

Supply Market Probe Initial Findings

Analyst & Investor presentation
6 October 2008

The Probe in Context

- Ofgem remains committed to promoting competition in gas and electricity markets, consistent with our duties
- We are not interested in regulating profits and prices, but may consider protecting groups of customers that are missing out on competition
- The CC option remains on the table – but we believe agreement with suppliers can deliver quicker results
- The Initial Findings report launches a consultation. All responses will be thoroughly considered in our final decisions
- We fully adhere to Better Regulation principles and will evaluate the costs & benefits of all measures proposed

Key Findings

- The market is working well in important respects
- We have found no evidence of a cartel and no evidence of prices rising by more than can be justified by wholesale costs
- But competition is not yet fully effective in all sectors of the market
 - Active consumers are the minority (< 20%)
 - Consumers struggle to make effective choices
 - Direct selling does not always result in effective switching
- As a result some customers are doing less well out of competition
 - Inactive consumers - particularly “Non Dual Fuel”
 - “Electricity Only”
 - Standard credit and PPM

New perspectives

- The quality as well as the quantity of switching is important
 - Less beneficial for consumers
 - Less effective as a constraint on suppliers
- Direct selling often does not always work in the interests of consumers
 - Many switch to worse deals
 - Used by suppliers to counter price pressure
- Differential pricing – gas vs. electricity
 - We knew about payment methods and “in area” premiums
 - Harms “non dual fuel” customers – disproportionately vulnerable
 - Particularly an issue for those off the gas network
- There are inefficient barriers to new entry in the market
 - New entry and small suppliers do not constrain the Big 6

Our approach to remedies

All remedies are subject to consultation and full assessment

- Our remedies are focussed on making competition work better
 - Increasing consumer engagement , improving information available to customers and removing barriers to switching
 - An end to supplier practices making effective consumer choice more difficult
 - Break down inefficient barriers to new entrants
- But we want to see an end to unfair price differentials
 - Scale of the impact on consumers requires a response
 - Considering a licence change to ban unfair price discrimination
- Most expedient route is to seek agreement with suppliers
- Other options remain on the table if this is not possible
 - Including an MIR to the Competition Commission

Our proposed remedies - I

All remedies are subject to consultation and full assessment

- **Promote more active engagement of consumers in the market**
 - An annual statement for all customers
 - Promote confidence in switching sites
- **Help consumers to make well informed choices**
 - Reform of suppliers' sales practices
 - Easy to understand price metric
- **Reduce barriers to entry and expansion**
 - Review regulatory and administrative barriers
 - Accounting separation
 - Address liquidity issues in power markets

Our proposed remedies - II

All remedies are subject to consultation and full assessment

- **Help small business customers**
 - Reform of contract terms and objections processes
- **Address concerns over unfair price differential**
 - A requirement for cost reflective payment differentials
 - We are considering whether a ban on undue price discrimination is appropriate
- **Wholesale markets – not forgotten**
 - Our work on wholesale markets continues
 - We are considering whether we need new powers to guard against potential market abuses

What next?

- **Fast track consultation ends 1 December**
 - Seeking views on initial findings and proposed remedies
- **Report back during 1Q 2009**
 - Consider consultation responses
 - Seek agreements with suppliers
- **Next steps depend on supplier response**
 - Either implements reforms
 - Or, if agreement is not forthcoming, consider other options – including an MIR to the Competition Commission

City Liaison

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The background of the slide is a composite image. On the left, there are rows of solar panels under a bright sun. On the right, a hand is shown holding a white document. In the bottom left corner, a blue gas burner is visible. The overall theme is energy and customer service.

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Promoting choice and value
for all gas and electricity customers