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Monday 6 October 2008

## **OFGEM PUTS INDUSTRY ON NOTICE TO MAKE MARKETS WORK BETTER FOR ALL**

- **Ofgem's probe into energy supply markets finds some consumers missing out on full benefits of competition but market works well for most**
- **Ofgem's proposals will particularly help more than four million customers without gas who currently have no access to the most competitive offers**
- **While Ofgem proposes wide-ranging reforms to make the markets work better for all consumers, it has found no evidence of a cartel**
- **The regulator has launched a fast-track consultation on its findings and proposed remedies**
- **If industry fails to deliver, Ofgem can refer the market to Competition Commission**

Ofgem has today (Monday) given the industry notice to end practices that are failing some customers, and to deliver the full benefits of competition to the entire market.

In its findings from a seven-month probe into the energy supply market, Ofgem was particularly concerned to see behaviour by supply companies that was hitting the 4.3 million customers without a gas supply, who have no access to the most competitive offers.

At the same time, the regulator has shown that competition is generating a wide range of tariffs and products. There is strong consumer awareness of – and satisfaction with – switching. And Ofgem found no evidence of an energy supply market cartel.

Ofgem's report builds on the regulator's commitment to help vulnerable customers through initiatives such as the Fuel Poverty Action Programme and Ofgem's Consumer First programme.

### **Ofgem's key proposed actions to help households**

- Measures to ban unfair price differences, including differences between payment methods. Examples include the differences between direct debit rates and prepayment meter or standard credit.
- Tougher rules on doorstep selling.
- More transparency in financial reporting.
- New requirements on suppliers to provide information to help consumers to get the best deal.

### **Proposed actions to help the small business market**

Ofgem's probe uncovered concerns in the small business supply market over unfairness in contract terms. The regulator's proposed actions include specific measures to guard against sharp practice in this part of the market.

### **Proposed actions in the wholesale market**

Removing barriers to new entrants is a key Ofgem commitment. Small suppliers and potential entrants have told Ofgem that they struggle to buy the electricity they need at competitive prices because of poor liquidity in the electricity wholesale market. Ofgem is now challenging the energy industry to address these concerns. In addition, the regulator is looking at the need for new powers to guard against potential market abuse in the wholesale market.

Ofgem chief executive Alistair Buchanan said: "These are hard times and we are taking a hard line on behalf of disadvantaged consumers. We accept that global influences are pushing up costs but the suppliers must change their behaviour and cement consumer confidence. If they fail to satisfy our requirements voluntarily then we can move to a Competition Commission reference.

"Initial findings from our energy market probe give us grounds to demand that companies end practices that hinder customers, especially the vulnerable, from getting the best deal. But we have found no evidence of a cartel."

### **The report marks the start of a consultation on Ofgem's findings and proposals that closes on 1 December.**

Ofgem stressed that competition cannot completely shield consumers from spiralling prices of global commodities such as oil, gas and coal. These drive the wholesale energy prices that make up the bulk of consumer bills and are the main drivers behind the recent energy bill increases. Ofgem's 2005 investigation into wholesale gas markets, highlighted the problems with the European gas market and the indexation of gas prices to oil prices in Europe which is still placing an unjustifiable burden on consumers.

Ofgem Chairman Lord Mogg said: "Stronger competition in European energy markets would help to break the oil and gas link. It is vital that the negotiations on measures to open up the European energy markets are successfully concluded this year by the Member States at the 10 October Energy Council and by the European Parliament by the end of this year. And it is profoundly important that the European Commission keeps up the pressure to end the abuses it has uncovered."

### **Ofgem is holding a press teleconference between 11:00 and noon today (see notes to editors).**

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## Notes for editors

1. To take part in the press teleconference dial in on **020-8515-2302** and ask for the Ofgem Energy Market Probe Conference.

### 2. Position of electricity only customers

Electricity only customers are less likely to have ever switched supplier than those that are connected to the gas mains. Only 44 per cent have ever switched compared to 57 per cent of consumers on both fuels. And the higher prices paid by electricity-only customers are sustained because many are in rural areas and are less easily accessed by direct sales.

The high prices paid compounded by the fact that they rely on expensive alternatives to gas, such as two-rate electricity, heating oil or liquid petroleum gas. As a result, despite having similar income characteristics to the wider population, customers off the gas grid are far more likely than others to be fuel poor.

### 3. Terms of reference for the Energy Supply Probe

The investigation covered

- the customer's perspective and experience of the market including access to information and barriers to switching supplier;
- suppliers' market shares, switching rates for different groups of customers (such as online, dual fuel, single fuel and pre-payment);
- the competitiveness of suppliers' pricing in the different market segments and customer movement between payment types as well as suppliers;
- the relationship between retail and wholesale energy prices; and
- the economics of new entry and the experience of companies trying to enter the energy market.

The investigation covered markets serving domestic customers and small businesses.

The Probe has been conducted using Ofgem's formal information gathering powers under the Enterprise Act 2002, for the purposes of assessing whether or not it is appropriate to refer the market to the Competition Commission for an investigation.

### 4. Which customers use pre-payment meters and standard credit?

Pre-payment meters (PPM) users are sometimes assumed to be fuel poor and/or vulnerable. While the proportion of consumers on PPM tariffs is high among some groups of vulnerable customers (such as those on income related benefits) for other groups, particularly pensioners, it is below average. Around 12 per cent of households pay for at least one fuel by PPM. Among people over 65 only 4 per cent use PPMs while 25 per cent of those in social group DE and 37 per cent of those in social housing use a PPM to pay for at least one of their fuels.

Standard credit (SC) – paying by cash or cheque each quarter - is the most common payment method among the fuel poor. Only 19 per cent of PPM consumers are fuel poor (with 26 per cent of the fuel poor paying for at least one of their fuels by PPM, 16 per cent paying for both by PPM and 24 per cent paying for both by direct debit. SC is a

particularly important payment method for vulnerable customers, with 50 per cent of the fuel poor using this route to settle their bills.

## 5. Differences in prices paid between payment methods over time:

The average differential between pre-payment meter (PPM) and direct debit (DD) of the six major suppliers increased from around £80 at the beginning of 2005 to around £125 at the beginning of 2008. Over the same period, the average differential between payment via quarterly bills and DD increased from around £40 to £80.

During the latest round of price increases, the average differential between PPM and DD of the six major suppliers has fallen to £118. The average differential between quarterly bills and DD has remained at just under £80. These differentials vary depending on the consumer's consumption level.

## 6. Switching in the energy market

The figures below show gross gas and electricity account switches from January to July of this year, compared with the same period in 2007. These figures therefore include customers who may have switched more than once.

### Electricity

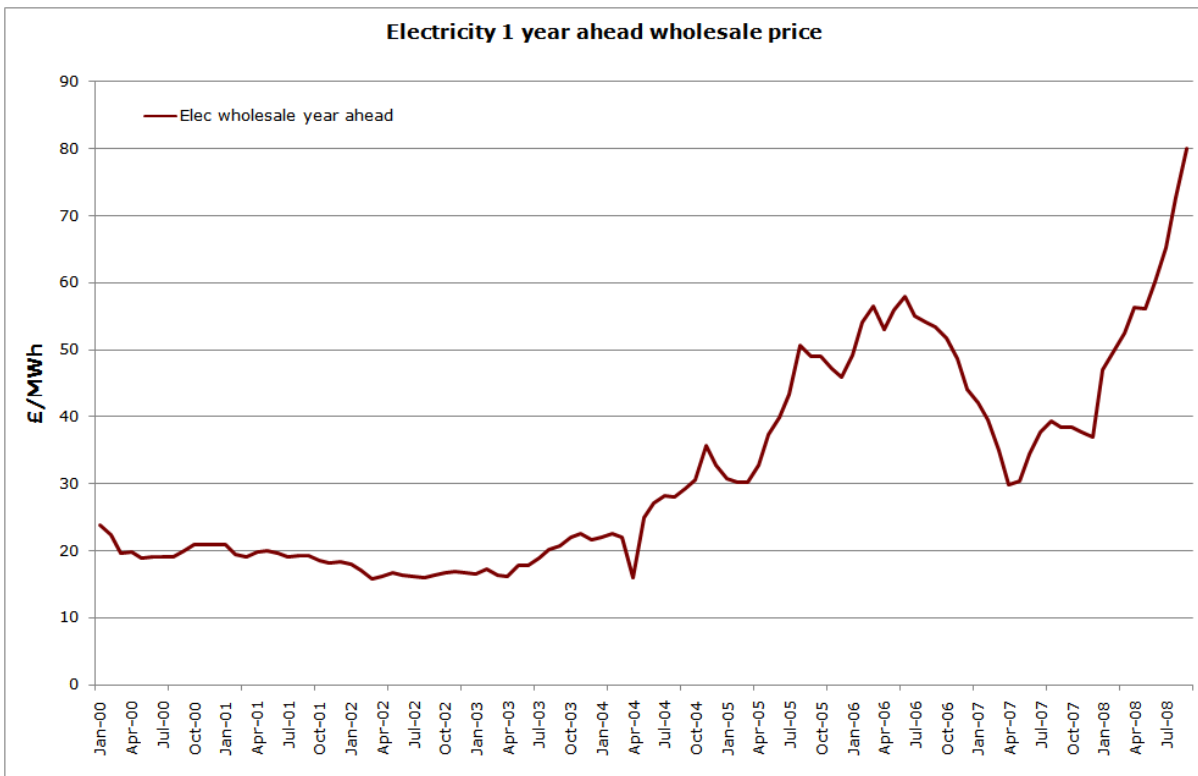
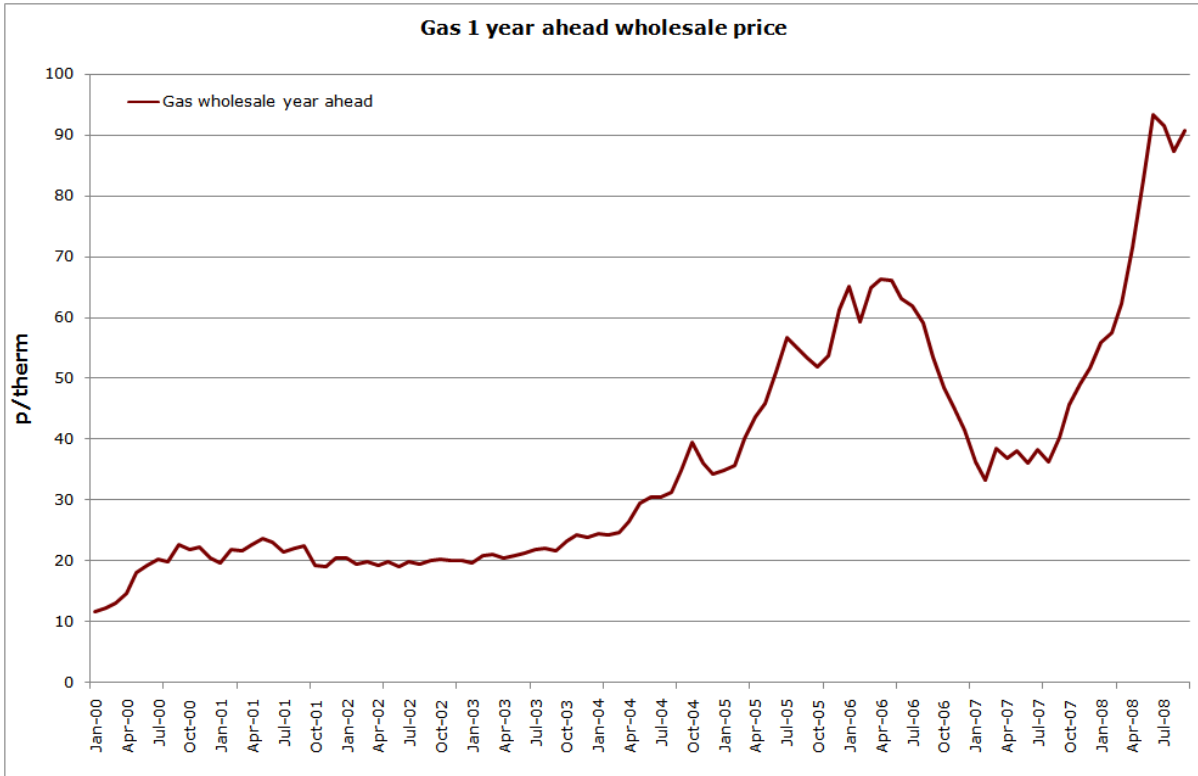
	Jan	Feb	Mar	Apr	May	Jun	Jul	Total
<b>2007</b>	352,402	390,258	441,087	392,052	451,535	425,657	441,492	<b>2,894,483</b>
<b>2008</b>	335,134	440,642	476,149	441,342	440,075	455,123	473,159	<b>3,061,624</b>

### Gas

	Jan	Feb	Mar	Apr	May	Jun	Jul	Total
<b>2007</b>	345,953	264,666	332,857	301,465	333,867	378,374	352,128	<b>2,309,310</b>
<b>2008</b>	343,837	278,173	313,306	388,405	334,900	347,297	366,698	<b>2,372,616</b>

## 7. Wholesale prices

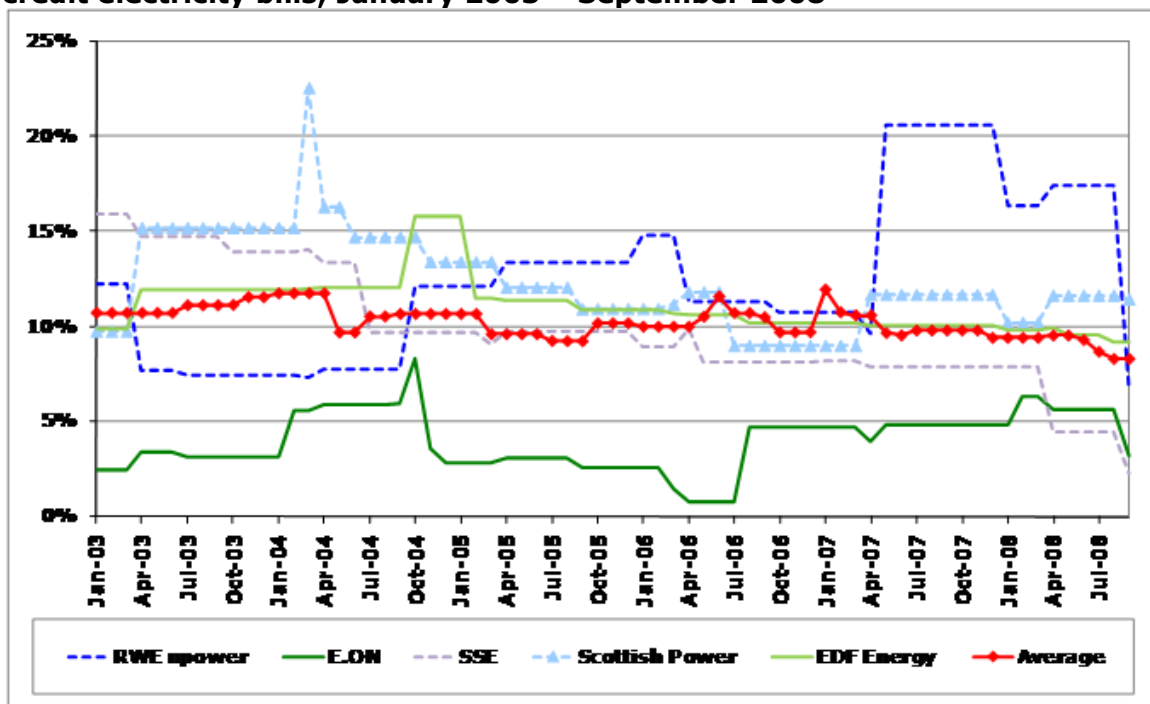
Below are two graphs showing the changes in one year ahead forward wholesale gas and electricity prices between January 2000 and July 2008.



## Pricing in the regions for electricity

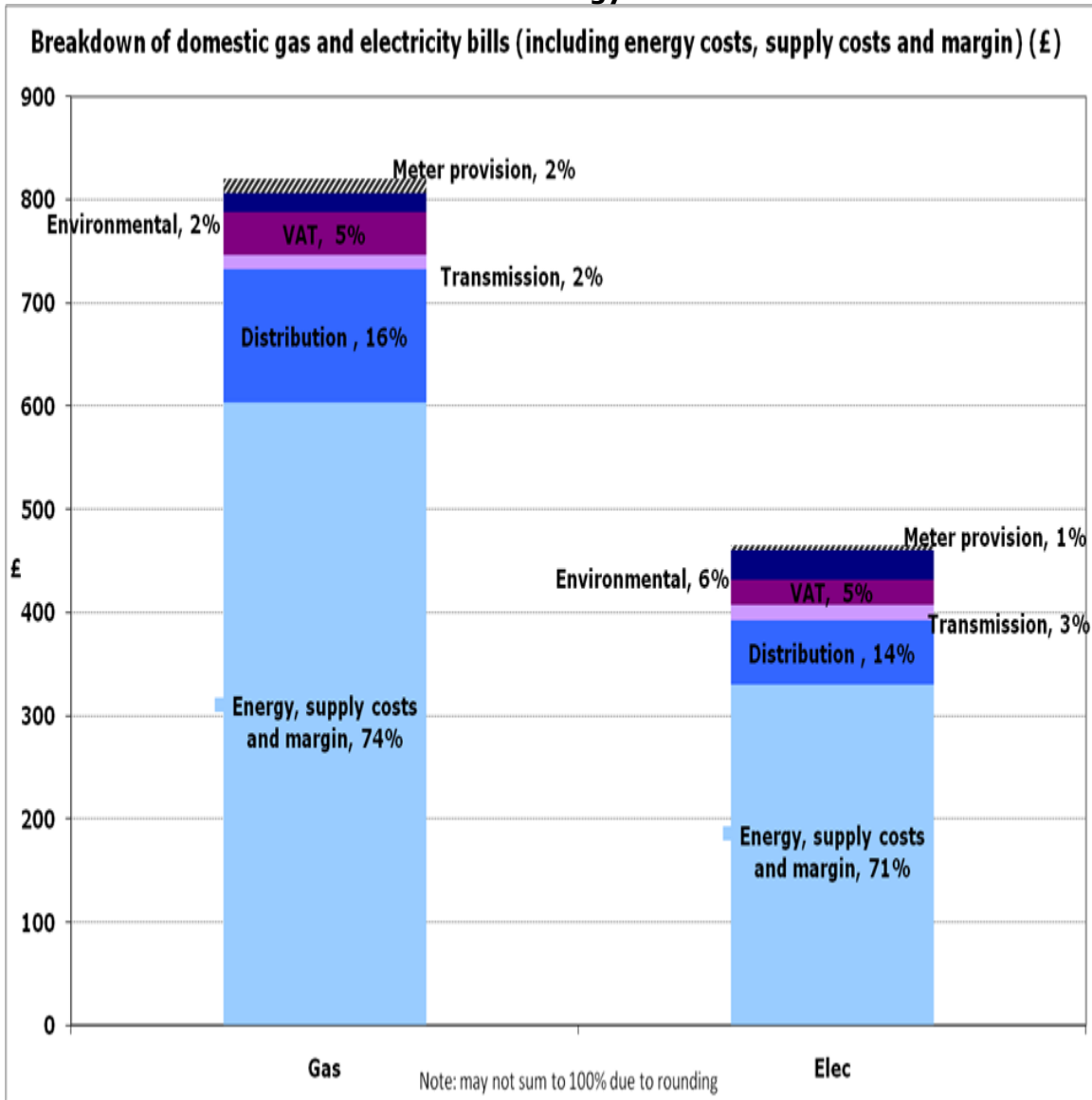
The five suppliers that evolved from the former electricity incumbents charge lower electricity prices outside of their former monopoly regions (out-of-area) than they do to consumers within their former monopoly regions (in-area). The graph below shows the percentage difference between each of the five incumbent suppliers' in-area and out-of-area quarterly electricity bills. Domestic bills include charges for the transmission and distribution of electricity but these have been removed from this analysis in order to show in-area and out-of-area prices on a comparable basis. All prices are expressed in nominal terms. In gas, three suppliers (ScottishPower, npower and British Gas) have introduced regional price differences across Britain.

### Average percentage difference between in-area and out-of-area standard credit electricity bills, January 2003 – September 2008



Source: Ofgem

## 9. Breakdown of the domestic energy bill



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