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Ofgem probe has half a billion pounds in its sights for customers

- **Ofgem's energy market probe is on track to remove more than £500 million in unfair premiums from suppliers' tariffs but Ofgem wants speedier action**
- **The regulator is consulting on proposed changes to suppliers' licences to end prices that are not justified by associated cost to the supplier**
- **Referral to the Competition Commission remains an option if the regulator is not satisfied with the industry's responses to its proposals**

The six main energy suppliers have pushed ahead towards stripping more than half a billion pounds in unfair pricing from energy bills. The companies have agreed with Ofgem's probe finding that many disadvantaged households are paying unfair prices, but the regulator is concerned about the rate of progress and has moved to ban such pricing.

Meanwhile, since the probe began, more than £300 million has been taken off the premiums paid by customers including pre payment meter (PPM) users. And the companies have indicated further reductions that should reach at least £200 million for more than four million households who are off the gas grid and others who the probe identified as missing out on the best deals. While a number of companies have delivered some of these savings, Ofgem is not satisfied with the overall pace of delivery.

Ofgem will consult on its proposals to change the suppliers' licences to ban unfair prices and ensure consumer interests are more fully protected. Ofgem's governing authority last week decided to consult on licence changes prohibiting unjustified pricing with a number of options put forward for a six-week consultation starting in January. If sufficient progress is not made following consultation, the authority will consider further action. A full Market Investigation Reference to the Competition Commission is not ruled out.

"We've seen progress but it's certainly not the endgame," said Ofgem chief executive Alistair Buchanan. "We've seen encouraging signs since the end of our initial investigation but we demand more and quicker action for those customers currently losing out. And we are about to consult on new rules to end unfair pricing in future. If we are not satisfied with the suppliers' responses we can, should we choose, go to the Competition Commission."

The consultation that closed on 1 December confirmed the probe initial findings. As well as the January consultation on licence changes, Ofgem will now move forward with the full package of remedies identified in the probe report. These include tightening rules on sales and marketing activities, helping small businesses, and powers to tackle market abuse. At the same time Ofgem will progress the actions delivered from the April Ofgem-led Fuel Poverty Summit.

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Notes to editors

A teleconference press briefing on this announcement will be given at 11am by Ofgem Chief Executive Alistair Buchanan. If you would like to participate in the press briefing please call 020-8515-2301 and ask for the Ofgem press conference. The conference call will be recorded and a playback facility will be available for one week from tomorrow. The number to call to access this is: 020 7190 5901 pin code: 141384#

1. Breakdown of the £0.5 billion

£m	Up to Dec	To come
PPM	96	
Off gas grid	55	200
In/out area	181	
Total	332	200

2. Proposals to ban unfair prices

Ofgem will consult on three possible options for licence changes.

- A. Cost-reflective pricing between payment methods so the difference between, for example, PPM and DD tariffs must reflect underlying cost to the supplier that come those payment methods.
- B. Prohibition on undue price discrimination so differentials between PPM and DD or in-area and out-of-area tariffs must be objectively justifiable on cost or other grounds.
- C. Relative price controls

Process

The consultation will run from early January to mid February.

If licence change is **accepted**, it will be implemented after a short statutory consultation.

If **rejected** we can make a referral to the Competition Commission

3. Terms of reference for the 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.

4. Actions emerging from the Probe initial findings

- Promoting more active customer engagement.
- Helping consumers make well-informed choices.
- Reducing barriers to entry and expansion.
- Helping small business consumers.
- Addressing concerns over unfair price differentials.

5. Ofgem is the Office of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority, the regulator of the gas and electricity industries in Great Britain. Ofgem's aim is to bring choice and value to all gas and electricity customers by promoting competition and regulating monopolies. The Authority's powers are provided for under the Gas Act 1986, the Electricity Act 1989 and the Utilities Act 2000. In this

information note, the functions of the Authority under the relevant Acts are, for simplicity, described as the functions of Ofgem.

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