 |
| 2002 | 286 | 286 | 284 | 282 | 252 | 249 | 247 | 246 |
| 2003 | 280 | 279 | 277 | 276 | 244 | 246 | 245 | 245 |
| 2004 | 282 | 283 | 284 | 300 | 248 | 246 | 250 | 259 |
| 2005 | 306 | 304 | 313 | 315 | 264 | 274 | 274 | 274 |
| 2006 | 365 | | | | 325 | | | |

Source: Ofgem

Table A.5: Market share of new entrants - electricity (%)

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|-----|------|------|------|------|------|------|------|------|------|
| Jan | | 0.3 | 12.1 | 22.8 | 32.7 | 35.5 | 39.0 | 41.8 | 44.5 |
| Feb | | 0.9 | 12.9 | 23.6 | 33.0 | 35.8 | 39.2 | 41.9 | 44.6 |
| Mar | | 1.5 | 13.6 | 24.2 | 33.4 | 36.1 | 39.5 | 42.2 | 44.9 |
| Apr | | 2.3 | 14.4 | 24.9 | 33.8 | 36.4 | 39.8 | 42.4 | |
| May | | 3.3 | 15.4 | 25.7 | 34.2 | 36.6 | 40.0 | 42.6 | |
| Jun | | 5.1 | 16.3 | 26.6 | 34.6 | 36.9 | 40.3 | 42.8 | |
| Jul | | 6.6 | 17.3 | 27.4 | 34.6 | 37.2 | 40.5 | 43.0 | |
| Aug | | 6.7 | 18.3 | 28.4 | 34.9 | 37.5 | 40.7 | 43.3 | |
| Sep | | 8.3 | 19.3 | 29.3 | 35.2 | 37.7 | 41.0 | 43.6 | |
| Oct | 0.1 | 9.5 | 20.2 | 30.3 | 34.7 | 38.0 | 41.2 | 43.8 | |
| Nov | | 10.4 | 21.1 | 31.3 | 35.0 | 38.4 | 41.4 | 44.1 | |
| Dec | 0.1 | 11.2 | 22.0 | 32.1 | 35.2 | 38.7 | 41.6 | 44.3 | |

Source: Electricity distribution companies

Table A.6: Number of domestic MPANs (Meter Point Administration Number) by region (March 06)

| Region | Number of MPANs |
|----------------|-----------------|
| East Midlands | 2,392,615 |
| Eastern | 3,224,958 |
| London | 1,990,300 |
| Manweb | 1,352,894 |
| Midlands | 2,231,973 |
| Northern | 1,458,008 |
| Norweb | 2,150,651 |
| Scottish Hydro | 752,674 |
| Scottish Power | 1,965,745 |
| Seeboard | 2,020,333 |
| Southern | 2,690,295 |
| Swalec | 1,005,261 |
| Sweb | 1,385,619 |
| Yorkshire | 2,073,557 |

Source: Electricity distribution companies

These figures are a close but not exact proxy for the total number of domestic electricity consumers in each region. For example, some households may have more than one MPAN. For the purposes of this data, a domestic MPAN is defined as being a MPAN with a consumption profile in classes 1 and 2 and a Measurement Class of A.

Table A.7: Total number of domestic gas and electricity meter points (March 06)

| Fuel | Meter points |
|-------------|--------------|
| Gas | 21,403,959 |
| Electricity | 26,695,229 |

Source: Electricity distribution companies and domestic gas suppliers

Appendix 2 - Feedback

2.1. Ofgem would like to hear the views of interested parties in relation to the form, style and content of this report.

2.2. Comments should be sent to:

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Tel: 020 7901 7303

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2.3. Unless marked confidential, responses may be published by placing them in Ofgem's library and on its website www.ofgem.gov.uk. Respondents may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

2.4. Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. It would be helpful if responses could be submitted both electronically and in writing. Respondents are asked to put any confidential material in the appendices to their responses.

2.5. Any questions on this document should, in the first instance, be directed to:

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Appendix 3 - The Authority's Powers and Duties

3.1 Ofgem is the Office of Gas and Electricity Markets which supports the Gas and Electricity Markets Authority (“the Authority”), the regulator of the gas and electricity industries in Great Britain. This Appendix summarises the primary powers and duties of the Authority. It is not comprehensive and is not a substitute to reference to the relevant legal instruments (including, but not limited to, those referred to below).

3.2 The Authority's powers and duties are largely provided for in statute, principally the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002 and the Energy Act 2004, as well as arising from directly effective European Community legislation. References to the Gas Act and the Electricity Act in this Appendix are to Part 1 of each of those Acts.¹

3.3 Duties and functions relating to gas are set out in the Gas Act and those relating to electricity are set out in the Electricity Act. This Appendix must be read accordingly².

3.4 The Authority's principal objective when carrying out certain of its functions under each of the Gas Act and the Electricity Act is to protect the interests of consumers, present and future, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the shipping, transportation or supply of gas conveyed through pipes, and the generation, transmission, distribution or supply of electricity or the provision or use of electricity interconnectors.

3.5 The Authority must when carrying out those functions have regard to:

- The need to secure that, so far as it is economical to meet them, all reasonable demands in Great Britain for gas conveyed through pipes are met;
- The need to secure that all reasonable demands for electricity are met;
- The need to secure that licence holders are able to finance the activities which are the subject of obligations on them³; and
- The interests of individuals who are disabled or chronically sick, of pensionable age, with low incomes, or residing in rural areas.⁴

3.6 Subject to the above, the Authority is required to carry out the functions referred to in the manner which it considers is best calculated to:

¹ entitled “Gas Supply” and “Electricity Supply” respectively.

² However, in exercising a function under the Electricity Act the Authority may have regard to the interests of consumers in relation to gas conveyed through pipes and vice versa in the case of it exercising a function under the Gas Act.

³ under the Gas Act and the Utilities Act, in the case of Gas Act functions, or the Electricity Act, the Utilities Act and certain parts of the Energy Act in the case of Electricity Act functions.

⁴ The Authority may have regard to other descriptions of consumers.

-
- Promote efficiency and economy on the part of those licensed⁵ under the relevant Act and the efficient use of gas conveyed through pipes and electricity conveyed by distribution systems or transmission systems;
 - Protect the public from dangers arising from the conveyance of gas through pipes or the use of gas conveyed through pipes and from the generation, transmission, distribution or supply of electricity;
 - Contribute to the achievement of sustainable development; and
 - Secure a diverse and viable long-term energy supply.

3.7 In carrying out the functions referred to, the Authority must also have regard, to:

- The effect on the environment of activities connected with the conveyance of gas through pipes or with the generation, transmission, distribution or supply of electricity;
- The principles under which regulatory activities should be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed and any other principles that appear to it to represent the best regulatory practice; and
- Certain statutory guidance on social and environmental matters issued by the Secretary of State.

3.8 The Authority has powers under the Competition Act to investigate suspected anti-competitive activity and take action for breaches of the prohibitions in the legislation in respect of the gas and electricity sectors in Great Britain and is a designated National Competition Authority under the EC Modernisation Regulation⁶ and therefore part of the European Competition Network. The Authority also has concurrent powers with the Office of Fair Trading in respect of market investigation references to the Competition Commission.

⁵ or persons authorised by exemptions to carry on any activity.

⁶ Council Regulation (EC) 1/2003

Appendix 4 - Glossary

A

Annual bill

The annual bill is the amount that a customer would have to pay for gas and electricity over one whole year.

B

BGT

British Gas Trading Ltd, formerly part of British Gas plc, now part of Centrica plc.

D

DNO

Distributor Network Operators, also referred to as ex-PES Distributors and distribution companies.

Domestic energy suppliers

Companies who sell energy to and bill residential customers in Great Britain.

DUoS

Distribution Use of System charges are charges paid by electricity suppliers to distribution companies for use of the distribution networks.

Dual fuel

A dual fuel customer is a customer that takes gas and electricity from the same supplier.

E

EA89

Electricity Act 1989

energywatch

The customer watchdog for gas and electricity markets in the UK. Energywatch can be contacted via their website at www.energywatch.org.uk or by calling their helpline number on 08459 06 07 08.

Entrant

An entrant in the gas supply sector refers to all gas suppliers except BGT. This includes the incumbent electricity suppliers.

In the electricity sector, all customers in each region were supplied by the same monopoly supplier prior to market opening. In any one region, entrants are defined as entrants as all suppliers other than those in the same supply group as the former monopoly supplier in the region. This includes BGT and supply groups containing former monopoly suppliers from other regions.

G

Gains and losses

When a customer completes a switch to (from) a supplier, a gain (loss) is recorded for that supplier. Over a period of time, the result of these customer flows to and from a supplier is a net fall or rise in a supplier's customer numbers. A review of the magnitude of customer movement to and away from a supplier can therefore indicate market activity that may not be immediately apparent from a review of other indicators, such as market share.

GA86

Gas Act 1986

I

Incumbent

An incumbent is the group containing the former monopoly supplier in a particular sector. The incumbent in each region for electricity is the supply group containing the ex-PES. British Gas is the incumbent in the gas market. Prior to the introduction of competition into domestic gas and electricity supply, all residential customers were with BGT for gas and the regional incumbent supplier for electricity.

K

kWh

kilowatt-hour is a unit used to measure energy consumption in both electricity and gas.

M

Market share

This is a measure of industry concentration. In this report, it shows the proportion of total customers (as proxied by the number of meter points) within a market that are registered to a particular supply group.

Medium consumption

A consumer with medium consumption has an annual demand of 3,300 kWh in electricity and 20,500 kWh in gas.

MDD

Direct debit (DD) is a method of payment where a fixed amount is taken from a bank account each month, quarter or year. In this report, direct debit refers to monthly direct debit (MDD) only - suppliers typically offer a discount to customers who use this payment method.

N

Net switching

For gas, net switching refers to the proportion of customers no longer registered with BGT. For electricity, the national net switching figure refers to the average proportion of customers no longer registered with their local incumbent electricity supplier. Although this indicator provides a measure of progress of competition, it can understate the progress of competition as it does not account for customers regained by BGT (gas) or the regional incumbent supplier (electricity). Net switching is the inverse of the incumbent market share.

Non-price offers

For the purposes of this report, this term refers to a broad range of inducements offered by a supplier that are designed to alter a customers' valuation of functionally identical products, ie gas and electricity.

Non-switcher

Customers who have never switched from their incumbent supplier, ie BGT in gas or regional incumbent in electricity.

P

PES

Public Electricity Supplier is the former term for the 14 companies in England, Wales and Scotland that from privatisation in 1990 until 1998 had a monopoly of electricity supply and distribution in their designated areas.

PPM

A prepayment meter (PPM) customer pays for energy by inserting electronic tokens, keys or cards into a PPM.

Preserved tariff

A preserved tariff remains open for existing customers. However, new customers are unable to gain access to it.

S

SC

Standard credit (SC) is a payment method that typically covers a wide range of payment mechanisms, including cash, cheque, credit card and standing order. A SC tariff is not available for PPM customers and does not attract a DD discount.

Supercomplaint

Section 11 of the Enterprise Act 2002 enables designated consumer bodies such as energywatch to make a complaint to the Office of Fair Trading or a relevant economic regulator that any feature, or combination of features, of a market in the UK for goods and services is or appears to be significantly harming the interests of consumers. These complaints are called 'Supercomplaints'.

Switchers

Customers who have changed gas and/ or electricity supplier at least once.

V

VAT

Value Added Tax (VAT) is added to both gas and electricity domestic bills at a rate of five per cent. The annual bills shown in this report include VAT.