Promoting choice and value for all gas and electricity customers

Energy Supply Probe

Summary of initial findings and remedies

Monday 6 October 2008

Office of Gas and Electricity Markets, Ofgem, 9 Millbank, London SW1P 3GE

www.ofgem.gov.uk

Terms of reference for the Energy Supply Probe

Ofgem launched its study of the state of the GB energy supply markets (the Probe) in February 2008, with a commitment to deliver initial findings by the end of September.

The Probe is concerned with the functioning of competition in GB electricity and gas retail supply markets for domestic and Small and Medium Enterprise (SME) consumers. We have considered wholesale energy markets only to the extent necessary to assess whether retail markets are working effectively. The report does, however, highlight a number of wholesale market issues, which warrant further investigation.

The Terms of Reference were set out in an Ofgem press statement of 21 February:

The investigation will cover:

- 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 will cover 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.

We note the announcement of the proposed acquisition of British Energy by EDF and the announcement of a Memorandum of Understanding between EDF and Centrica, transactions which will be subject to merger control by the European Commission and/or the Office of Fair Trading. This consultation document does not consider those proposed transactions. Ofgem will take into account any findings of the merger control authorities (and the extent of any commitments/undertakings entered into) as appropriate in due course.

Overview

Concerns have been expressed about the operation of Great Britain's gas and electricity retail supply markets for domestic and small business consumers. These concerns are heightened by recent price increases, caused by hikes in global fuel prices. It is even more important that retail markets work well when prices are as high as they are now.

Overall, the transition from monopoly gas and electricity supply ten years ago to competitive markets is well advanced and continuing to develop. Many consumers have benefited from lower prices, better service and a wider range of deals on offer. The Big 6 suppliers are acting competitively and we have found no evidence of cartels.

This interim report has found some important areas where the transition to competitive markets now needs to be accelerated. Many consumers are not yet benefiting fully from the competitive market and vulnerable consumer groups are disproportionately affected.

We are today consulting until 1 December 2008 on a package of measures to address these issues. We remain convinced that consumers benefit most from a vibrant competitive market and our proposed measures aim to improve the functioning of the market. Subject to consultation, we will seek agreement with suppliers on the proposed reforms. If agreement is not forthcoming we will consider making a market investigation reference to the Competition Commission.

Summary

Context

1.1. Ofgem's Energy Supply Probe has been undertaken against the background of unprecedented increases in world fuel prices which have flowed through into record increases in wholesale and retail gas and electricity prices. A typical household's energy bills have more than doubled since early 2004 and many households are now struggling to pay their bills. The numbers of consumers in debt to their energy suppliers, average debt levels and disconnection rates are all rising. These energy price rises have come at a time when household budgets are under pressure from the rising cost of food, petrol, mortgages and other essentials. Vulnerable consumers and those in fuel poverty are particularly affected.

1.2. At such times, it is essential that consumers can have confidence in the operation of the competitive energy markets. As world fuel prices, wholesale energy costs and the costs of environmental compliance rise, it becomes even more important that retail markets function properly. The scale of potential adverse impact on consumers of any inefficiency in the retail market is all the greater.

1.3. This report sets out our initial findings[1] on the operation of the GB retail energy markets and sets out for consultation a package of measures to tackle the issues raised. The terms of reference are shown opposite.

Our findings

1.4. It is now ten years since GB domestic gas and electricity markets were opened up to retail competition and six years since price controls were removed. Both sectors have since moved from pure monopolies to markets where there are now greater levels of competitive activity and consumer switching than almost every other energy market in the world and most other UK consumer services markets. The fundamental structures of a competitive market are in place, and the transition to effective competitive markets is well advanced and continuing. We have, however, found a number of important areas where this transition should now be accelerated.

[1] Our findings are based on evidence from a diverse range of sources, including previously published information, business plans and data provided by suppliers, and previous and newly commissioned qualitative and quantitative market research. In addition, certain price changes have been effected by some companies in the days immediately preceding publication and it has not always been possible to reflect the impact of these in the analysis. Please contact us if clarification is needed on any of these issues or on any apparent inconsistencies between data sources.

The characteristics of GB energy supply markets

1.5. The GB retail energy supply markets have six substantial companies competing for the business of domestic consumers. This compares favourably with many other UK consumer services sectors (fixed and mobile telecommunications, supermarkets, pay television, high street banking, etc.). The market shares of these Big 6 suppliers in their former monopoly markets continue to fall year-on-year (at a rate of around 4 per cent per year for gas and 2 per cent per year for electricity)[2] as they penetrate further into each other's markets.

1.6. Despite this, the national gas market and each of the former regional electricity markets are still highly concentrated[3]. About half of the customers lost by the former monopoly suppliers of electricity in each region have transferred to British Gas, the former monopoly gas supplier, and vice versa. As a result, more than 70 per cent of customers remain with one or other of their former monopoly suppliers, although some of these have moved onto new and better terms, such as a dual fuel deal.

1.7. While the existence of six major competitors compares favourably with many other markets, it is less positive that no significant "competitive fringe" has developed – companies of a markedly different scale and business model offering a material threat to the Big 6. Most new entrants over the past decade have subsequently exited for a variety of reasons – some unrelated to the functioning of GB energy markets. Those that remain serve less than 0.3 per cent of the market. We have evidence of barriers to entry and expansion, in particular the difficulty that entrants have in securing adequate access to wholesale energy supplies. We intend to take action to facilitate efficient entry and so strengthen competitive pressure on the Big 6 suppliers.

Customer engagement

1.8. The level of consumer participation in GB energy supply markets is amongst the highest of any retail energy market throughout the world. The annual switching rate of 18 per cent also compares well with other retail services in the UK, such as fixed and mobile telecommunication, insurance products, mortgages and personal current accounts. Almost all consumers (96 per cent) know that they can change energy supplier and most (70 per cent) feel confident that they know how to do this.

1.9. The market also works well operationally. We have found that consumers generally find the switching process easy and that the majority of customers are satisfied with their switching experience and outcomes (77 per cent). These are important achievements that many other retail energy markets, including those in

[2] For the period January 2004 - December 2007.
[3] Our analysis shows the average HHI index in June 2008 for the former regional electricity markets to be 3,137 in electricity and 3,356 in gas, both of which fall comfortably into the OFT's categorisation of "Highly Concentrated".

most of Europe, have yet to realise. They provide the fundamental platform for effective competition in energy supply.

1.10. Some 17 per cent of domestic consumers are particularly significant for the functioning of GB competitive energy markets. These “active” consumers regularly seek out competing price offers and switch suppliers on the basis of a good understanding of the range of offers available. They typically make accurate switching decisions and secure the most attractive deals.

1.11. Such active consumers are significantly in a minority. Action is now needed to encourage a greater proportion of consumers to engage in this way. Some still find it difficult or time consuming to assess competing offers; some are not confident that they can make a sound choice; some are sceptical about the scale of potential benefits and whether they will be sustained; some still worry about administrative or billing errors, service problems or moving inadvertently to a worse deal; some are unable to get the best deals because they do not have internet access, a current bank account or both.

1.12. Around half of the less active group of consumers do in fact engage with the market if approached directly by a sales person and supply companies put in significant direct sales effort in order to persuade these customers to switch. Such sales effort is to be welcomed - it is a sign of a vibrant market. Yet we have evidence that most consumers who change supplier in response to such an approach do not investigate alternative deals in the market, and may not therefore be making well informed switching decisions.

1.13. Almost all consumers tell us that they switch supplier in order to save money. Our analysis suggests, however, that price differences explain only a proportion of switching decisions and other factors may be important - including the impact of sales activity, brand and customer service. Consumers may also be switching on the basis of poor or partial information. As a result, the high levels of customer switching may not yet be exerting as much constraint on suppliers' prices as it could. As many as one third of switchers may not achieve a price reduction. This proportion is higher for Pre-Payment Meter (PPM) customers (45 per cent) and consumers who switch as a result of a direct sales approach (48 per cent for gas, 42 per cent electricity).

Supplier pricing behaviour

1.14. We have found that suppliers compete actively for those consumers who seek out the best deal in the market by offering keenly priced products. Dual fuel, direct debit tariffs offer the lowest prices and are the prime focus of competition among suppliers. We estimate that 8.5 million consumers benefit from these deals - equivalent to 38 per cent of all consumers with both gas and electricity supplies.

1.15. Since market opening, energy suppliers have also widened considerably the range of tariffs available to domestic consumers. They offer fixed or variable prices, green energy deals and social tariffs, energy service packages and a wide range of incentive and reward deals. Suppliers have also responded in recent years to consumer demand for greater certainty by offering a range of fixed or capped price tariffs. We estimate that around 4 million consumers (one in seven households) benefit from these deals.

1.16. Although we have received no evidence, concerns that there is a cartel operating amongst the Big 6 suppliers have been raised. We have examined this issue carefully and are satisfied the suppliers' key pricing decisions are made independently and without unlawful agreements or information exchange between suppliers, although suppliers do consider the pricing policies of their competitors and possible reactions to price changes in reaching these decisions. This is a feature of a competitive market which we would expect to see. Given the market position in each region of the former incumbent electricity supplier and British Gas, we have found that suppliers typically determine the timing and, on occasion, the size of any price adjustments in relation to those two perceived market leaders in each region.

1.17. That said, there are instances of differential pricing that are of concern to us:

- Until very recently, the five former incumbent electricity suppliers charged electricity customers in their former monopoly areas an average of over 10 per cent higher prices than comparable "out-of-area" customers. The most recent price changes (which occurred during the Probe) narrowed this differential to around 6 per cent on average. Based on data provided to us by the companies, we can find no cost basis for this premium, nor are similar premiums found in gas.

- The five former incumbent electricity suppliers have consistently earned significantly higher margins on electricity supply than on gas. Higher prices are charged to customers taking only electricity under a single fuel arrangement (around a third of their electricity customers). Of these consumers, 4.3 million are not connected to the gas main and so are unable to move to a more competitively priced dual fuel deal. Again, we can find no cost basis for this practice.

- A number of the price differentials between payment types do not appear to have a cost justification - particularly for those customers who pay by standard credit. Recent price changes (after the Probe was announced) have reduced the average tariff differential for PPM customers. These now, on average, reflect cost differences. However some PPM customers still pay a larger premium than is justified by the costs incurred.

- Suppliers compete vigorously in the online market with heavily discounted offers, the cheapest of which may be, initially at least, below cost. This enables the companies to secure the leading places in price comparison tables. The relevant suppliers told us that customers acquired online are profitable over a number of years as prices are subsequently increased. We are concerned that the temporary nature of these offers is not transparent to consumers. Equally, this may not be obvious to potential competitors who may, as a result, be deterred from entry into this most price sensitive part of the market.

1.18. Overall, these price differentials mean that companies charge more to existing ("sticky") customers whilst maintaining competitiveness in more price sensitive segments of the market. The ability to price differentially in this way means that pressure on prices in the most competitive segments of the market does not always constrain prices for all other consumers. There is evidence in the companies' business plans and from interviews with the Big 6 that they are aware of these dynamics and take them into account in their pricing decisions.

Supplier profitability

1.19. Any assessment of suppliers' aggregate profitability is fraught with difficulties, given the complexities that result from vertical integration, hedging and the recent volatility in wholesale energy prices.

1.20. The energy supply business has low levels of directly invested capital and a very high level of pass-through costs. We would expect the margin on sales to be low as it represents a share of the entire value chain, including fuel costs, generation, transmission and distribution. Supply now represents around 7 per cent of the added costs and even less of the capital employed.

1.21. The effect of the differential pricing policies of the Big 6 suppliers is that profit margins differ significantly on different customers. As mentioned earlier, the margin earned by the former incumbent electricity suppliers on customers to whom they sell only electricity is typically significantly higher than the margin earned on customers in the more competitive parts of the market. On an average basis over the past 3 years, around three quarters of the gross profits of the Big 6, and all of their net profits, arise from their in-area electricity customers, which represent 48 per cent of their customer accounts[4].

Hedging and the wholesale - retail link

1.22. We have examined how changes in wholesale gas and electricity prices are passed through to consumers by the Big 6 suppliers. There is clear evidence of a lag between changes in wholesale and retail prices. This is largely the result of suppliers' hedging of their wholesale market exposures, and to a lesser degree the effect of administrative lags. We have found no evidence that this lag is greater when prices are falling than when they are rising, although this is unavoidably based on relatively limited historical data in relation to falling prices. We will monitor price changes over the coming months, during which wholesale prices are likely to remain volatile.

1.23. There is evidence that the Big 6 suppliers seek to benchmark their hedging strategies[5] against each other in order to minimise the risk of their wholesale costs diverging materially from the competition. Whilst this is an understandable risk management strategy, we are concerned that hedging may not be adequately driven by the risk preferences of consumers.

[4] These figures represent analysis of best available figures aggregated for the Big 6; there are significant differences on an individual company basis.
[5] There is no evidence of unlawful information exchange.

Pre-Payment Meter (PPM) consumers

1.24. There has been a great deal of public and political interest in whether the higher prices paid by consumers using pre-payment meters can be justified by the additional costs of metering and providing service to these consumers. The price premium charged to PPM customers differs significantly between suppliers, between geographic regions and over the range of energy consumption. PPM price premiums at the lower end of the consumption range appear to us to have a sound cost justification, while those at the upper end of the range do not. We believe that action is necessary to ensure that the premium charged to all PPM customers is placed on a sound cost basis. Moreover, we are concerned that competitive pressure on suppliers in this sector may not be sufficient and, as a result, the additional costs incurred in serving PPM customers may not be efficiently incurred.

1.25. Even once unjustified price differentials are removed, PPMs will remain among the most costly payment methods. PPM customers often choose their payment method for reasons of budget management. However, it is essential, particularly at times of rising prices, that they are aware of the price premium they pay, know the options open to them and are able to switch to a lower cost option as easily as possible.

1.26. PPM customers have recently become the most active in switching their supplier, although this is mainly in response to direct sales activity by the Big 6. This increased engagement of PPM customers is a positive development, and, indeed, we have encouraged this through our "energysmart" campaign. However, PPM customers rarely consider a wide range of alternative suppliers when switching and often switch to more expensive deals. Measures we propose to help consumers make better switching decisions in response to direct sales activity should be of particular benefit to PPM consumers, a significant minority of whom (around 20 per cent) are also fuel poor.

Vulnerable consumers

1.27. Many initiatives and programmes are already in place to protect the interests of vulnerable customers. Ofgem has made this a key priority for 2008, culminating in our recent Fuel Poverty Summit and the Action Plan agreed subsequently. The Probe has identified a number of concerns that may particularly impact vulnerable groups. For example:

- **Older people** are among the least active consumer groups, are most likely to be with their original supplier and most likely to pay by standard credit. As a result, they will suffer more from higher in-area pricing by former incumbent electricity suppliers and the premium charged to standard credit customers, and benefit least from dual fuel discounts. Moreover, only a third of elderly consumers have access to the internet, and so are least able to compare offers or access the cheapest online deals.

- **Low income groups** are far more likely than other groups to switch as a result of direct sales activity and therefore far less likely to compare a range of competing offers before switching. Moreover, low income groups have lower rates of access to the internet and a significant number do not have personal current bank accounts. As a result, there is lower access to the cheapest online deals and direct debit tariffs. Low income groups are also disproportionately high users of pre-payment meters, and pay higher prices as a result. A higher proportion of low income groups may also be prevented from switching by their current supplier with whom they are in debt.

- Many **rural customers** are not on the gas grid and thus are impacted by the higher margins earned on electricity consumers, but cannot benefit from lower margins on gas or the discounts available to dual fuel customers. This is compounded by higher heating costs (from their use of oil, electricity or liquefied petroleum gas), which drives a higher proportion of these consumers towards fuel poverty.

Scottish and Welsh consumers

1.28. The Scottish and Welsh markets exhibit some distinct characteristics. They are the most concentrated markets in Great Britain, with the combined market share of the former electricity incumbent and British Gas exceeding 80 per cent in the north of Scotland and south of Wales regions and close to 80 per cent in southern Scotland. All the former incumbent suppliers have retained Scottish and Welsh brands and our consumer research shows consumers in Scotland and Wales are particularly well disposed towards these companies. As a result, a higher proportion of customers remains with their original suppliers and may be paying the premiums charged to in-area consumers outlined above.

1.29. The proportion of consumers not connected to the gas grid is also much higher than the GB average in both Scotland and Wales. These consumers are unable to access competitive dual fuel discounts and are also least likely to be visited by a sales person to encourage them to switch. An additional factor that may limit switching in Scotland is the prevalence of dynamic teleswitching (DTS), where consumers have their electricity supply remotely switched by their supplier (for example, if they have a separate heating load circuit). These consumers often use electricity storage heaters[6].

1.30. There are low switching rates among DTS consumers. In both of the Scottish regions more than 90 per cent of DTS consumers are still with the former incumbent electricity suppliers, even though other suppliers do now offer specific DTS tariffs. However, despite these low switching rates, the prices charged by the former incumbent electricity suppliers to their DTS customers compare favourably with the best offer Economy 7 tariffs, perhaps reflecting action by Ofgem in 2004 when we raised concerns about these consumers with Scottish companies.

[6] There are around 224,000 DTS consumers in Scotland (around 8 per cent of all Scottish electricity consumers; 13 per cent in the north of Scotland and 6 per cent in the south of Scotland), 61,000 in South Wales (around 6 per cent of all electricity consumers in South Wales) and 1.3 million in England (around 6 per cent of all English electricity consumers).

Smart meters

1.31. In its 2007 Energy White Paper, the Government outlined plans to work with energy companies to roll out smart meters to all domestic households over the next decade. Ofgem has expressed its views publicly on a number of occasions in recent years that smart meters could have a materially beneficial impact on supply competition, by providing consumers with better information, enabling them to assess competing quotes more easily and shortening the switching process. Smart meters should also improve the quality of service available to pre-payment customers and significantly reduce the metering and cost-to-serve differences that exist today. Smart metering must be implemented in a way that ensures these benefits are realised. A roll-out of smart meters will, however, take a number of years and so earlier action will continue to be needed to promote competition.

Small business consumers

1.32. Many of the issues outlined above apply equally to small business consumers. In the small business markets, we have additional concerns about the transparency and fairness of contract terms, the use of objections, the standards of direct sales activity and the role of intermediaries. We have evidence that many small business consumers are unaware of their contract terms governing change of supplier and contract roll-over, and that this is being used by suppliers to lock in their small business customers. This is harmful to the consumer and makes new entry to this market more difficult.

Wholesale market issues

1.33. Over recent years, Ofgem has taken a number of actions with respect to the wholesale gas and electricity markets, the most far reaching and high profile being our 2003 to 2006 Wholesale Gas Probe. The current Probe has focused on the operation of retail energy supply markets, given that properly functioning retail supply markets are critically important in ensuring efficient decisions in the wholesale market and an efficient allocation of risk throughout the value chain. For example, vertically integrated suppliers should make generation choices on fuel type, technology, timing, and/or contract structure on the same basis as an independent generator, without any expectation of being able to pass excess costs onto retail consumers.

1.34. In the course of the Probe, small suppliers and potential new entrants have highlighted the lack of liquidity in the wholesale electricity markets and raised concerns about the functioning of the wholesale market itself. Action is needed to address these concerns. We also need to be certain that the vertically integrated industry structure does not exacerbate these liquidity issues or distort long term investment decisions in wholesale businesses. Ofgem will continue to examine these issues in a GB context and through our significant involvement at the EU level.

Remedies

1.35. The Probe has identified a number of areas where the transition to fully effective competition should now be accelerated. Subject to consultation, the measures that we propose are summarised below.

1.36. **<u>ACTION 1</u>: promoting more active customer engagement**

- Suppliers will be required to implement a number of improvements to the quantity and quality of information they provide to consumers. This could include:
  - a requirement for **clearer information on customer bills** (for example, detailing the customer's existing tariff and consumption level) to make it easier to compare current arrangements with alternative offers;
  - an **annual statement** to each customer showing, for example, the customer's current tariff, the size of any premium they are paying (for example, relative to an average tariff or other payment method), their annual consumption level and alternative price packages available from that supplier;
  - an **annual prompt** to all customers of how to switch supplier, the advantages and disadvantages of each payment method and the potential savings from changing payment method;
- A programme to **promote confidence in price comparison and switching sites** and to extend their scope, in particular to enable prepayment switching and switching among low income and vulnerable groups who do not have internet access;
- We will consider whether there is future scope to **simplify the supplier switching process** to identify any further possible simplifications to the customer switching experience;
- We will look again at **debt blocking** with the aim of re-visiting the automatic right to block switching by customers who are in debt as it is currently being applied by suppliers;
- A sustained **customer awareness programme** will be launched to explain the switching process, promote the benefits of switching and, in particular, give vulnerable customers targeted information on the options open to them.

1.37. **<u>ACTION 2</u>: helping consumers make well-informed choices**

- We will work with consumer groups and suppliers to explore the development of an **easy-to-understand price metric** to enable consumers to compare prices quickly and easily. This metric could be made available to all customers on their bills and proposed annual statements, and would be used by all suppliers in all price quotations;

- Rules governing **suppliers' sales and marketing activities** will be strengthened, especially focussed on enabling consumers to make well-informed decisions in response to a direct sales approach, and to prevent any misleading marketing or sales activity. This could, for example, include an obligation to provide consumers with a written quotation and comparison with the consumer's current price;

- We will actively engage with government, suppliers and others in order to facilitate an efficient **roll-out of smart meters.**

1.38. **<u>ACTION 3</u>: reducing barriers to entry and expansion**

- We will **review regulatory obligations** that could act as an undue deterrent to new entry or obstacle to small supplier growth and, wherever possible, remove them or make them less onerous;

- We will require the Big 6 suppliers to publish **separate regulatory accounts** for their supply and generation businesses, in order to improve transparency and make it easier for potential entrants to assess market opportunities at each point along the value chain;

- We will begin, urgently, a programme of work to identify the underlying causes of low **wholesale market liquidity**, and explore with the Big 6 suppliers how best to achieve a significant increase in liquidity.

- We are also seeking views on whether Ofgem needs new or **additional powers to guard against potential market abuses**, notably in wholesale electricity markets

1.39. **<u>ACTION 4</u>: helping small business consumers.** The above actions will help both domestic and small business consumers engage more effectively with the competitive market. However, we want to go further and are consulting on measures which include:

- A requirement to inform small business customers clearly in writing of the key **terms and conditions** in their contracts, especially those related to switching and contract roll-over

- A requirement to institute a code of practice to govern the **objections** and switching process, in order to ensure much greater uniformity in the arrangements for changing supplier and contract extension

- An extension of the **accreditation scheme for switching sites** to cover those dealing with small business consumers, in order to reduce confusion and ensure tariff information is presented in an easily understandable format

- A strengthening of the existing industry **code of practice for Third Party Intermediaries** (TPIs) with new provisions requiring TPIs to tell consumers how they are remunerated and whether they provide information on all or only some suppliers

1.40. **<u>ACTION 5</u>: addressing concerns over unfair price differentials.** Encouraging more consumers to participate actively in the market and improving the quality of switching decisions should intensify competitive rivalry among suppliers. We would expect unfair price differentials to be eroded as a result but in addition:

- We will propose a new licence requirement on suppliers that differences in charges for different **payment types must be cost-reflective.**

- We are also considering placing a further new condition in the licences of the Big 6 suppliers that would either impose **a prohibition on undue price discrimination** or introduce a form of relative price control. Any such condition would seek to ensure that price differentials are objectively justified by cost differences. We would need to be sure that such a condition is a proportionate measure and serves to help, rather than hinder, progress towards effective competitive markets. We will conclude on this in the light of responses to the consultation and progress made in securing commitments to the market reforms we seek.

Next steps

1.41. We invite views on our findings, our proposed reforms and the specific actions necessary to realise these reforms. **We seek responses by 1 December 2008.**

1.42. Following this consultation we will seek agreement with suppliers on the proposed reforms, modified as appropriate in the light of comments received from all stakeholders, so that they can benefit consumers as soon as possible. If agreement is not forthcoming, we will consider making a market investigation reference to the Competition Commission. We invite views on whether the concerns identified in this report are sufficiently serious to warrant such a reference.

1.43. While this initial findings report is focused on GB retail energy supply markets, we have also identified a number of issues concerning GB wholesale energy markets. We will explore these issues further, and respond fully to the concerns about wholesale gas and electricity markets expressed by the Business and Enterprise Select Committee in its recent report on energy prices[7].

1.44. Great Britain is increasingly integrated with wider European markets, especially in gas, which means that the interests of GB energy consumers are increasingly impacted by developments in continental Europe. The third package of energy market reforms currently progressing through the EU represents progress towards more effective markets and we are hopeful that it will be agreed later this year. Ofgem continues to work through the Council of European Energy Regulators (CEER), the European Regulators' Group for Electricity and Gas

[7] *Energy prices, fuel poverty and Ofgem*, Eleventh Report of Session 2007-08, 28 July 2008

(ERGEG) and regional initiatives to realise concrete improvements in transparency, cross border trading arrangements and access to networks.

Full document

The full report and appendices: **Energy Supply Probe – Initial Findings Report**, is available via the homepage of the Ofgem website www.ofgem.gov.uk