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OFGEM CONSULTS ON NEW RULES TO END UNFAIR PRICING

Energy regulator Ofgem has today (Thursday) launched a consultation on proposals to introduce new rules for energy suppliers to address unfair pricing identified in the regulator's recent supply market probe.

The six-week consultation will look at four alternatives for new requirements:

- an explicit obligation in the supply licence for payment methods to reflect the costs associated with them;
- prohibition of undue discrimination whereby a consumer is denied better deals because of individual circumstances;
- relative price controls; where a benchmark tariff will be established and what suppliers can charge above that tariff for certain payment methods will be subject to Ofgem price controls
- prohibition of cross-subsidy between gas and electricity supply. This could be combined with any of the above three alternatives.

This final proposed licence condition would tackle situations where customers are losing out because of the significantly higher margins charged for electricity supply over gas. In particular this will help consumers who are off the gas grid.

We are consulting on proposed options for ensuring that pricing is fair and justified. In considering this, we aim to guard against the most harmful effects of discriminatory pricing on consumers while being concerned not to hinder innovation or the further development of competition.

-ENDS-

Notes to editors

1. We seek responses to this consultation by Friday 20 February 2009.
2. Following this consultation we will seek agreement with suppliers on the proposed licence conditions – modified as appropriate in the light of comments received from stakeholders – which we will aim to propose formally by March 2009. At a minimum, we will seek to introduce a condition to ensure cost reflectivity between payment methods. Any proposed licence changes would be through a collective licence modification subject to statutory consultation.
3. We are continuing with the development of the other potential remedies set out in the Initial Findings Report of 1 December 2008 in the light of responses to that document. Our current expectation is to report back later in the spring of 2009.

4. If, at any point, it becomes apparent that the prospect of reaching agreement with the companies on the broad range of matters is unlikely to be achieved, the Authority will consider alternative options, which include a reference to the Competition Commission for a Market Investigation or licence modification

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. 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, the Energy Act 2004, and the Energy Act 2008 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.

For further press information contact:

Chris Lock 020 7901 7225 / 07766 511470

Trevor Loveday 020 7901 7288 / 07887 652 252