Promoting choice and value
for all gas and electricity customers

The Retail Market Review - Findings and initial proposals

Supplementary appendices

Reference:	34/11	**Team:**	Retail Market Review team
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Overview:

Building on the findings of our 2008 Energy Supply Probe, Ofgem's Retail Market Review has demonstrated that further action is needed to make energy retail markets in Great Britain work more effectively in the interests of consumers. Consumers are at risk from a number of features in the market which reduce the effectiveness of competition. We now have three investigations relating to our Probe remedies in progress. In addition to enforcing existing obligations, we believe that further radical actions are now required.

In this document we outline a range of initial proposals for consultation designed to make it much easier for consumers to identify who is offering the cheapest tariff; make it easier for new suppliers to enter the market; enforce and strengthen Probe remedies in both the domestic and non-domestic market; and increase the transparency of company accounting practices.

We would prefer to implement reform wherever appropriate with the cooperation of the supply companies. This would ensure quicker implementation to the benefit of consumers and would limit uncertainty for the industry. If, following consultation, we consider that reforms do not have a realistic chance of addressing the concerns identified due to industry opposition or otherwise, we will consider a referral to the Competition Commission.

These supplementary appendices, along with the additional research and analysis we are publishing, give further detail on the analysis that we have undertaken during the Review.

Context

Ofgem's principal objective is to protect the interests of consumers, present and future, wherever appropriate by promoting effective competition. In accordance with this objective, we have launched this review into the state of the GB energy retail market.

The appendices provided in this document provide further detail on the analysis undertaken during the Retail Market Review.

Associated documents

- The Retail Market Review – Findings and Initial Proposals, March 2011, Reference: 34/11
- Ofgem Discussion Paper: Do energy bills respond faster to rising costs than falling costs?, March 2011
- Ofgem Discussion Paper: What can behavioural economics say about GB energy consumers?, March 2011
- The Electricity and Gas Supply Market Report, March 2011, Reference: 36/11
- Ofgem Consumer First Panel, Year 3 2010/11, Findings From The Second Set Of Workshops, Opinion Leader, March 2011, (The Retail Market Review – Findings and Initial Proposals associated document)
- Customer Engagement with the Energy Market – Tracking Survey, Ipsos MORI, March 2011, (The Retail Market Review – Findings and Initial Proposals associated document)
- Vulnerable Customer Research, FDS International, March 2011, (The Retail Market Review – Findings and Initial Proposals associated document)
- Update on Probe Monitoring: Tariff Differentials and Consumer Switching, July 2010, 79/10
- Energy Supply Probe — Initial Findings Report, October 2008, 140/08

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Appendix 6 – Trends in the domestic consumer experience

Research and evidence base

1.1. Since the Probe, we have continued to monitor and research trends in the consumer experience in the energy retail market. The work we have commissioned comprises both qualitative and quantitative research including the following[1]:

- An Omnibus quantitative survey by Ipsos MORI (*2011 Omnibus survey*). This follows similar surveys covering activity in 2006, 2007, 2009 and 2010[2].
- Discussions with our Consumer First Panel (*The Panel*), by Opinion Leader, which includes around 100 consumers from across Great Britain who are broadly representative of the population[3].
- Ten qualitative focus groups and eight in depth interviews, run by FDS International, with different types of vulnerable consumers from around Great Britain, such as elderly, low income and disabled consumers (*vulnerable consumer research*)[4].

1.2. Our recent consumer panel work has looked closely at consumer experience as well as attitudes towards the market and switching. We have also used this research to explore consumer views regarding options for simplifying the format or reducing the number of tariffs, as well as other options to help protect consumers.

1.3. We have also reviewed a wide range of academic papers concerning behavioural economics and what drives consumer engagement and switching decisions. We have published, alongside the review, a discussion paper on how behavioural economics can help us better understand energy consumers[5].

Engagement with the energy market

1.4. Energy consumers are a heterogeneous group with a range of drivers, appetites and capabilities to engage with the energy market. A high proportion of consumers remain disengaged from the energy market. Consumers tend to view energy both as

[1] All these independent reports are available at www.ofgem.gov.uk
[2] Customer Engagement with the Energy market - Tracking Survey, Ipsos MORI, January 2011
[3] Ofgem Consumer First Panel Year 3, Report from the second set of workshops, Opinion Leader, March 2011
[4] 2011 Vulnerable Customer Research, Report by FDS International, March 2011
[5] Ofgem Discussion Paper: What can behavioural economics say about GB energy consumers?, March 2011

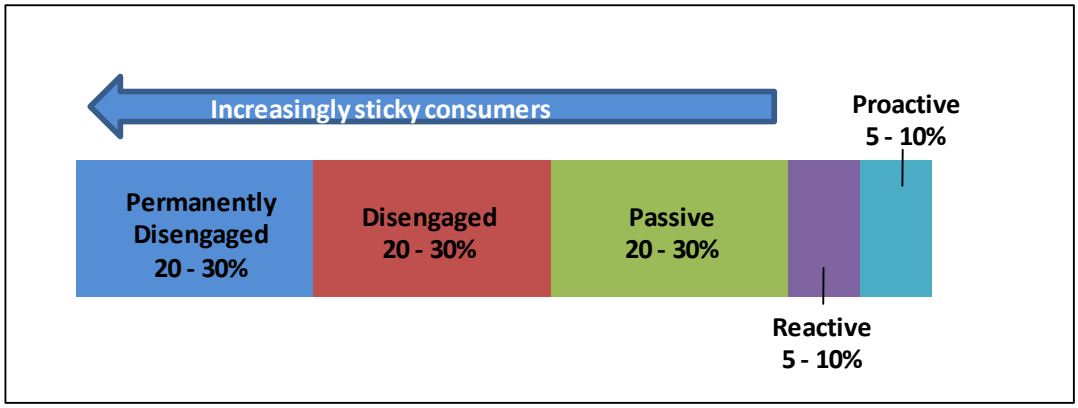
an essential service and a homogeneous product and one that is less tangible than many other consumer goods and services.

1.5. Many consumers see the energy market as complex and hard to navigate. Only a small proportion of consumers actively seek out better deals and welcome having choice. Throughout our research, we found that most consumers were concerned about the price of energy and there were calls from some consumers for more predictable and reliable prices to help them budget and avoid shocks.

Consumer types

1.6. From our research we can identify the following segments of consumers. The proportions provided are presented as ranges because they are based on both our quantitative and qualitative work, and reflect the fact that consumers may move between different groups over time.

Figure 1: Ofgem's segmentation of energy consumers, in terms of their attitudes and behaviour towards engaging with the energy retail market



Source: Ofgem consumer analysis

1.7. These segments can be defined as follows.

- **Proactive consumers:** are likely to have switched supplier or tariff within the last year. They research alternative offers themselves and will switch supplier without the need for prompting.

- **Reactive consumers:** are also likely to have switched supplier or tariff within the last year. They do not necessarily shop around or plan to switch, but may switch as a result of an encounter with a sales agent.

- **Passive consumers:** are those who report switching at some time in the past, but have not in the last year. Our research tells us that many of these consumers have switched once, most often to a dual fuel offering either with British Gas or their incumbent electricity supplier. Having made an initial saving with their first switch they are not particularly likely to switch again.

- **Disengaged consumers:** are those customers who report never having switched but don't rule out switching in the future. Many disengaged consumers may only decide to switch in reaction to poor service from their supplier or following an encounter with a sales agent. They generally have little knowledge (and in some cases little interest) of the energy market.

- **Permanently disengaged consumers:** those consumers that claim to have never switched and are unlikely to switch in the future. They are the stickiest consumers and many are likely to be vulnerable consumers.

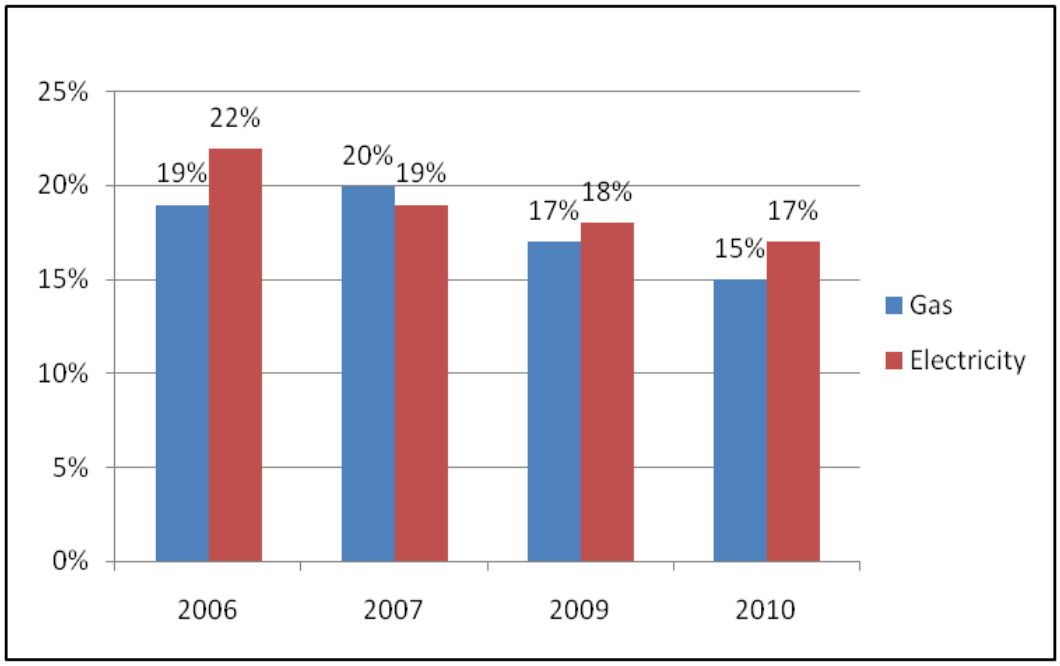
Switching

1.8. Price is still the overwhelming trigger for switching, with no change since the Probe research. From the 2011 Omnibus survey at least 77% of gas and electricity switchers quote price as their main motivation, distantly followed by improved customer service at 7%.

Switching rates

1.9. Findings from the 2011 Omnibus survey show that 15% of gas customers and 17% of electricity customers switched their supplier during 2010. Figure 2 shows that switching rates have been on a downward trend. This may be because the first switch often results in the largest savings, as people move to dual fuel, or switch to direct debit offerings. After this, many people may not consider subsequent switching savings to be worth the effort of further engagement. Alternatively, it could suggest that consumers have switched and either had a bad experience or feel that they are now paying more so are disinclined to engage again.

Figure 2: Percentage of domestic consumers switching each year



Source: Ipsos MORI Omnibus surveys

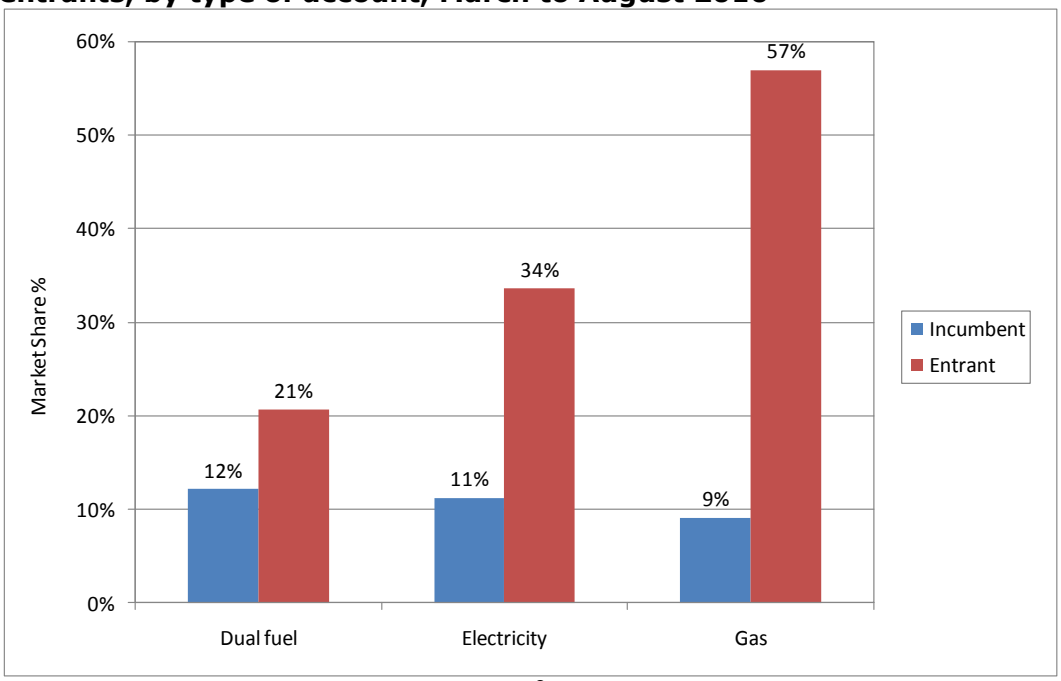
1.10. The 2011 Omnibus survey indicates that 41% of gas and 40% of electricity consumers have switched at least once which is a slight increase since the Probe. This is around the same percentage in 2009[6] and highlights that it is likely that those customers who report switching in 2010, had already switched at least once before.

1.11. Analysis of churn data provided by suppliers[7] indicates that, generally, dual fuel customers, those managing their accounts offline and customers paying by direct debit are less likely to switch their supplier. Analysis of dual fuel accounts, shows that churn of accounts settled by direct debit is lower (11%) than those settled by standard credit (18%).

1.12. Furthermore, consumers who are with their regional incumbent(s) switch less regularly. Figure 3 contrasts the annualised churn of the customers of incumbent suppliers and entrants, averaged across all 14 regions. In each separate region, we treat the ex Public Electricity Supplier (PES) as the incumbent for electricity-only and dual fuel accounts and British Gas for gas-only and dual fuel accounts. All other suppliers are considered entrants (ie in this analysis British Gas is only an entrant for electricity-only supply).

[6] The percentage of customers reporting whether they had *ever* switched supplier in the 2011 tracking survey is actually 2% below the percentage the previous year, for both gas and electricity customers. Such deviations are to be expected in a survey of this nature.
[7] Data from the Big 6 provided to Ofgem monthly on the number of customer accounts and losses of accounts.

Figure 3: Annualised churn of regional incumbent(s) and of regional entrants, by type of account, March to August 2010



Source: Big 6 suppliers, Ofgem analysis[8]

1.13. There is a marked difference in the churn rates of the regional incumbents and of those suppliers entering a region. The contrast is most striking for gas-only accounts, where the annualised churn for British Gas (the incumbent) is 9%, compared to 57% of the entrants. Expressed differently, entrants offering gas-only accounts can expect to lose more than half (57%) of their gas-only customers each year, whilst British Gas would expect to lose just 9%.

1.14. For electricity-only accounts, the difference in the churn between incumbent and entrant is three-fold: 11% and 34% respectively. For dual fuel too, churn is less for the incumbents (defined as British Gas and the regional ex PES) than for the entrants, 12% and 21% respectively.

[8] The annualised churn data is based on six months worth of account losses data from the Big 6 suppliers. We recognise this is a short time period and data over a longer time period may alter these results.

The switching process

1.15. Door-knocking by sales agents continues to be the principal method by which switchers find out about energy deals offered (~29% of switches in 2010) followed by online comparison services (24%). When it comes to making the switch, around 28% of consumers sign up on the doorstep, around 28% phone the supplier and 16% switch via a comparison website[9].

1.16. The 2011 Omnibus survey shows direct sales are the main channel used to switch by prepayment customers, those aged over 65, those in social group E and those without internet access. For some consumers, direct sales offer the only way that they are able to switch. Almost all switching discussed in the vulnerable consumer research was reactive, ie in response to being contacted by a sales agent. However, there is also some distrust of such methods and a reluctance to engage. Suppliers are increasingly using telesales and direct selling in public places such as stores and shopping centres.

1.17. Some consumers at our research sessions tell us they dislike talking to sales reps and fear being pressurised into making a decision that may not be best for them. Sales agents usually only represent one supplier and may not provide a supplier's full range of tariffs. Furthermore, the cheapest tariffs, such as those online, may not be proactively pushed.

1.18. Proactive consumers are more willing and able to compare tariffs across suppliers and so are more likely to find a good deal. They are also more likely to be able to take up offers such as direct debit offers and on-line accounts. Price comparison websites are the most popular way for proactive consumers to research a new deal, with 16% of switchers going on to complete their switch using a comparison website. More common is consumers phoning the relevant supplier, which around 28% of consumers did to complete the switch.

1.19. The Consumer First Panel recognised that switching sites aided comparison without the pressure of sales agents. However, some consumers had faced out-of-date, conflicting or complex results or got different information depending on which site they used. Some switching sites do not list all the tariffs available, which narrows the choices available to consumers. These experiences can reduce trust in switching sites and has led some consumers to question the impartiality of information provided.

Outcome of switching

1.20. Of those who had switched in 2010, 85% found switching very or fairly easy and 4% found the process fairly or very difficult[10]. From our 2008 Omnibus survey,

[9] Customer Engagement with the Energy market - Tracking Survey, Ipsos MORI, January 2011
[10] Ibid.

77% of consumers were happy with how smoothly the switch took place. These findings are broadly consistent across age and social grade. However, the perception that switching might be difficult remains a barrier to switching for those who have not had first-hand experience of the process.

1.21. The majority of consumers switch to save money. Almost two-thirds of consumers who switched to save money in 2010 felt they had done so as a result. In 2008, 20% of consumers felt that they were paying more than if they hadn't switched. This fell to 12% of consumers in 2010. However, consumers are increasingly unsure about whether or not they are paying less as a result of switching suppliers, a quarter of consumers who switched in 2010 did not know or were unsure if they were paying less[11].

Potential savings from switching

1.22. Figure 4 shows the estimated total savings over 2010 that customers of the Big 6 energy suppliers could have made had the customers switched from either a prepayment meter tariff (PPM) or a standard credit to a standard direct debit offer at the beginning of the year[12]. Across all types of account, savings tend to be higher for PPM than for customers on standard credit. Savings are higher, in absolute terms, for dual fuel customers than for gas-only or electricity-only accounts. For dual fuel, a customer on standard credit would have saved between £37 and £126.

Figure 4: Estimated total savings over 2010 per customer if the customer changed payment method to direct debit at start of 2010

Switch	Dual fuel	Electricity-only	Gas-only
Standard credit to direct debit	£ 37 - 126	£ 14 - 44	£ 18 - 58
Prepayment to direct debit	£ 62 - 105	£ 20 - 40	£ 29 - 33

Source: Ofgem analysis using The EnergyShop.com information and supplier's account information

1.23. Figure 5 shows the estimated total savings over 2010 that a customer of the Big 6 could have made had they switched to the direct debit tariff of the supplier who, over the course of 2010, would have been cheapest[13]. Customers of the Big 6 that were already on dual-fuel direct debit accounts, could have saved between £160 and almost £200 over the course of 2010 had they switched to the cheapest dual-fuel, direct debit accounts at the start of the year. The savings are higher for customers on standard credit or on pre-payment meters.

[11] Ibid.
[12] This is based on data from the DPD and customer account numbers from the Big 6 suppliers. The tariff data used, in turn, are based on standard tariffs (excluding online tariffs) and the information is based on an average level of energy consumption.
[13] The lowest priced supplier need not be one of the Big 6 and indeed for most of 2010 was not. The analysis allows for the identity of the supplier with the lowest prices direct debit account to vary by region.

Figure 5: Average savings over 2010 per customer if moved to supplier with lowest direct debit at the start of 2010

Switch from	Dual fuel	Electricity-only	Gas-only
Direct debit	£ 160 - 196	£ 27 - 86	£ 5 - 36
Standard credit	£ 236 - 323	£ 59 - 117	£ 25 - 82
Prepayment	£ 237 - 293	£ 66 - 109	£ 42 - 66

Source: Ofgem analysis using The EnergyShop.com information and supplier's account information

1.24. One concern raised over the course of our consumer research was the perception that prepayment meter customers are paying significantly more for their energy, and that this is unfair. There was little awareness that this issue has been addressed by SLC 27.2A which requires suppliers to ensure that differences in price between payment methods are cost reflective. Ofgem has analysed pricing data that shows that prepayment customers now pay, on average, less than customers on equivalent standard credit tariffs.

Barriers to switching

1.25. The key barriers to switching remain consistent with those identified in the Probe. The most common reason, given by 77% of consumers who did not switch in 2010 was that they are happy with their existing supplier[14]. However, through our qualitative work, a range of other barriers emerge. Consumers' attitudes or perceptions towards the market and/or their circumstances can all create barriers to switching.

1.26. A significant number of consumers are not interested in switching supplier. Some consumers fear that something will go wrong if they do try to switch. A small number of consumers perceive that their supplier would put them automatically on the best deal, so have not considered taking action themselves. Consumers often consider switching to be a hassle and that there is not enough difference between offers and/or suppliers to make it worthwhile. This is compounded by the fact that some consumers think any potential savings will only be temporary.

1.27. In some cases consumers' circumstances may limit their ability to compare different tariffs or switch. For example, those without internet access find it more difficult to compare tariffs and will not be able to access suppliers' lowest (online) tariffs.

1.28. Private tenants are also less likely to switch supplier. For some this is because their landlord prevents them switching or they think that their landlord will prevent them. For others it is linked to their circumstances being more transitory than home owners.

[14] Ipsos MORI (2011) Customer Engagement with the Energy Market – Tracking Survey, January

1.29. Customers on prepayment meters may also face additional obstacles when switching. They may need to change meter in order to change tariff to a more competitive online or fixed offer. For example, before a consumer can switch their supplier may charge for installation of a new meter to enable the switch to a non-prepayment tariff. Consumers with a poor credit rating or who do not have a bank account may be unable to use direct debit and may be limited to prepayment tariffs.

1.30. More active consumers can find the large number and low comparability between tariffs acts as barriers to switching, generating uncertainty about which is the best deal. In other words they experience 'limited capacity' as identified in our separate paper on behavioural economics. Our research on suppliers' websites and switching sites shows that the numeracy skills required to navigate content limit their effective use to just 25% of the population.

Profile of 'sticky' consumers

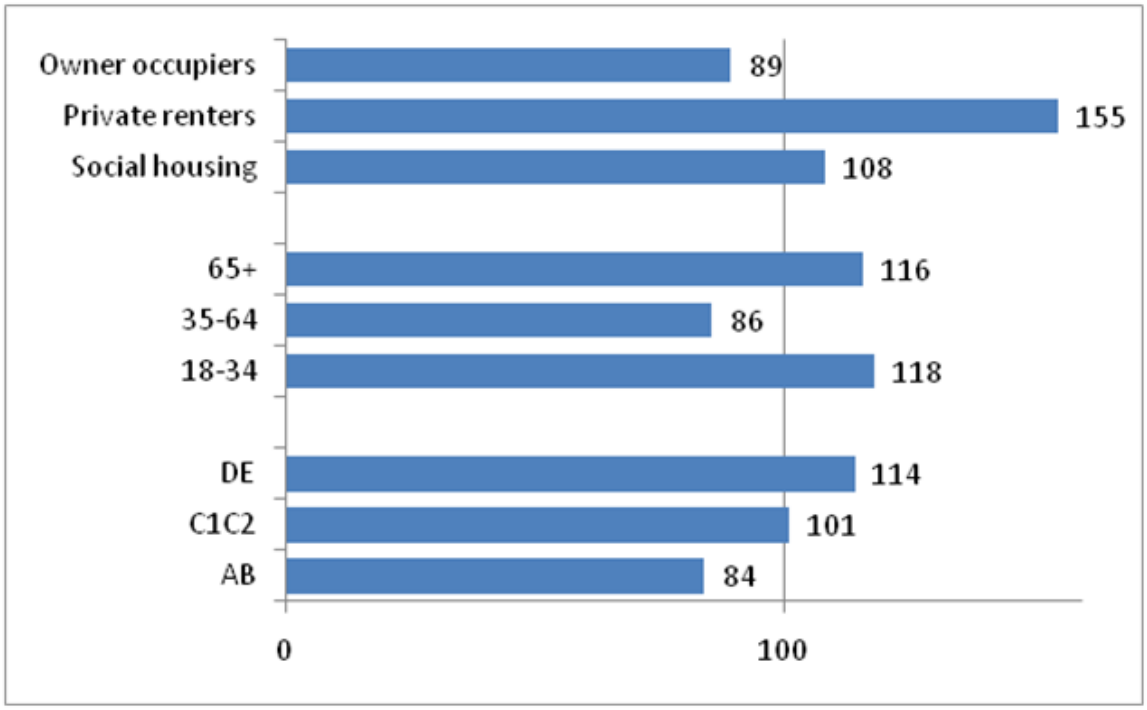
1.31. Sticky consumers are those consumers that choose not to switch, cannot switch due to their circumstances, or are put off switching due to other features of the market such as tariff complexity.

1.32. Our consumer segmentation analysis shows that around 40-60% of customers in the energy sector are currently sticky. Sticky consumers still remain with one or more of their incumbent suppliers, either because they have never switched, they switched to a dual fuel deal (potentially with British Gas or their incumbent electricity supplier),or because they switched once and returned to their old supplier. Sticky consumers demonstrate 'status quo bias' as identified in our separate paper on behavioural economics.

1.33. Figures 6 and 7 have been developed using the Ipsos MORI consumer engagement survey 2008.

1.34. Those in social group DE and those aged over 65 are more likely than the whole population to have never switched and to be unlikely to switch in the future. Those in private rented accommodation are are more likely to have never switched.The research groups identified stronger brand loyalty in Scotland and Wales to 'national' brands so the issues around sticky consumers are more likely to be felt in Scotland and Wales.

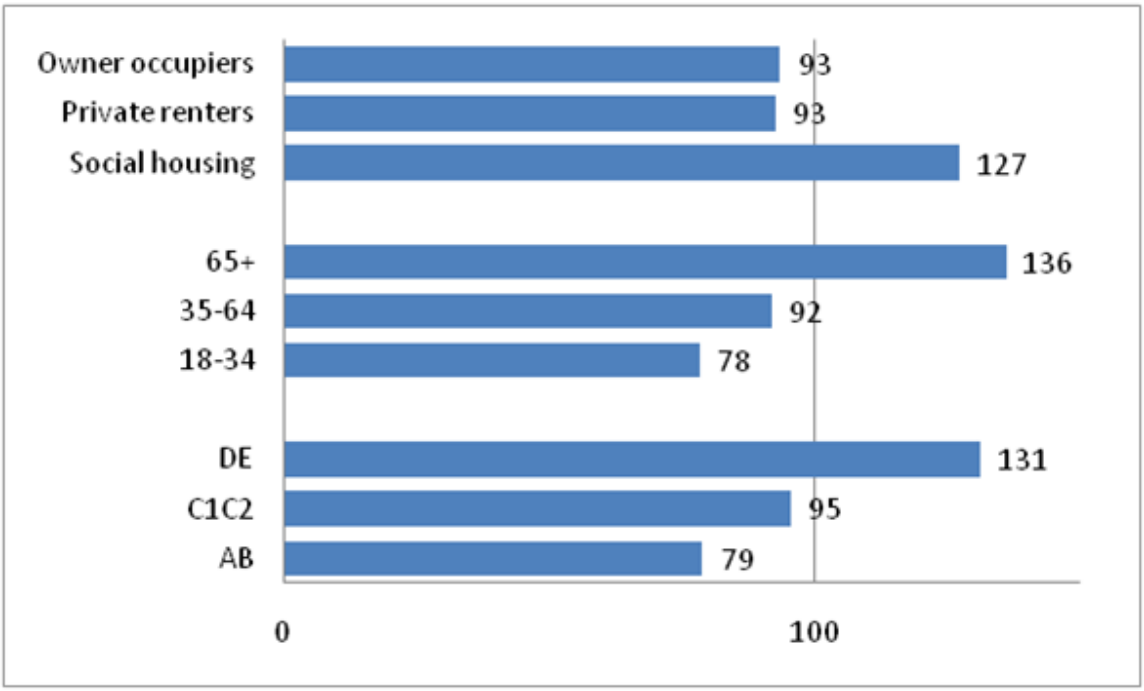
Figure 6: Profile of those consumers who have never switched, weighted against the British population



Note: a score of 100 implies the proportion of people in that group who have never switched is the same as the proportion of the British population who have never switched
Source: Ipsos MORI Omnibus survey 2008[15], total customers surveyed 2024 of which never switched 774.

[15] Customer Engagement Survey Report prepared for Ofgem, 29 August 2008, Ipsos MORI

Figure 7: Profile of those consumers unlikely to switch in future, weighted against the British population



Note: A score of 100 implies the proportion of people in that group who are unlikely to switch is the same as the proportion of the British population who are unlikely to switch
Source: Ipsos MORI Omnibus survey 2008, total customers surveyed 2024, of which unlikely to switch 1059.

Findings on the multiplicity and complexity of tariffs

1.35. Research by Consumer Focus suggests that 57% of electricity consumers and 59% of gas consumers do not know which tariff they are on and how much they pay per unit[16]. Consistently across our research, consumers identified the number and complexity of energy tariffs as being a barrier to engaging with the market.

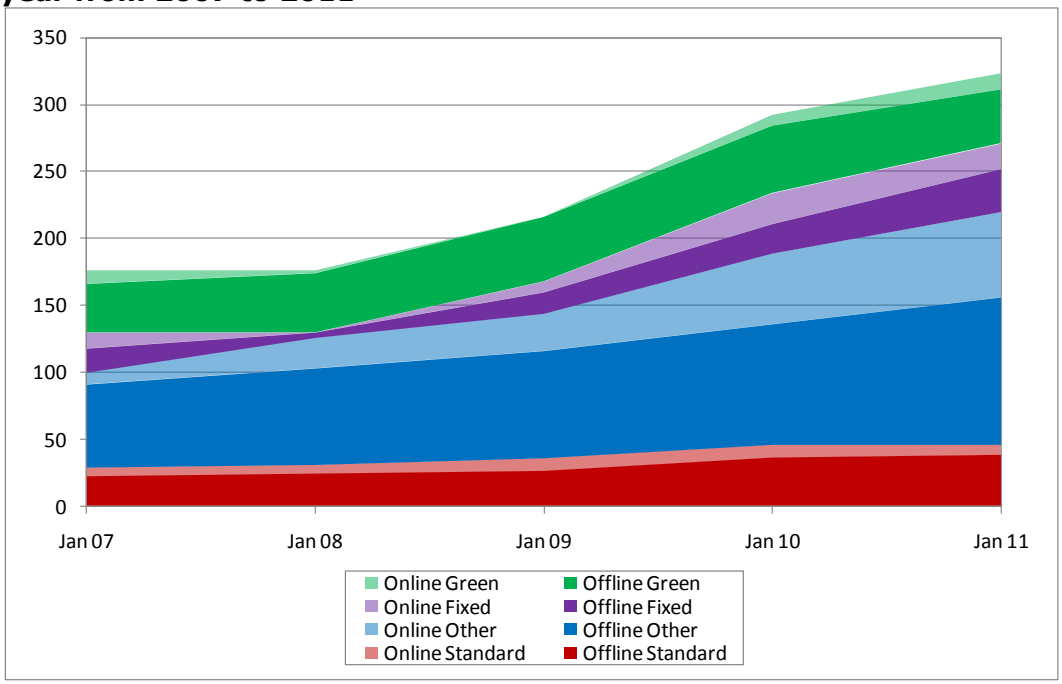
The number of tariffs available

1.36. Since 2008 the total number of available tariffs (online and offline) has increased by over 70%. Online tariffs have shown a marked increase and now make up 32% of the total number of tariffs available to consumers. There has also been an increase in the number of fixed term offers available. On 1 January 2008 fixed deals made up only 2% of total tariff offerings. On 1 January 2011 fixed deals accounted for 16% of all tariff offerings. The number of offline standard tariffs offered has

[16] Consumer Focus Online Omnibus survey March 2010

increased by 14 to 38. We note this chart does not include payment type options, only the number of offers available.

Figure 8: The number of tariffs available to consumers on 1 January every year from 2007 to 2011[17]



Source: Ofgem analysis on data from TheEnergyShop.com

1.37. Our 2008 Omnibus survey showed that 70% of consumers found the number of tariffs on offer confusing. Evidence from Which?[18] and the Consumer First Panel suggests that some consumers would like fewer tariffs. In our vulnerable consumer research groups it was said that the less options that were available, the easier it was to choose.

1.38. Within our research groups we explored potential options for limiting the number and standardising the format of tariffs. Those consumers who are more likely to be active, value choice among a range of tariffs. The vast majority of vulnerable consumers responded positively to having fewer tariffs.

Complexity and comparability of tariffs

1.39. Another concern voiced by consumers was the difficulty in understanding and comparing tariffs.

[17] Excluding legacy tariffs no longer available
[18] Which? Energy Campaign, Bamboozling bills & tariffs, October 2009

1.40. Complex pricing occurs in different sectors, but research by the OFT[19] suggests that complex pricing is more prevalent in the energy retailmarkets. According to the OFT's 2010 Advertising of Prices Study, within a 12 month period in 2009/2010 the most frequent consumer experience of complex pricing was related to gas and electricity supply. 39% of consumers who experienced complex pricing encountered it in the supply of gas or electricity. Complex pricing was second and third most prevalent for mobile phone packages and TV, broadband and media packages, respectively. For this reason, where we present evidence from the OFT's Advertising of Prices Study in this section we compare the results for electricity and gas supply with mobile phone packages and TV, broadband and media packages.

Figure 9: Prevalence of complex pricing

Sector	Share of consumers who have encountered complex pricing in the sector
Gas and electricity supply	39%
Mobile phone packages (not only handset)	34%
TV, broadband and media packages	24%

Base: Consumers who experienced complex pricing.
Source: OFT Advertising of Prices Study

1.41. The OFT's survey results show that 75% of consumers who have experienced complex pricing of energy supply object to the way prices are presented and only 5% approve. Only the market for airline tickets fared worse in this respect (with 82% objecting).

Figure 10: Feelings about presentation

Sector	Percentage of consumers who…	
	Object to presentation	Approve with presentation
Gas and electricity supply	75%	5%
Mobile phone packages (not only handset)	70%	4%
TV, broadband and media packages	71%	7%
Flights/airline tickets	82%	5%

Base: Consumers who experienced complex pricing in the sector.
Source: OFT Advertising of Prices Study

[19] OFT (2010), Advertising of Prices Annexe N: Consumer survey data tables, December. The study covers mobile phone packages, media packages, energy supply, financial products, toiletries and healthcare, media products, clothes and fashion, entertainment tickets, electrical goods, home improvements, furnishings, groceries, flights and holidays.

1.42. The results of the OFT's Advertising of Prices Study also suggest that complexity in the market is one of the main reasons why consumers find it difficult to choose a supplier. In particular, 40% of those respondents who found it difficult to choose a supplier said that the market was generally too confusing and complicated and 21% said that there were too many options to consider. Additionally, 40% said that it was too difficult to calculate the amount due over the contract period.

1.43. There is also evidence that consumers are confused by information provided by suppliers. More than a third (37%) of those who found it difficult to choose a supplier said that it was difficult to make a selection because different suppliers use different terms to describe the same thing and 28% of consumers said that different suppliers all claim to offer the best value.

1.44. As argued by the OFT[20], firms may have incentives to increasing the number of tariffs and the complexity of the choice. For example, a strategic marketing consultancy advises banks to 'make use of more complex price systems such as two part pricing, multidimensional pricing or loyalty programs for selected products/services'[21] arguing that 'The likelihood that banks continually try to undersell one another is greater if their price structures make it easy for customers to compare offers. In order to prevent easy comparisons, a bank should create price structures that are clearly distinguishable from those of its rivals. Price systems with several price components are especially effective'.

1.45. Carlin (2009)[22] further shows that firms' incentives to increase price complexity may increase with the level of competition and as a result prices may actually increase with the number of competitors. Additionally, Piccione and Spiegler (2010)[23] show that a fraction of consumers will only switch from their current tariff if the new tariff is structured and presented in exactly the same way. This implies that suppliers to some extent may be able to prevent switching simply by presenting tariff information in a different way than their competitors.

1.46. The European Commission[24] analysed comparability of electricity tariffs across Europe. They found that UK consumers generally find it is difficult to compare different electricity tariffs offered by their supplier and other suppliers.

Standardisation of tariffs

1.47. Figure 11 shows that 58% of consumers surveyed by the OFT favour improving comparisons in the energy sector by requiring all suppliers to use standardised

[20] OFT 2010, What does Behavioural Economics mean for Competition Policy?, OFT1224
[21] Wuebker, G and Baumgarten, J., Strategies against Price Wars in the Financial Service Industry, Simon-Kucher and Partners.
[22] Carlin, B. (2009) Strategic price complexity in retail financial markets, *Journal of Financial Economics*, 91 (3), 278-287.
[23] Piccione, M., and R. Spiegler (2010) Price Competition under Limited Comparability, mimeo.
[24] EC DG Sanco: The functioning of retail electricity markets for consumers in Europe, November 2010.

information in adverts (eg the cost of boiling a kettle[25]). There was also strong support by respondents for requiring suppliers to use the same terminology when presenting pricing information and nearly a third of consumers would like suppliers to state the amount of the typical bill in adverts. However, compared to similar sectors a smaller share of consumers believes that these initiatives will make it easier to compare tariffs in the energy sector. Other solutions are also less favoured in relation to the energy sector than in relation to other sectors.

Figure 11: What would make it easier to compare prices and value?

	Gas and electricity supply	Mobile phone packages	TV, broadband and media packages
All suppliers using standardised information for comparisons in adverts (eg costs of boiling a kettle)	58%	43%	39%
All suppliers using the same terms in adverts	41%	49%	54%
All suppliers saying what a typical monthly bill is in adverts	32%	35%	46%
Independent price comparison sites that cover all suppliers in the market	31%	27%	38%
More information in how long/how much hassle it would be to switch	22%	29%	33%

Base: Consumers who encountered complex energy prices.
Source: OFT Advertising of Prices Study

1.48. Which? states that 'simplifying bills and tariffs is vital for making it easier for people to cut their usage and costs'[26]. However, Which? also notes that the use of standardised price metrics is most useful for homogenous products and that information about quality differences or additional fees may not be well captured by standardised price metrics. Instead of using a standardised price metric, Which? therefore proposes removal of no-standing charge energy tariffs. It also recommends requirements that suppliers must clearly specify whether prices are inclusive of discounts and details of the minimum period that the tariff will last[27].

1.49. A high level of tariff complexity and low comparability may result in a situation where consumers either do not make the best choice for them, or they fail to choose at all. Both of these outcomes are potential sources of consumer detriment. They can also impact on competition by sending inaccurate signals to the market regarding consumer preference.

[25] OFT (2010), Advertising of Prices Annexe N: Consumer survey data tables, December 2010.
[26] Which? Energy Campaign, Bamboozling bills & tariffs, Published October 2009
[27] Which? Consultation response to initial findings report for the Energy Supply probe.

Exploring tariff options with consumers

1.50. Through our research with vulnerable consumers and with our Consumer First Panel we explored potential options for limiting the number of tariffs, standardising the format of tariffs and controlling the prices of some tariffs.

1.51. Many consumers expressed a desire for a clear and straightforward way to compare and evaluate different energy offers. The more proactive consumers valued choice in the number and range of tariffs available. Some consumers expressed a desire for easily comparable units so that a kWh could be understood and compared. The vast majority of vulnerable consumers responded positively to having fewer tariffs and a standard format to help them compare offers, including those from sales agents. Some vulnerable consumers recognised that such information could help them use comparison sites, but noted the standard format alone was unlikely to prompt them to engage with the market.

1.52. Our research also explored options for Ofgem to control or agree the price of tariffs. Controlled tariffs were seen as offering reassurance and fairness, and were generally preferred by many vulnerable or disengaged consumers. Many consumers also recognised that a controlled tariff in the market could provide a useful benchmark to aid comparisons. However, some consumers, particularly those who would not be considered vulnerable, prefer a broader choice to be available and had doubts about the need to control tariffs.

1.53. Overall, consumers would like fewer and less complicated tariffs so they can make comparisons and engage with the market more easily. However, some consumers simply do not wish to engage with the market at all, but would welcome the peace of mind of knowing they are on a "fair" deal.

Findings from Ofgem's Consumer First Panel

We note the following findings made during a session devoted to the detail surrounding the current tariff system:

"What was clear is that varying levels of knowledge about tariffs and competition cannot hide the fact that overall, panellists clearly feel that the system is not delivering them clear and competitive choices. The fact that only a very small minority are actually aware of the name of the tariff that they are on, and that most speak about switching supplier rather than switching tariffs only serves to reinforce this.

Those that acknowledge the potential benefits of competition and have an understanding of the underlying principles of competition are aware that certain tariffs can benefit those with specific lifestyles, but we have certainly not seen a wholehearted endorsement of this. There is an overwhelming clamour for simplicity, the most common of which is now an explicit call to allow for simpler unit comparisons – "Why isn't it simpler?"

….there was a clear narrative running through the discussions that an overhaul of the system is most definitely required to enable consumers to have the opportunity to make better choices.

It should be acknowledged (and is evident from discussions) that however the system is overhauled, there are three principles that need to underlie this going forward:

- ➔ Tariffs need to be more immediately accessible, ideally by offering directly comparable unit prices

- ➔ There is a need for greater predictability and reliability of prices and offers; a 'fair' system would give consumers greater confidence in difficult economic times

- ➔ 'Choice' is not a bad thing, rather that there needs to be transparency in the choices available such that the power of choice can be harnessed by consumers with different levels of sophistication and knowledge

With a fairer and more transparent system, consumers will be able to make the choice between simplicity (clarity of offers and tariffs), or complexity (the opportunity to play the market for those are prepared to 'lock horns' with it)."

Source: Ofgem Consumer First Panel, Year 3 2010/11, Findings From The Second Set Of Workshops, Opinion Leader, March 2011

Appendix 7 – Ongoing liquidity findings and liquidity proposals

1.1. This appendix supports Proposal 2. Here, we set out in greater detail our ongoing concerns about the state of liquidity in the GB electricity market. We provide an update on some high level liquidity indicators, and discuss the relationship between these and the pursuit of effective competition in the retail market.

1.2. We then set out our proposals for achieving greater liquidity, to the benefit of independent market participants. As stated in the Retail Market Review consultation document, we believe that there are significant links between strong liquidity and effective retail market competition. It follows that a well targeted liquidity intervention could have significant benefits for retail market competition, and ultimately, GB consumers.

Liquidity indicators and why we remain concerned

1.3. In summer 2010 we provided an assessment of GB electricity market liquidity[28]. The assessment presented a mixed picture. It was noted that overall churn[29] had increased since 2005 and that the market largely met the needs of the large, vertically integrated, market participants.

1.4. However, it was also noted that whilst churn had been on an upward trend, the aggregate churn level was well below that of leading European electricity markets, such as Germany. Increasing bid–offer spreads also suggested that electricity market liquidity may not be improving. Low exchange-traded volumes suggested that the market was not as transparent as some.

1.5. Finally, qualitative evidence from the assessment suggested dissatisfaction among non-vertically integrated (non-VI) participants about the market's effectiveness in meeting their needs.

1.6. We are in the process of conducting a full assessment of liquidity, to see how the market has evolved since summer 2010. However the initial evidence we present below, which reflects recent market information, indicates that the market is failing to develop. Hence we are seeking views on our liquidity proposals.

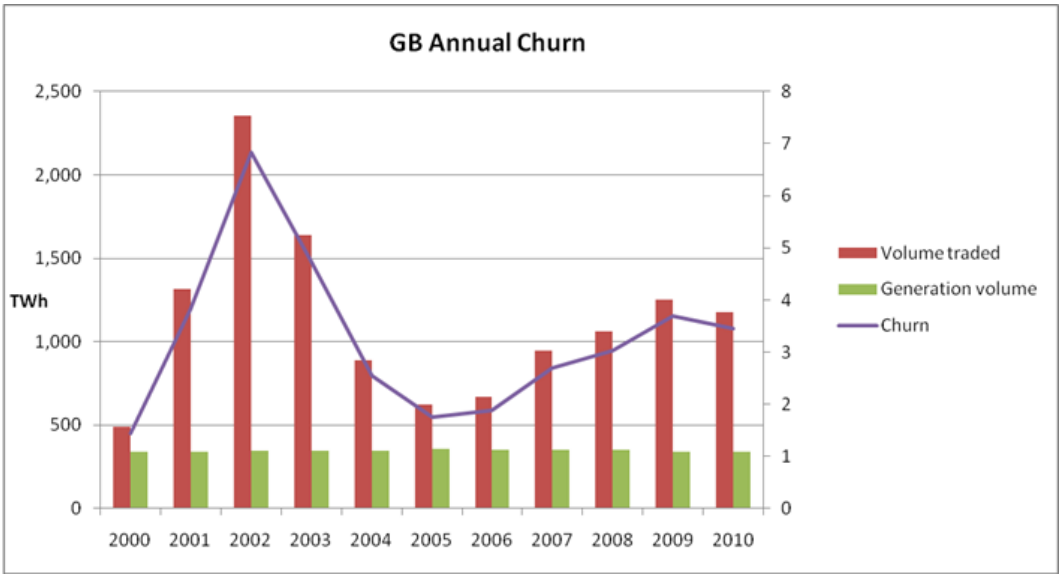
[28]http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=130&refer=Markets/WhlMkts/CompandEff

[29] Churn indicates how many times a typical unit of electricity is traded before it is physically delivered, and is a good indicator of the level of liquidity in a market. A higher churn figure is good from a liquidity perspective. Churn is calculated by dividing the total volume of electricity traded by the total volume of electricity physically delivered in a defined period.

Churn

1.7. In our assessment last summer, we noted improvements in the level of churn since 2005 and suggested that churn may continue to grow in the course of 2010. However, our latest figures, presented in Figure 1 below, indicate that churn has fallen since 2009.

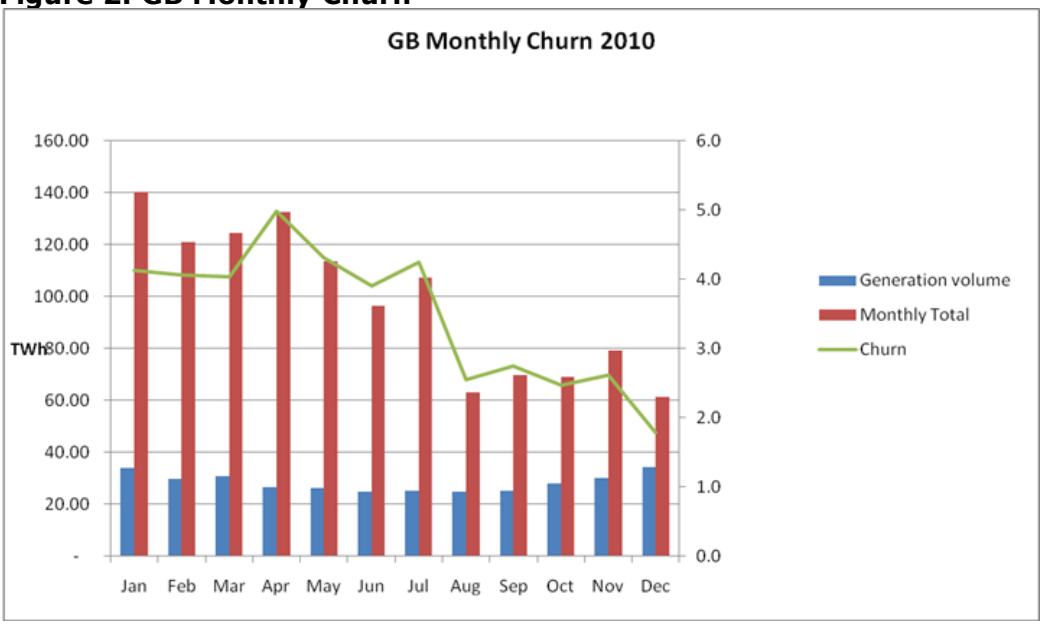
Figure 1: GB traded volume, generation output and churn ratios



Source: APX, DUKES, ICE, N2EX, E.ON

1.8. We also provide in Figure 2 below a monthly series for churn in 2010, which shows a significant deterioration in churn over the second half of the year. The deterioration in churn over the second half of 2010 explains the difference between our summer 2010 expectations for churn and the 2010 outturn figure. This lack of development in churn raises doubts about whether the market will independently deliver the growth in liquidity we need to see in GB.

Figure 2: GB Monthly Churn

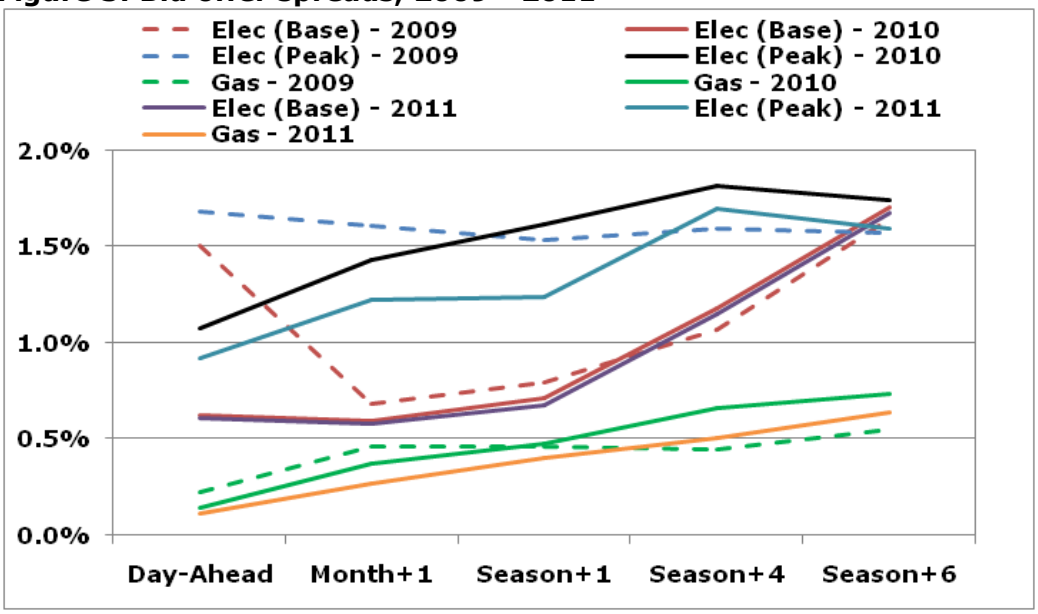


Source: APX, DUKES, ICE, N2EX, E.ON

Bid offer spreads

1.9. Bid offer spreads show a mixed picture. Figure 3 below captures the latest data on bid-offer spreads for a range of baseload and peak products in the GB electricity market, as well as bid offer spreads in the gas market. This confirms the assessment of summer 2010 that spreads at the near end of the curve have narrowed, but are widening at the far end of the curve, suggesting that liquidity for longer-term forward products may be on a downward trend.

Figure 3: Bid offer spreads, 2009 - 2011



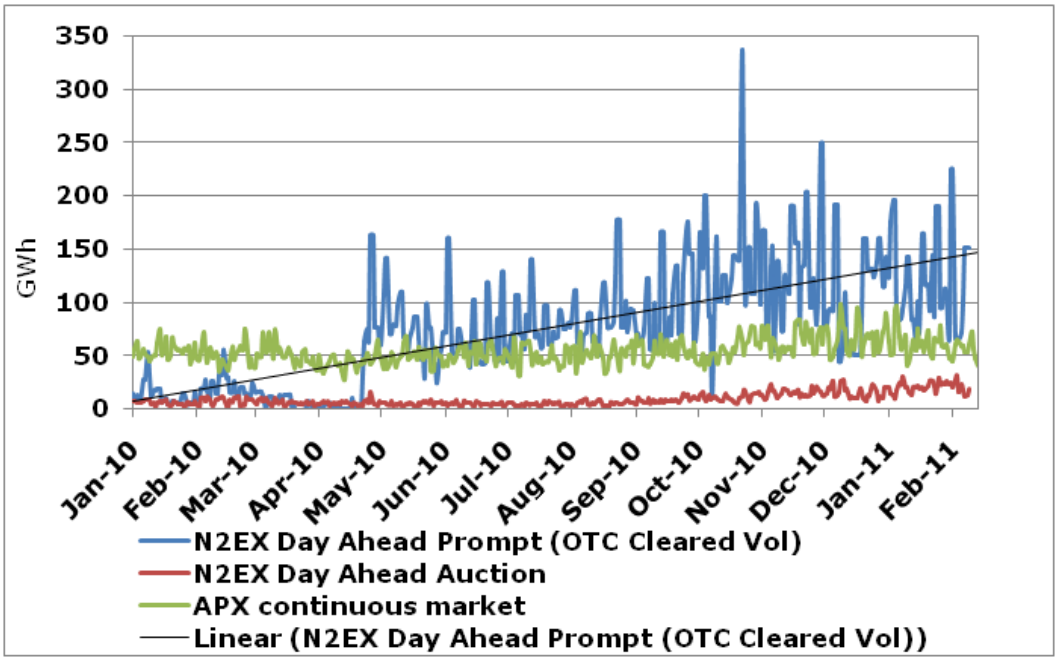
Source: ICS Heren

Exchange-based trading

1.10. The introduction of the N2EX platform last January was seen by Ofgem as an encouraging development. We noted in our summer 2010 assessment that N2EX had generated significant day-ahead volumes to the benefit of price transparency and, potentially, reference prices.

1.11. The latest data on exchange-based trading in GB, depicted in Figure 4 below, suggests that the N2EX platform has had some success in increasing volumes from October last year. Notably, the day ahead prompt market has seen an increase in volumes, and is on an upward trajectory. However, this success is limited. There has only been a marginal increase in the day-ahead auction volumes and improvements to day ahead volume start from a low base. Further, it should be noted that the day-ahead volume on N2EX are OTC traded volumes given up for clearing, and are not trades which originate on the platform itself.

Figure 4: Exchange traded volumes 2010 – 2011



Source:N2EX and APX

Independents' Experiences

1.12. Independent market participants (which includes small suppliers and independent generators) have continued to raise concerns to us that the market is not delivering the products and signals they need to operate effectively. We are will assess these views in more depth for our full assessment. Here we note the themes which have emerged from ongoing discussions.

Small and independent suppliers

1.13. Small and independent suppliers remain concerned that the market does not adequately support forward trading. A lack of transparency is also perceived, which makes the pricing of shaped products difficult. Some are also concerned that credit and collateral arrangements for trading are non-transparent (especially bilaterally) and onerous (on exchanges).

Independent Generators

1.14. Independent generators' needs vary according to their generation type. However, we have been informed of similar broad concerns that current liquidity further along the curve is too thin (which is supported by our analysis of bid offer spreads, above) and ultimately could be providing inadequate investment signals. Further, there are concerns that shorter term trading is not sufficiently deep to support the balancing risk of intermittent generation, or sufficiently transparent to allow the development of shaped risk management products.

Liquidity and effective retail market competition

1.15. As stated in the RMR consultation document, we believe that it is important to look at liquidity in the wider context of retail market competition.We set out in our December open letter on liquidity[30] that one of our key work areas would be to align our work on liquidity with wider market developments. To that end, we have continued to engage with stakeholders to ensure we have a good understanding of market developments related to liquidity. We have also worked to ensure that our work on liquidity plays a strong role in delivering the objectives of our Retail Market Review and is in line with Government's thinking, as outlined in their Electricity Market Reform (EMR) proposals

1.16. Without a credible threat of entry, competitive pressure in the retail market will be weakened. This means that the consumer benefits of competition (more competitive pricing and service) will be limited. It is therefore important that barriers to entry are not too high.

1.17. Our liquidity project has shown that non-VI market participants continue to find the wholesale electricity market fails to fully meet their needs, and that low liquidity can be a barrier to entry. Products are often not available of the right size, shape and duration, or sufficiently far out along the curve. Participants have concerns that there is a lack of transparency in the market and argue that bilateral trading arrangements can be unfavourable to small and medium sized firms.These factors arguably combine to frustrate the trading activities of independent players, and are likely to discourage prospective market entrants.

[30]http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=163&refer=Markets/WhlMkts/CompandEff

1.18. Ofgem wants to see a wholesale market that delivers more effectively for all market participants. Improved product availability, greater product depth along the curve, shaped and sized products to meet varying market needs and clearer and more transparent market rules would all be welcome developments.

1.19. We have said throughout our liquidity project that our preference is for an industry-led solution to the liquidity problem. However, we have also been clear that intervention is a real option in the event that electricity market liquidity does not improve sufficiently by itself. Our parallel investigation into the retail market has illustrated a static market structure and limited competition – to the possible detriment of consumers. We believe there is a link between power market liquidity and energy supply market competition. Now is the right time to put forward our liquidity proposals, and seek the views required for us to be able to move forward.

Liquidity proposals

1.20. We consulted on potential liquidity intervention solutions in February 2010. The February 2010 document[31] put forward four potential intervention options for consultation:

- Mandatory Auction
- Mandatory Market Maker
- Direct Trading Obligation
- Self Supply Restriction

1.21. In the light of our work on liquidity since this consultation, the initial assessment of liquidity indicators available to us, and the need to facilitate effective retail market competition, we are putting forward Mandatory Auction (MA) and Mandatory Marker Making (MMM) proposals for consultation.

1.22. It should be noted that we have developed the design details of the MA and MMM proposals since we first raised them as potential intervention options in our February 2010 document. The details of the MA and MM presented below reflect our current position.

1.23. We believe that there are desirable properties to the MA and MMM, which contribute to different aspects of our liquidity objectives. For this reason, we are consulting on the possibility of implementing a MA and potentially also a MMM intervention solution. The former should play a role in driving reference prices and should support the ability of independent market participants - including potential supply market entrants - to access the bulk of the wholesale products they need. The latter ensures that market participants are able to trade continuously and mitigate

[31]http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=95&refer=Markets/WhlMkts/CompandEff

imbalance risks. We expect that MMM would particularly benefit participants who have difficulties accessing the market at present.

1.24. These proposed designs have been developed with a view to minimising the costs and risks, while achieving our stated objectives. For both the MMM and the MA, the expectation is that Ofgem is involved with identifying or setting up a suitable platform for the activities, and putting in place the obligations on the Big 6 to participate. Ofgem would also support the development of suitable rules and arrangements – specifically the bid-offer spread for the MMM and the reserve price for the MA. On an ongoing basis, Ofgem may or may not play a role as a trustee but would require sufficient visibility and monitoring to ensure compliance with the licence obligations.

1.25. The design details for MA and MMM presented below are indicative of our intentions. We are giving industry the duration of this consultation to comment on the proposed interventions or to propose alternative arrangements to address our liquidity and contestability concerns. By way of background, the following comments provide some rationale for the initial position presented in tables 1 and 2:

- **Volume:** For the MA, the key consideration is to identify a level which will have an impact on liquidity, transparency and product availability and yet is proportionate. For the MMM, the available volumes should enable smaller market participants to manage their risk on an ongoing basis, yet should represent a balance in terms of the risk this places on the market makers.
- **Products and frequency:** The products available under the MA and MMM arrangements should meet the needs of market participants. Similarly, the frequency of the MA coupled with the ongoing nature of the MMM, is designed to support independents' ability to meet changing demand and mitigate changes to output.
- **Reserve price (MA only):** This is suggested to mitigate the risk to those obliged to sell that the auction does not attract sufficient interest to generate an acceptable price.
- **Bid-offer spread (MMM only):** This is suggested to limit the margin that those who are obliged to market make are able to earn. A possible carve-out (ie a more relaxed margin) is also suggested if market conditions are volatile. This reduces the risk faced by the market makers.
- **Participation:** For both arrangements, the obligation to participate (to sell on the MA and provide bids and offers on the MMM) provisionally falls on the Big 6. Beyond that, participation is voluntary – but not limited. Wide participation is expected to generate transparent outcomes which are reflective of the underlying market and promotes market diversity. A concern raised in responses to our February 2010 Liquidity consultation[32] was that ring-fenced provisions for independent market participants would result in 'ghettoization' and a lack of diverse parties to trade with.

[32] Liquidity proposals for the GB wholesale electricity market, 22 February 2010, Ref. 22/10

- **Platform:** We propose that the platform for both arrangements should be transparent and, importantly, provide a level playing field for market participation.

Table 1: Mandatory Auction (MA) design features

Design aspect	*Proposal*
Volumes	Require Big 6 to collectively provide a prescribed volume of electricity into each auction round. Collective annual volume obligation to be either: 10 per cent; 15 per cent; or 20 per cent; of total electricity supplied in GB over a given year.
Products	Require Big 6 to collectively offer a range of products into each auction round. These would include: Near term products; Products for delivery further out; Baseload products; Peak products; Potentially a smaller number of shaped products (e.g. standard domestic load profile) Small clip sizes would be supported.
Frequency	Monthly auction rounds, with guaranteed availability of prescribed products and volumes in each round.
Governance	Independent trustee to be appointed to ensure that the MA is run in accordance with Ofgem's desired objectives. Auction rules to be set out clearly and transparently.
Reserve Price	Mandatory sellers to be allowed to set reserve prices for the mandated products, provided reserve prices are not set at levels which frustrate the objectives of the auction. Role for independent trustee in securing reasonable reserve prices.
Participation	Big 6 mandated to sell. Other participants may sell into the MA, subject to approval. All market participants, including Big 6, may participate on the buy side, subject to approval.
Platform	To be selected by competitive tender, or established by parties in accordance with Ofgem's objectives. Accessibility to all participants must be fair and reasonable.
Trading arrangements	Ofgem wishes to see fair and reasonable trading arrangements (including those regarding credit and collateral arrangements) that do not frustrate the objectives of the MA.

Table 2: Mandatory Market Making (MMM) design features

Design aspect	*Proposal*
Volumes	Require each of the Big 6 to provide a bid and offer price for a small volume of power, across a narrow range of frequently traded products. We believe the collective market making obligation on the Big 6 should be in the order of 20-50MW in total. These volumes should be available for the market to buy and sell on a continuous basis.
Products	Require Big 6 to submit a bid and offer price for a narrow range of widely traded products (e.g. baseload and peak). These products should be available for the market to buy and sell on a continuous basis. Small clip sizes would be supported.
Frequency	Continuous market making by Big 6 required.
Bid Offer Spreads	Big 6 will be permitted a maximum bid offer spread for the prescribed products, to ensure that the objectives of MMM are not frustrated. The maximum permissible bid offer spread should be reasonable and broadly reflect the spreads observed elsewhere in the wholesale market. This could be relaxed under volatile market conditions.
Participation	Big 6 mandated to post bid and offer prices. All eligible market participants, including Big 6, may participate on the buy side, subject to approval.
Platform	Ofgem would support, and may require, the Big 6 to post their continuous bids and offers on a common platform, to increase transparency and accessibility to market participants.
Trading arrangements	Ofgem wishes to see fair and reasonable accessibility and trading arrangements that do not frustrate the objectives of the MMM.

Appendix 8 – Supplier behaviour

1.1. In this appendix we look in further detail at the retail pricing behaviour of domestic energy suppliers. We consider how prices have developed over time and discuss a number of pricing strategies by the energy companies. This appendix also discusses how energy suppliers have responded to the standard licence conditions introduced following the Probe. We set out the aim of each licence condition and discuss any preliminary evidence on their impact on supplier performance and consumer engagement.

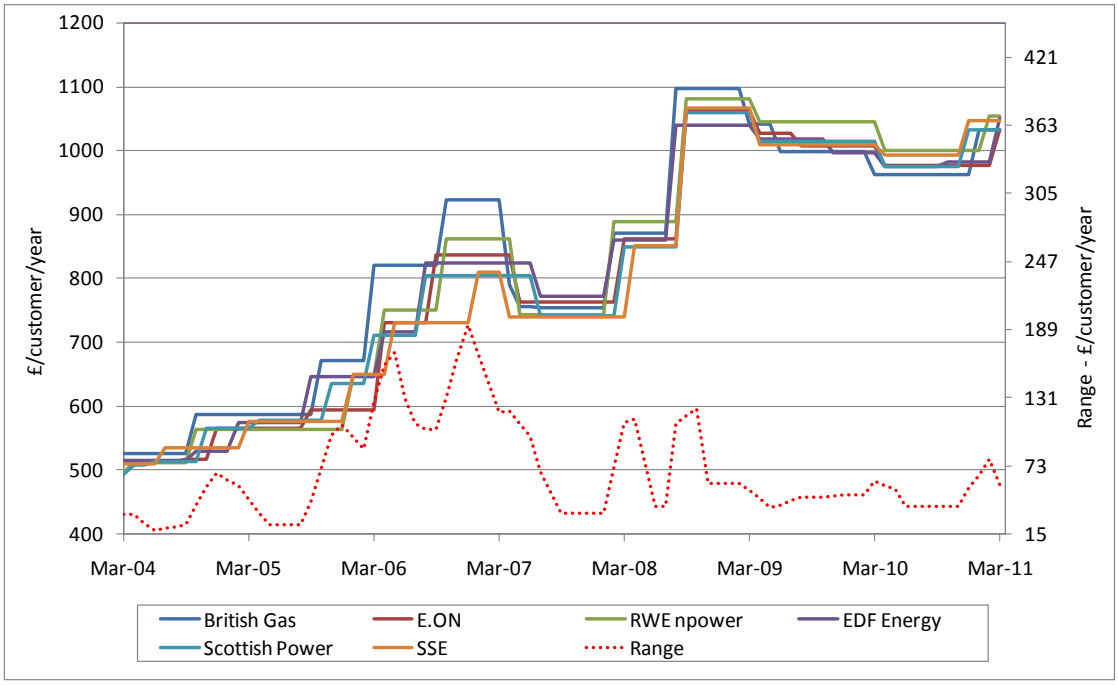
1.2. In this appendix we discuss observed trends and this necessarily involves some generalisation. It may mean that not of our conclusions apply in all instances.

Suppliers' pricing behaviour

Price convergence

1.3. We have examined pricing behaviour by the Big 6 on their standard dual fuel tariffs. We have explored both the pattern of the price movements and the range of prices offered by suppliers.

Figure 1: Dual fuel, direct debit annual bills by supplier, March 2004 – March 2011



Note: The range is based on a three month rolling average
Source: Ofgem analysis on data from TheEnergyShop.com

1.4. Figure 1 above presents a time series of the standard, annual, dual fuel bill for each Big 6 supplier at an average level of consumption[33]. This figure also provides the 3 month, rolling average difference between the highest and the lowest supplier bills (represented by the red dotted line). This difference represents the saving that a customer at the average level of consumption, could make over the course of a year by switching from the highest standard duel fuel tariff to the lowest.

1.5. This analysis shows suppliers' duel fuel prices have steadily increased since January 2004, although we note there have been two stages of reductions: the first around March 2007 and the second from January 2009 to November 2010.

1.6. The figure also shows that there has been convergence in the range of prices offered by the Big 6 for standard dual fuel direct debit offers. At the end of 2006, the price of an average, annual dual fuel bill offered by the Big 6, differed by nearly £200. In the period to early 2009, the difference fell to less than £40 and remained there throughout 2009 and 2010. In the first two months of 2011, the difference between the highest and lowest Big 6 supplier was around £70, although this fell to £22 in March.

1.7. Price convergence to this degree is a sign that suppliers may be reacting very strongly to independent decisions made by their competitors. This reflects the findings we made at the time of the Probe from suppliers' business plans. These were that decisions on the timing and, on occasion, the size of any price adjustments are typically determined in relation to the perceived market leaders in each region. Several firms' business plans at the time stated that they wait until competitors have independently announced their price changes, not just to avoid the adverse publicity of going first with a price rise, but to assess the extent of their own price adjustment[34].

Incumbent pricing behaviour

1.8. Incumbent retail pricing for both the gas and electricity market is another area we have investigated. When the market was opened to competition the former Public Electricity Suppliers (PES) and the former national gas supplier, British Gas, started with supplying customers in their incumbent monopoly regions (or all gas customers for British Gas).

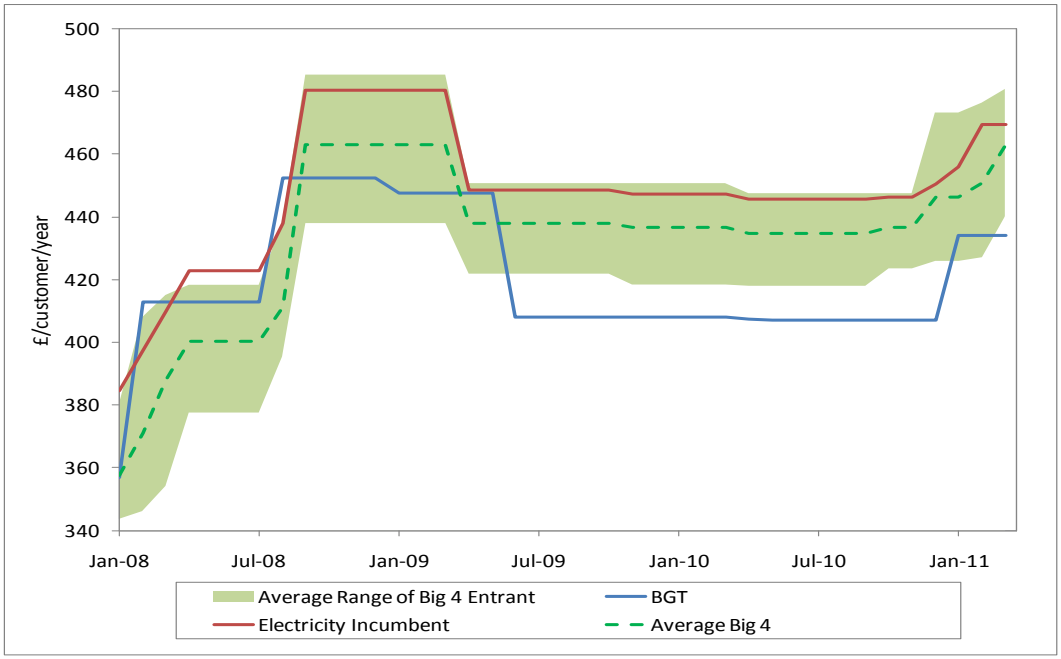
1.9. Although a large number of consumers have switched supplier since market opening, our analysis has shown that the level of annual churn[35] is lower amongst electricity-only customers in suppliers' ex PES host region, than in other regions. In addition, the churn of British Gas's gas-only customers is lower than that of the other

[33] Average consumption is set at 16,500 kWh for gas and 3,300 kWh for electricity
[34] Ofgem (2008) Energy Supply Probe – Initial Findings Report, p. 80
[35] Churn rates can be calculated by dividing the number of customers a supplier losses in a month by the total number of its customers.

Big 6 suppliers. We discuss the potential advantage these more secure customers provide the ex PES suppliers and British Gas in the consultation document.

1.10. In this section, we examine how incumbent suppliers' pricing strategies for their incumbent customers differs to that of entrant suppliers.

Figure 2: Average standard electricity bills - all payment types



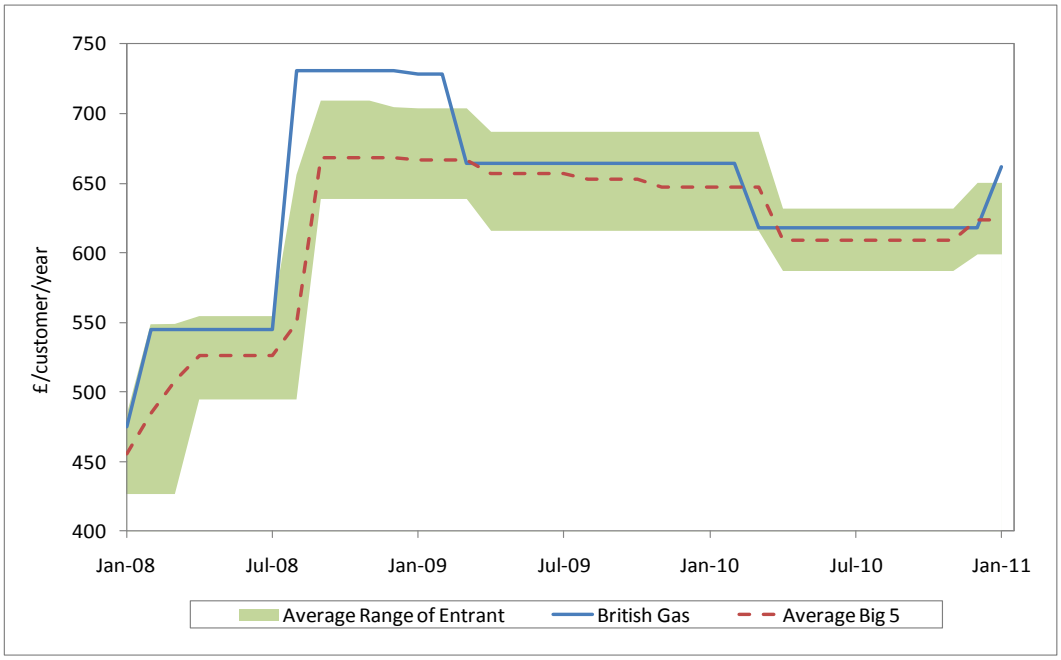
Source: Ofgem analysis on data from TheEnergyShop.com

1.11. Figure 2 shows the average standard electricity bill, at average consupmption, across all 14 regions, for a customer purchasing electricity from their ex PES supplier in their incumbent region (the red line), the average range, across regions, of bills available for customers who are willing to switch to one of the Big 6 suppliers who is not the incumbent (the green range) or to British Gas (the blue line) since January 2008. The green dotted line presents the average electricity bill, across regions for non-incumbent ex PES suppliers (ie the average of the green range).

1.12. This analysis demonstrates that the electricity prices set by the ex PES incumbent suppliers have consistently remained at the higher end of the range of the other ex PES suppliers. It also shows that since mid-2009, British Gas has set an average electricity price, across all 14 regions, some way below the other Big 6 suppliers.

1.13. Figure 3 performs a similar analysis for standard gas bills. The blue line presents the average gas bill of British Gas (the national gas incumbent) across regions, and the red dotted line presents the average gas bill of the five remaining Big 6 suppliers across regions. The green range shows the range of the average highest and lowest gas bills across regions.

Figure 3: Average standard gas bills - all payment types



Source: Ofgem analysis on data from TheEnergyShop.com

1.14. Figure 3 shows that in late 2008, British Gas's average gas bill was almost £100 higher than the average of the Big 5. Since then, British Gas has lowered their average gas price to draw roughly level with the average price of the Big 5. The latest round of price changes seems to have reversed this trend and moved British Gas back up to the top of the range of all suppliers.

1.15. Contrasting Figure 2 with Figure 3 shows that incumbent suppliers have pursued different pricing strategies with respect to their rivals in both the gas and electricity markets. In the electricity market, the incumbent ex PES supplier has consistently priced at the top of the range of the other ex PES suppliers. In contrast, British Gas moved from being one of the highest priced gas providers, at around the time of the publication of the Probe, to price at around the average level. We note that this is no longer the case.

Online Pricing Behaviour

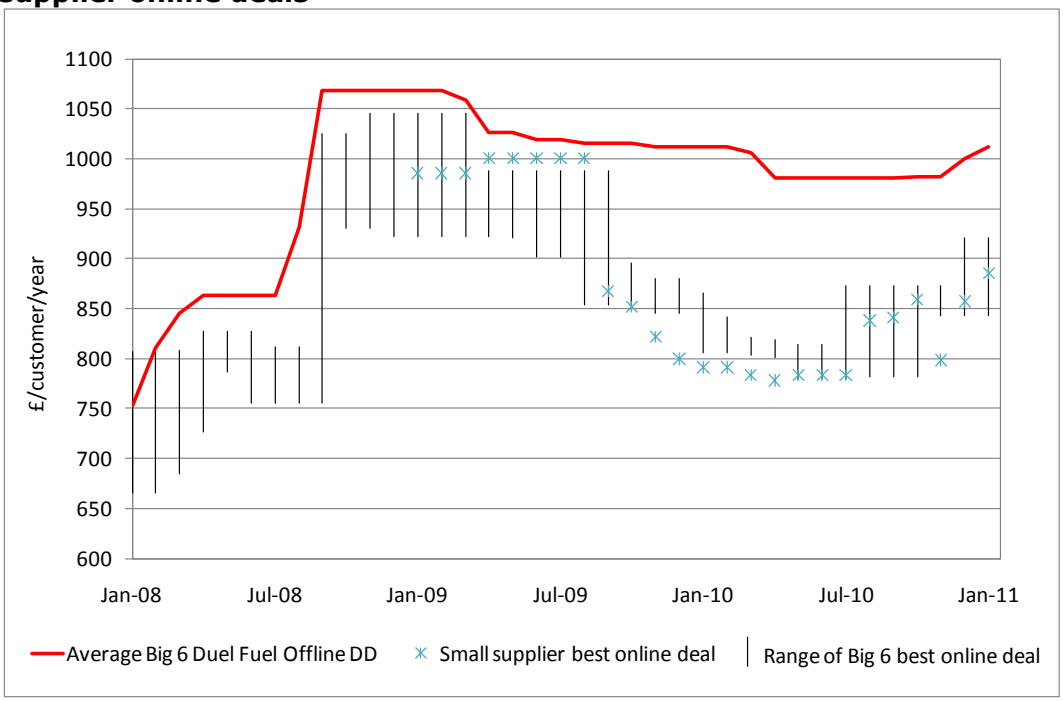
1.16. Another area we have analysed is bespoke offerings, such as online tariffs. Typically this is an area in which small suppliers are highly active.

1.17. In the Probe we noted that dual fuel, direct debit tariffs were the prime focus of competition among suppliers. It was estimated that 8.5 million consumers had benefited from those deals, or 38% of all consumers with both gas and electricity

supply. The Probe also noted that suppliers were also offering online tariffs at a substantial discount to other offers, although only a small number of consumers were on such offers[36].

1.18. Since the Probe there have been some noticeable changes in how suppliers price equivalent online and offline tariffs. Figure 4 shows that during 2009 suppliers lowered their online dual fuel tariffs at a faster rate than their equivalent offline deals.

Figure 4: Average dual fuel offline direct debit (DD) vs. best Big 6 and small supplier online deals



Source: Ofgem analysis on data from TheEnergyShop.com

1.19. This finding may be evidence that suppliers are competing to acquire a smaller group of customers than in the past. Such a strategy may have created a two tier market: one in which suppliers are competing heavily to win a smaller number of active customers (a competitive fringe) and another, larger part of the market where consumer engagement is lower and price competition less intense.

[36] Ofgem (October 2008), Energy Supply Probe – Initial Findings Report http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=4&refer=Markets/RetMkts/ensuppro

Suppliers response to SLC 31A

1.20. In July 2010 we introduced new rules requiring suppliers to provide consumers with additional information on every bill, and mandating that all customers receive further information at least once in every 12 month period. The key provisions are detailed in the table below:

Table 1: Key provisions for SLC 31A

New information to be required on bills	Information to be provided at least once in every 12 month period
• The customer's tariff name	• Details of the main terms of a consumers contract

• Where the customer has been with their supplier for at least 12 months.
  • How many units of gas/electricity has the consumer used over the previous 12 months
  • A indicative bill value in £/year that a customer could expect to pay over the next year (given their previous years consumption and their current tariff at the current price
	• Where the customer has been with their supplier for at least 12 months
	  • How many units of gas/electricity has the consumer used over the previous 12 months
	  • A indicative bill value in £/year that a customer could expect to pay over the next year (given their previous years consumption and their current tariff at the current price

	• Details of any premium or discount the consumer has with their current tariff compared to their suppliers standard direct debit tariff
	• A prominent reminder that you can switch supplier
	• Information about where you can get impartial advice about switching

Source: Gas and Electricty Supply Licence

1.21. The Big 6 have generally incorporated most of the elements of the licence condition into their revised bills, statements of account and annual statements. We have evidence from Ofgem's consumer research that suggests that nearly half of customers were aware they received clearer information from their supplier on the name of their tariff, any changes to it and/or the forecast cost of their energy consumption over the coming year[37].

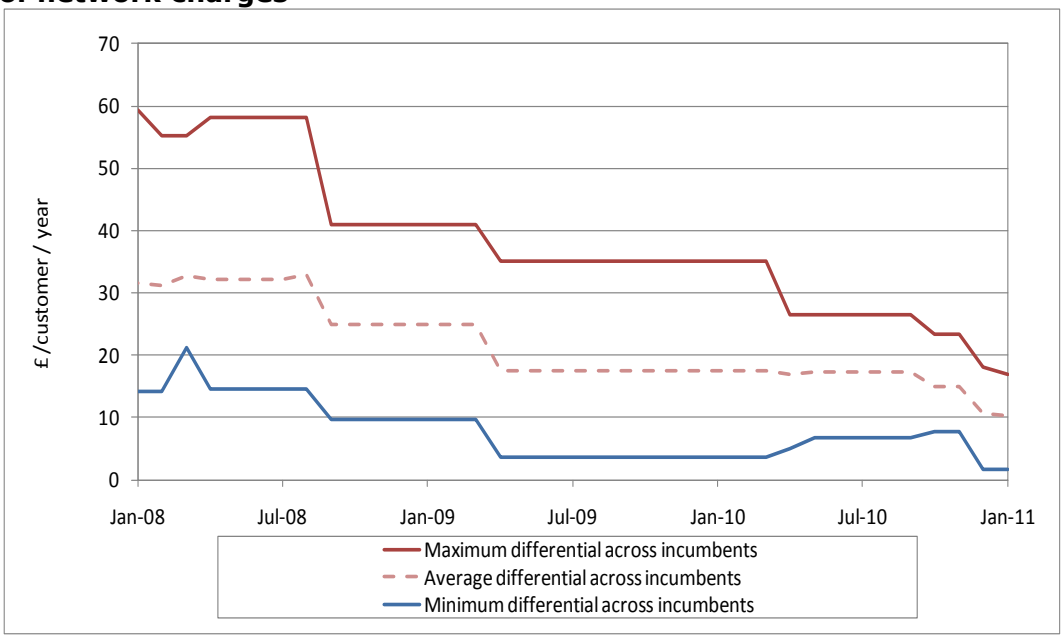
1.22. However, there are some areas of concern where we consider further information or clarity is needed to ensure adherence to both the letter and spirit of the regulations. Specifically, we feel the prominence of switching reminders and the clarity of illustrative projections of bills could be improved. In addition, details of the principal terms of the customer's contract do not appear to have been fully stated in all cases.

[37] Ipsos MORI (2011) Customer Engagement with the Energy Market – Tracking survey

Suppliers response to SLC 25A

1.23. SLC 25A prohibits discrimination between the terms and conditions offered to different groups of customers, unless they can be objectively justified. One important objective of this new licence condition was to remove the ability for ex PES electricity suppliers to cross-subsidise the tariffs they offered to customers in their incumbent regions ("in-area" customers) and customers in the regions in which they are entrants ("out-of-area" customers).

Figure 5: Average standard credit in vs. out-of-area tariff differentials, net of network charges



Source: Ofgem analysis on data from TheEnergyShop.com

1.24. Figure 5 shows the average price differential between the five ex PES incumbent suppliers' in/out-of-area standard credit electricity bills. This is presented in pounds per customer, per year. In addition to this, it presents the range of this price differential across suppliers, showing the maximum and minimum in/out-of-area differential offered by suppliers.

1.25. The graph shows that from January 2008 to June 2010, the average differential fell by 43%, almost halving to £18 per customer, per year. Since June 2010 the differential has further narrowed, falling to around £10 per year, per customer.

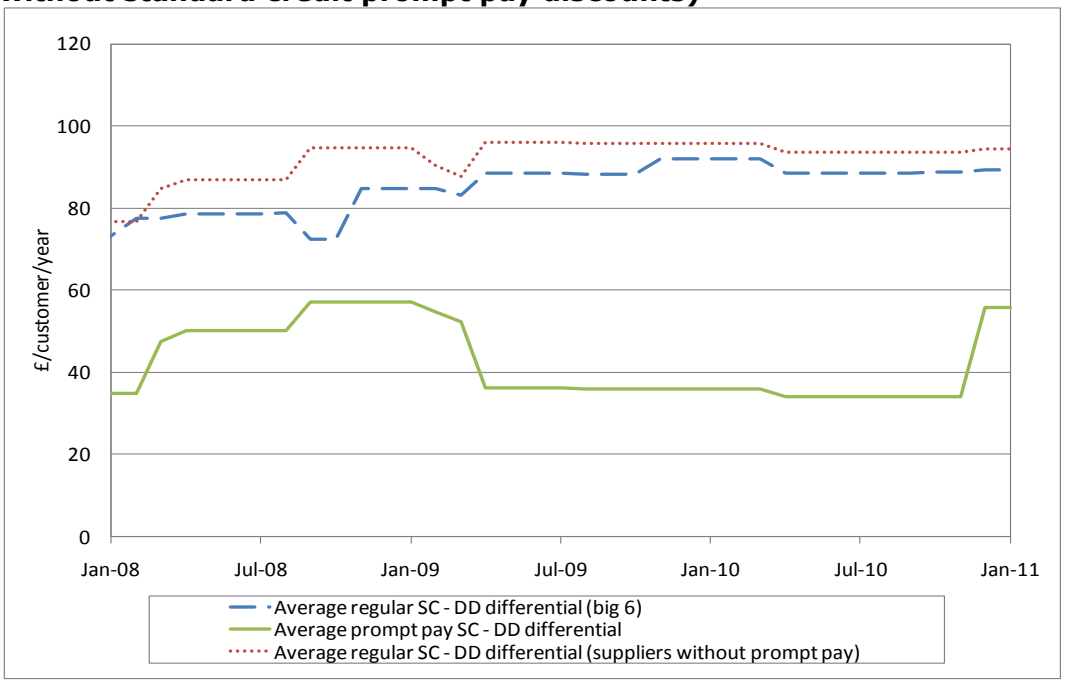
1.26. In June 2010 we found two suppliers were charging systematic premiums to their in-area customers which we believed could not be objectively justified. As a consequence we initiated Stage 1 of our bespoke enforcement procedure for SLC 25A with these suppliers. The narrowing observed in Figure 5 at around September 2010 was achieved by these two suppliers reducing the premiums charged to their incumbent electricity customers following the Stage 1 enforcement proceedings.

Suppliers response to SLC 27.2A

1.27. SLC 27.2A requires suppliers to ensure any difference in the terms and conditions of different payment methods are cost reflective. Figure 6 demonstrates the effect of the licence condition on the difference between standard credit (SC) and direct debit (DD) tariffs, with and without SC prompt pay discounts. A prompt pay discount affords a standard credit customer with a discount for paying early.

1.28. During 2010, Ofgem initiated Stage 1 of its bespoke enforcement proceedings with one supplier on the size of its prompt pay discount. Ofgem believed the suppliers' discount was too large to be cost reflective. The results of this investigation were that the supplier agreed to decrease the size of its prompt pay discount, but to extend the length of the qualification period. This resulted in roughly 100,000 additional standard credit customers being eligible to earn the discount.

Figure 6: Average standard credit to direct debit premiums (with and without standard credit prompt pay discounts)



Source: Ofgem analysis on data from TheEnergyShop.com

1.29. The effect of this supplier's reduction in the size of its prompt pay discount can be observed in the figure as the uptick of the green line on the right hand side of the figure. The figure also highlights an ongoing concern with the difference between the charges on standard credit customers and direct debit customers. During the Probe, suppliers explained that the difference between the costs to serve an SC and DD customer were of the order of £37. Figure 6, indicates that standard credit customers are being charged, on average, £100 more than direct debit customers.

1.30. We also note that customers on prepayment meters, on average, now pay £20 less than SC customers for their gas and electricity. This is a positive result of SLC 27.2A.

Suppliers response to SLC 7A

1.31. SLC 7A requires suppliers to increase the amount and timeliness of information provided to micro businesses regarding their contract terms and condition. The majority of suppliers seem to be working within the spirit of SLC 7A in their dealings with microbusiness customers. This is a positive result. However, there are a large number of technical deficiencies with some of the supplier materials that need to be resolved. We highlight three areas of specific concern:

- **Incomplete information on contract duration:** We have found that the majority of suppliers leave out one or more aspects of the duration of a contract in either the principal terms or in the statement of renewal terms.

- **Unclear language:** Many suppliers still perform poorly on drafting their express terms and conditions (which include both principal terms and wider Terms and Conditions) and statements of renewal terms in language that is "plain and intelligible", as required by SLC 7A.5(b) and 7A.6(b).

- **Direct conflict:** We found a small number of cases in which suppliers were acting in direct conflict with the provisions of SLC 7A. For example, it has been claimed one supplier is continuing to use rollovers in excess of 12 months for fixed term contracts with micro business consumers.

1.32. These current findings do raise some concerns that on balance suppliers are not fully responding as we had hoped to SLC 7A. This is an initial view and further investigations are required before a view of compliance can be reached.

Bills, annual statements and terms and conditions

1.33. We carried out an in depth review of domestic and non-domestic suppliers bills and annual statements. Those reviewed were generally well presented and accessible to individuals with literacy skills achieved by 95 per cent of the population. Terms and conditions were less easy to understand and required higher levels of literacy. The terms and conditions provided to small business customers were, in general, less easy to understand, than the material provided for domestic customers.

1.34. The level of numeracy required to understand the basic information provided on bills was generally at the level achieved by nearly 80 per cent of the adult population. However, of greater concern, was the finding that if customers wanted to use this basic information to check the calculation of their bill (or make comparisons with other suppliers) then the required level of numeracy was, in most cases, at the level only achieved by about a quarter of the population.

Appendix 9 – Trends in profits and costs

Introduction

1.1. This appendix summarises the findings from our analysis of the profits and costs of the Big 6 suppliers for their domestic sector customers. Our analysis has used company-specific data received from the suppliers, but the information in this appendix focuses on industry average results[38].

1.2. We have looked at profit and cost trends to gather insights into whether the market is competitive and working in the interests of consumers. We note that the interpretation of profit data faces a range of challenges and that profits provide only one among a range of indicators of whether the market is competitive.

1.3. The analysis covered the following areas, which we summarise in turn:

- Trends in energy retail sector margins
- Benchmarking against a number of other sectors
- Profitability across customer types
- Variance in performance across the energy companies
- Profits across the value chain
- Trends in suppliers' controllable costs

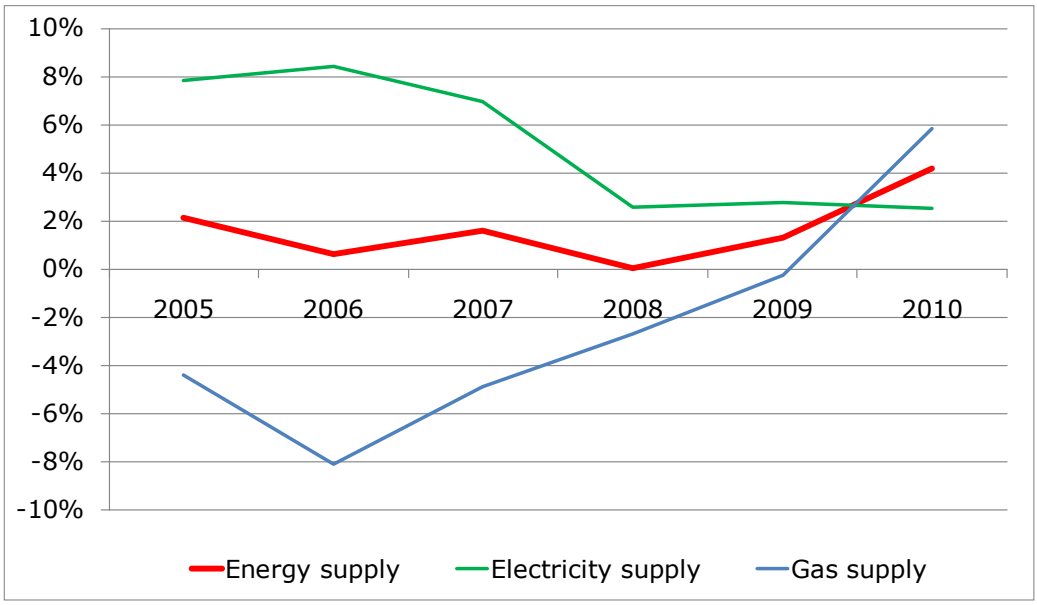
Trends in energy retail sector margins

1.4. The analysis focused on the energy retail margin, defined as company Earnings Before Interest and Tax (EBIT) divided by sales. We also looked at return on capital employed (ROCE), and at sales and marketing expenditure over time, as additional indicators of the trend in profit to be earned on attracting additional customers.

1.5. As shown in Figure 1, energy retail margins have averaged 1.6% since 2005. In 2010, energy retail margins are estimated to have risen to 4.2%. The average energy margin decreased from 2005 to 2008, but has been increasing since then. Electricity margins have been positive over this period, but declining since 2006. Gas margins have increased sharply since 2006, but from a negative base. The shift in profitability from electricity to gas over this period is thought to reflect in part tariff rebalancing by suppliers following the Probe. It is also likely that 2010 gas margins were influenced by exceptional circumstances because abnormally high winter demand in the early part of the year coincided with low spot, wholesale prices. This meant that the extra gas required by customers could be purchased by suppliers at a low wholesale price.

[38] The industry average figures in this appendix relate to an average across the Big 6 suppliers, weighted by volume. Where a supplier failed to provide us with particular data, the industry average relates to the remaining suppliers who did provide the data.

Figure 1: Energy retail margins, 2005-2010

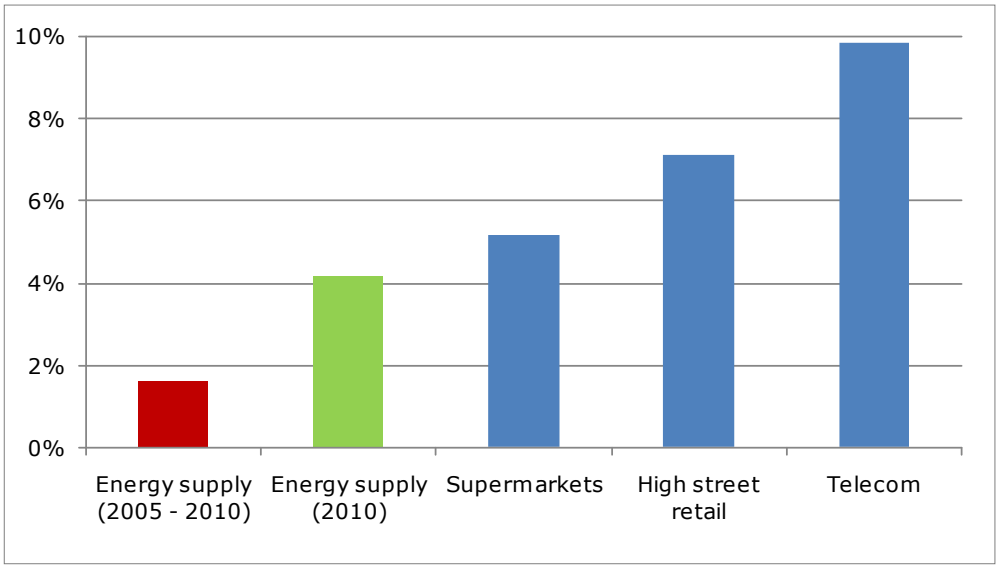


Source: Big 6 suppliers - request for information, Datamonitor

Benchmarking against a number of other sectors

1.6. We benchmarked energy retail margins against a number of other sectors, focusing on supermarkets, high street retailers, and telecoms. Figure 2 shows the average operating profit margins for energy supply over 2005 – 2010 and for 2010 against the average profit margin in the supermarkets, high street retail and telecom sectors. Average margins in energy supply have been lower than in these other sectors.

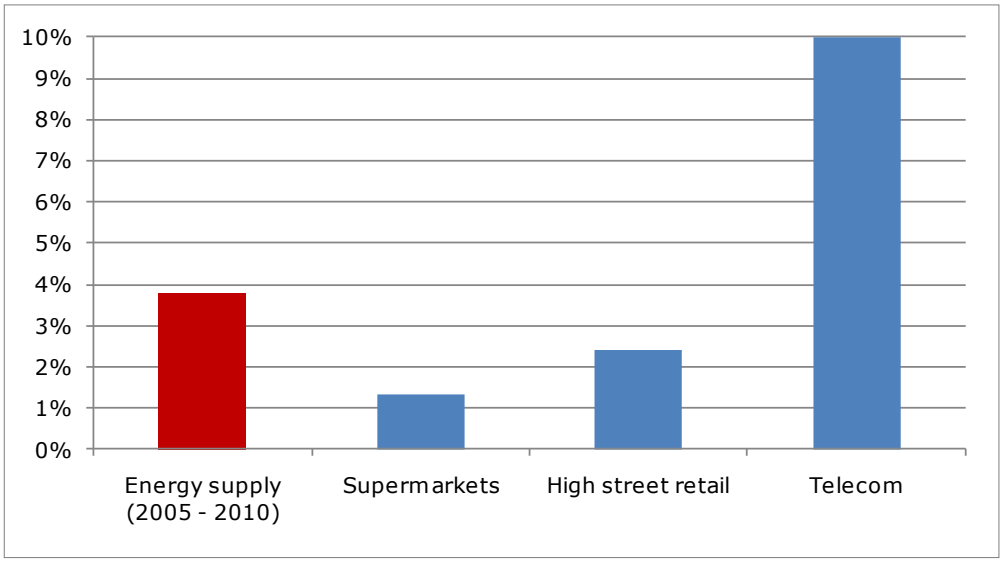
Figure 2: Profit margin comparison across sectors



Source: Big 6 suppliers - request for information, Datamonitor

1.7. Figure 3 shows the calculated variability of profit margins observed in the different sectors[39]. Higher variability of profit is likely to indicate a greater level of profit risk.

Figure 3: Profit margin variability comparison



Source: Big 6 suppliers - request for information, Datamonitor

[39] The measure of variability in profit margin used here is pooled standard deviation. This is a method for estimating variance of several different samples taken in different circumstances from the same underlying population.

1.8. Variability in energy supply is higher than in the supermarkets and high street retail sectors though very much lower than in the telecom sector.

1.9. Some of the sectors provide a more comparable benchmark for energy retail than others. Most telecom businesses are highly capital intensive, and a large part of their cost base is sunk and thus at risk. Additionally the profit variance has been much higher. Supermarkets and high street retailers provide a more reasonable comparator for energy retail. However, even here there are important differences between the sectors. Energy retail involves

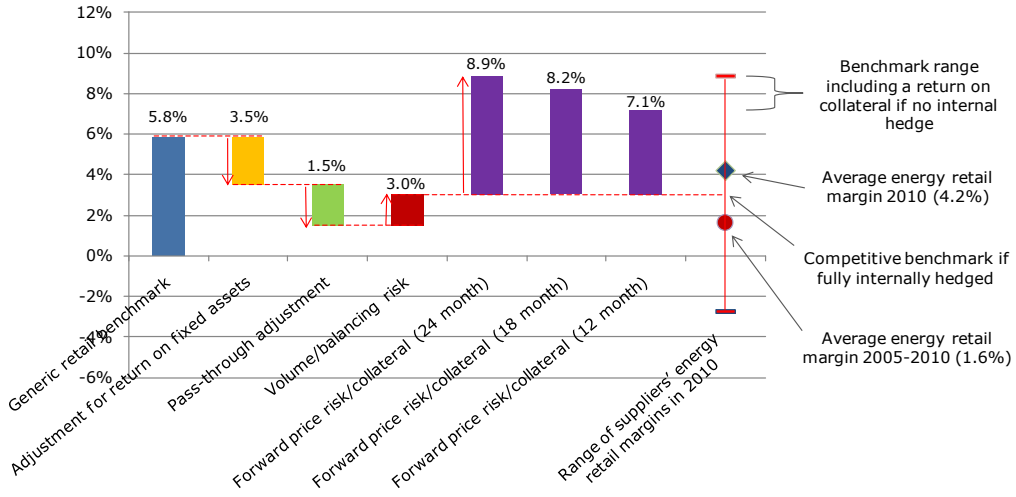
- less fixed capital (relating to properties and premises);
- more pass-through items in the retail price; and
- significant risk capital and collateral requirements associated with forward purchasing energy in volatile energy markets, which vary with the extent to which a utility is vertically integrated.

1.10. Figure 4 develops the benchmarking analysis further, taking into account these factors. It begins with a "generic retail benchmark" based on the average of supermarkets and high street retail margins, which it then adjusts to take account for energy retail features on the basis of a number of plausible assumptions.

1.11. Adjustments to the benchmark margin that relate to "forward price risk/ collateral" reflect the additional capital costs faced by the sort of independent energy supplier that would have to provide full collateral for all its forward trades. The calculation is based on historic wholesale energy price volatility and the mark to market collateral requirements in forward energy contracts. This adjustment is larger for a longer forward buying strategy to reflect the greater risk of such transactions falling out of the money. It is worth noting that even large vertically integrated suppliers with an upstream portfolio have to provide collateral for some of their energy purchases in the forward market.

1.12. The analysis presented in Figure 4 shows the derivation of a range of indicative benchmarks for energy supply businesses. The benchmark margins vary according to whether, and how much, capital is required to support open market hedges that carry exposure to collateral calls. They vary from 3% for a fully internally hedged utility to 9% for an independent supplier purchasing energy up to two years forward. The average energy retail margin over 2005-10 lies below the range of these benchmarks. However, the average energy retail margin in 2010 lies within the range of indicative margins.

Figure 4: Adjusted benchmark analysis



Source: Ofgem analysis, Big 6 Suppliers - request for information, Datamonitor

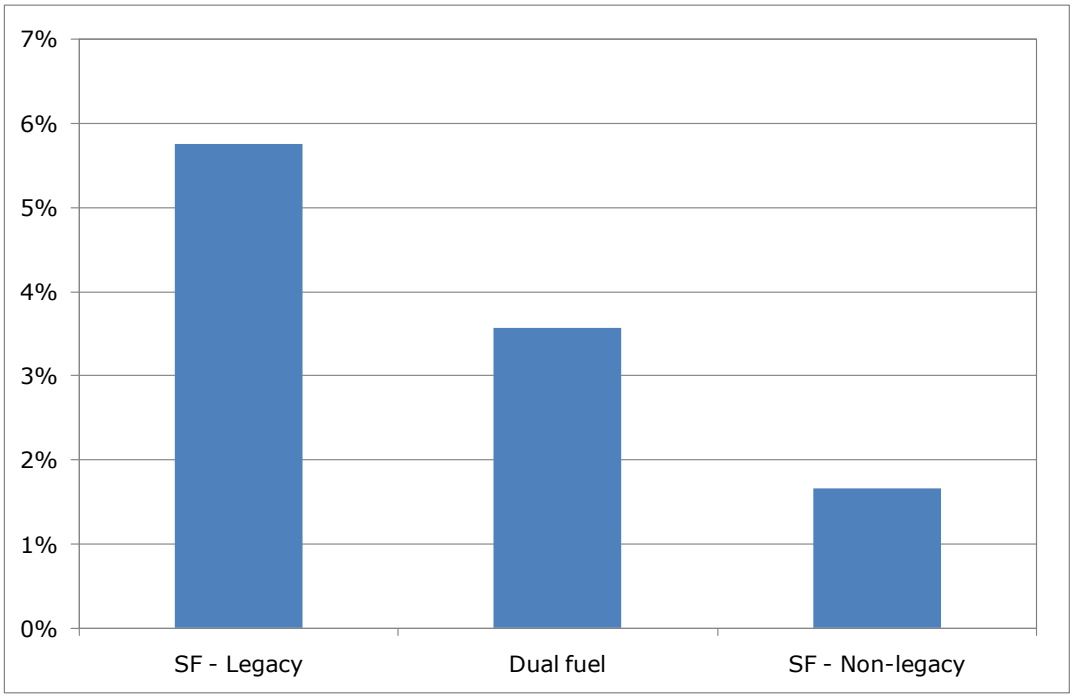
1.13. The range of benchmark margins also raises questions about the profitability of different business models and how risk is shared across the different parts of a vertically integrated utility.

Profitability across customer types

1.14. We examined the extent to which margins vary by customer type. The companies provided data on revenues, costs and profitability broken down by electricity and gas. Using further data on customer numbers and consumption levels, we estimated profit margins on dual fuel, single fuel gas and single fuel electricity customers.

1.15. Figure 5 shows the margins aggregated across the Big 6 companies for 2010. The analysis indicates that the companies on average earned significantly higher margins on their single fuel customers relating to their legacy business (ie gas in the case of Centrica, and electricity in the case of the other Big 6) than on either their dual fuel customers or on their single fuel customers relating to their non-legacy business. The main driver for this result is differences in pricing, with the relevant category of single fuel customer charged more. This in turn partly reflects the impact of selective online discounts, which reduce the margin earned by the supplier only for the active customer.

Figure 5: Estimated margins on different products, 2010



Source: Big 6 suppliers - request for information, Datamonitor

Variance in performance across the energy companies

1.16. The average industry retail margin masks a wide range in performance across the Big 6 suppliers. Centrica's retail performance in particular has attracted a lot of public attention. We analysed the key factors lying behind the variance in profit performance across the energy suppliers.

1.17. We found that the key drivers for the variance across suppliers are higher average prices and lower cost of fuel purchases. Differences in other costs (ie non-fuel costs) also played a part (especially in electricity), but on average have been less significant in determining variance in profit margins. The data shows material differences in the costs of fuel purchases between the suppliers, and provides evidence of some differences in hedging strategies. The analysis points to the high importance of fuel purchase costs in driving profit performance.

1.18. It is a matter of interpretation whether the observed variance shows that the market is working well or otherwise. If superior performance reflects innovation, excellent customer service, and a valued brand, this will tend to support consumers' interests. However, if it reflects barriers to switching and the magnitude of the legacy advantage and is persistent, this would point to an area of concern.

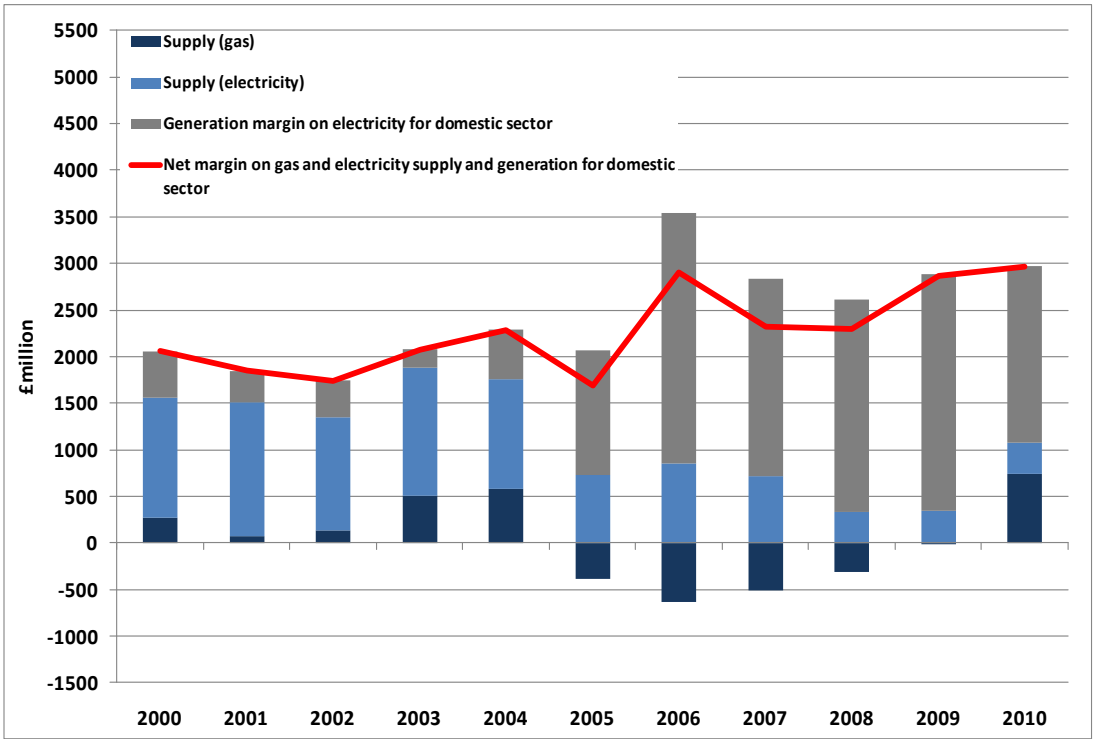
1.19. Detailed company-specific data for 2009 is available in the public domain through the companies' segmental accounts. We are publishing a detailed analysis of this data set alongside the Retail Market Review Consultation Document. This review also includes changes to the segmental accounts' guidelines which are designed to improve cross-company data comparability in future years.

Profits across the value chain

1.20. We also examined retail profits in the context of generation margins, as all the Big 6 energy suppliers are vertically integrated with their own generation portfolios and refer to profitability across the value chain when presenting their financial results.

1.21. Figure 6 shows an estimate of how retail profits have combined with generation profits on energy supplied to domestic consumers.

Figure 6: Profits across the value chain, 2000-2010



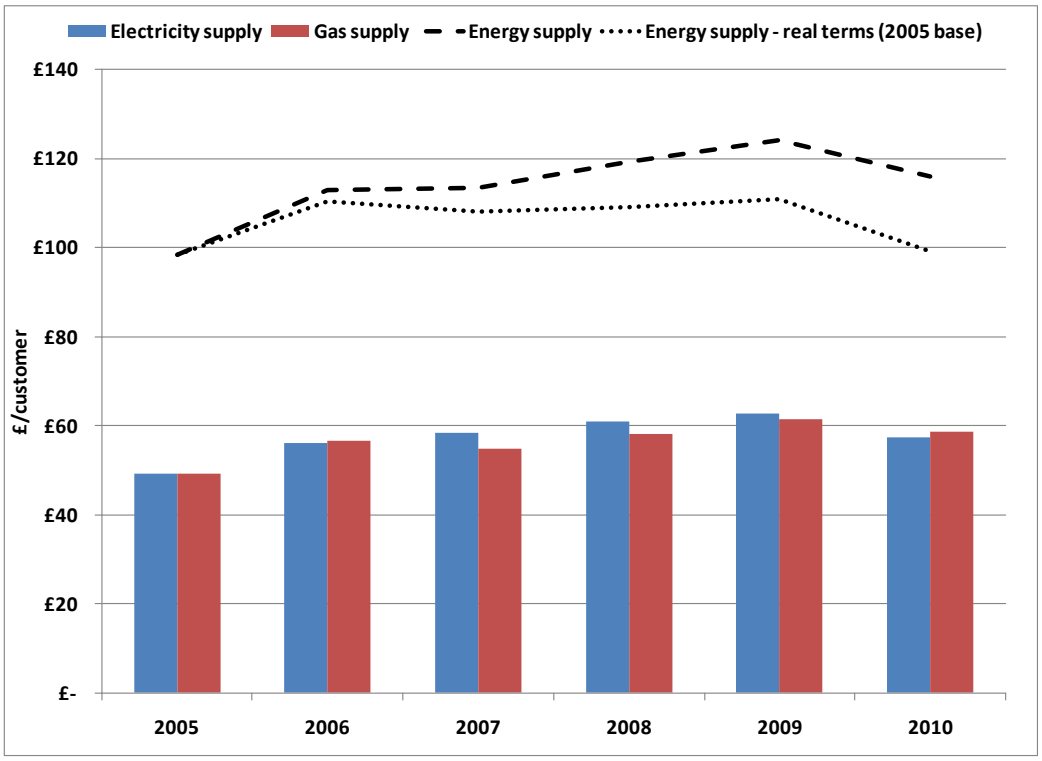
Source: Ofgem analysis

1.22. We note that the fall in retail profits in 2005 coincided with a sharp increase in profits from electricity generation. The increase in retail profits in 2010 partially offsets a decline in generation profits. The split between retail and generation profits is sensitive to assumptions about the transfer price / wholesale market hedge. Nonetheless, the data indicates that generation and retail have tended to provide a structural hedge for each other.

Trends in suppliers' controllable costs

1.23. We analysed the trend in retail controllable costs, as one indicator of the impact of competition. Even though controllable costs make up a small proportion of total costs, they are under the direct control of management and it might be expected that strong competitive pressures would tend to lead to a downward trend. The results are shown in Figure 7[40]. Our analysis shows that over the period controllable costs have been roughly flat in real terms, but with a noticeable decrease in 2010. However, there is a relatively wide dispersion between the best and worst performing suppliers. We also note the impact on costs of suppliers' efforts to improve the quality of service and of higher bad debt.

Figure 7: Trend in controllable costs



Source: Big 6 suppliers - request for information, Ofgem analysis

Summary conclusions

1.24. This analysis has not shown that energy sector retail profits have been excessive over a persistent period. Supply margins have increased significantly over the last two years. However, looking at the industry average over a number of years, the average energy retail margin has been below that earned in other retail sectors,

[40] Controllable costs for this analysis include staff, call centres, sales, advertising, and IT costs.

and this result holds after making adjustments for key differences between the sectors.

1.25. Possible areas of concern include the extent to which relatively high margins are earned from single fuel customers of incumbent suppliers. There is also a wide variance in profit levels across the suppliers, driven off differences in pricing to customers, in the cost of wholesale energy purchases, and in non-fuel costs.

Appendix 10 – Overview of domestic GB energy supply markets

Introduction

1.1. This Chapter considers the domestic market position of the Big 6 suppliers. It sets out their share of domestic customer accounts at a national and regional level, and provides a breakdown of the domestic customer base according to fuel and payment types[41]. It also describes domestic market entry since the Probe.

Customer base

1.2. Most domestic energy customers in Great Britain have accounts for both gas and electricity with the same supplier - dual fuel accounts. In August 2010, there were around 16.9 million dual fuel accounts, significantly greater than the electricity-only accounts (9.2 million) and the number of gas-only accounts (4.6 million).

1.3. The Probe identified that there had been an increasing trend in the number of dual fuel accounts since 2004. In December 2007 there were 14.8 million dual fuel customers. By August 2010 there were 16.9 million. However, there have been changes in the definitions used to collect the data from suppliers and so a direct comparison between the two numbers needs to be made with care.

Market shares and concentration

1.4. The Big 6 account for nearly all of the domestic gas and electricity accounts in Great Britain, over 99.5% for both gas and electricity[42].

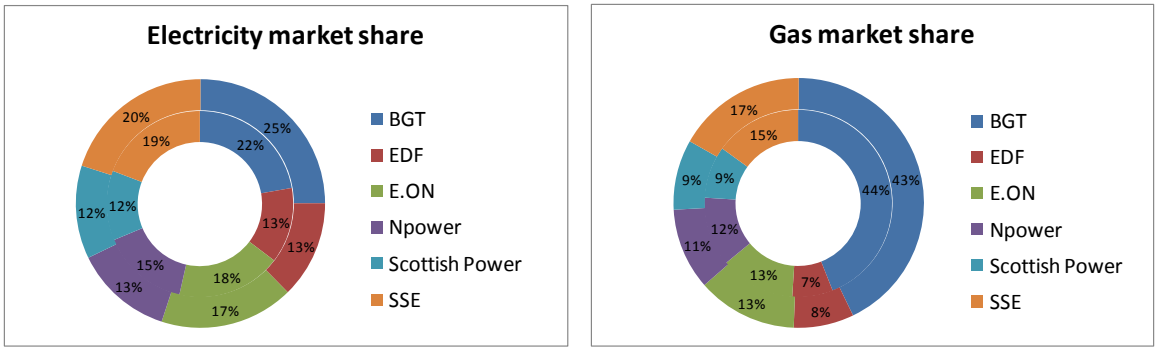
1.5. Smaller suppliers do not provide us with data on customer accounts on a regular basis. Given this, and given the small share of the market they account for, the remainder of the analysis in this Chapter regarding market shares and measures of concentration is generally restricted to data from the Big 6.

[41] The data in this Chapter are predominantly sourced from data provided by the Big 6 suppliers. The data cover the period from March 2010 to August 2010. The definitions used in the collection of these data are different from those used in the information request at the time of the Probe. A comparison between the two sets of data must, therefore, be made with caution.
[42] In this Chapter we use the term "market" as shorthand for delineating the segments of customer accounts that are relevant to the pieces of analysis at hand. It is not used to describe a market as would be defined within a competition investigation under the Competition Act 1988.

National market shares of the Big 6

1.6. Figure 1 shows that, at a national level, the market has not changed significantly since the Probe.

Figure 1: GB domestic market share of electricity and gas, comparison between the Probe and August 2010

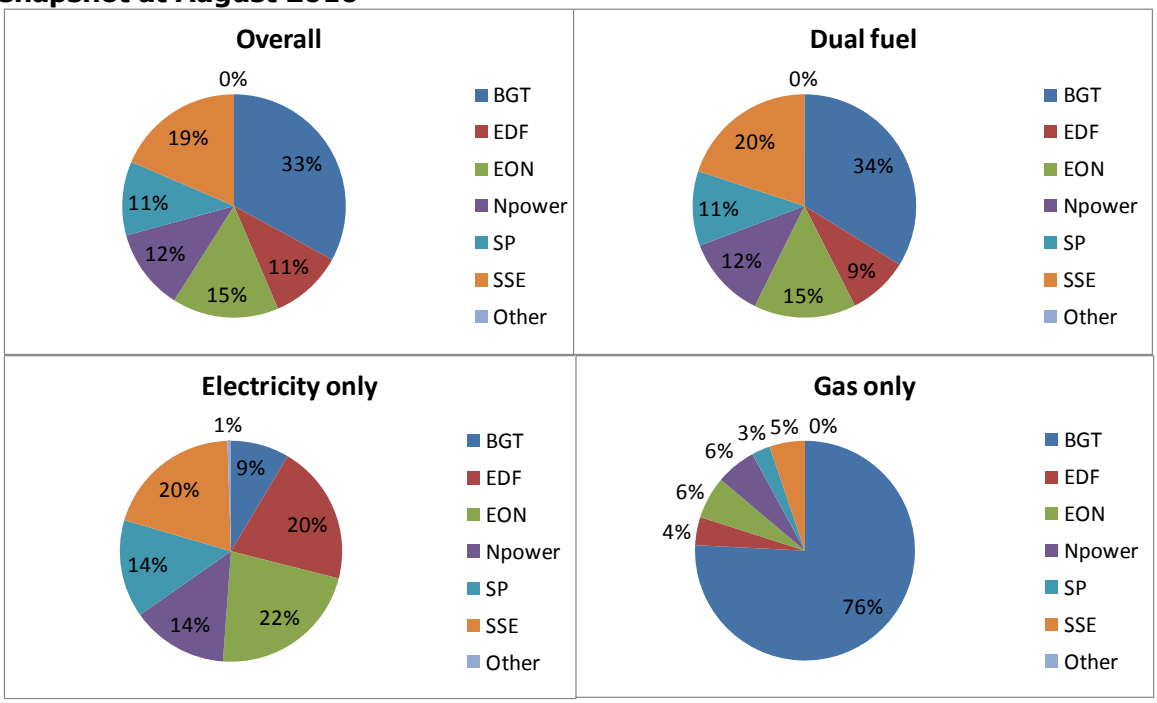


Source: Big 6 suppliers, Ofgem analysis

1.7. The inner ring in both diagrams presents the market share at the time of the Probe (June 2008). The outer ring is the same figure for August 2010. The left-hand pie chart gives the market share for all electricity and dual fuel accounts. The right-hand pie chart gives the market share for all gas and dual fuel accounts.

1.8. Figure 2 below gives further detail of the current market structure. It shows that there are clear differences in the share of the market held by the Big 6 across the three types of account.

Figure 2: GB domestic market share for different categories of accounts, snapshot at August 2010



Source: Big 6 suppliers, Ofgem analysis

1.9. Of the 16.9 million dual fuel accounts, British Gas has the largest share (34 per cent), followed by SSE (20 per cent). The other four of the Big 6 share the remainder of the accounts, with EDF having the smallest share (9 per cent).

1.10. The distribution is different for electricity-only accounts. Here, the former public electricity suppliers are of a similar scale — each with a share of between 14 and 22 per cent — and British Gas has the lowest share (9 per cent). Concentration is highest for gas-only accounts. British Gas has around three-quarters of these accounts (76 per cent), and the other five of the Big 6 share the remaining quarter roughly evenly.

1.11. For each of the three fuels, the distribution of market shares in August 2010 is not significantly different from the patterns observed at the end of 2007, just before the Probe.

New Entry

1.12. The market share of energy suppliers other than the Big 6 has remained very low, at below 0.5 per cent for both gas and electricity. Within this small share, there has been some growth in the number of customer accounts held by small suppliers. This may be a result of the observation that over the last 18 months some smaller suppliers have appeared to compete with the Big 6 for some customer segments and have marketed specific offerings more aggressively.

1.13. Since the Probe, we have observed one significant new entrant, Ovo Electricity. We note that most suppliers have seen their customer numbers increase since January 2008.

National Herfindahl-Hirschmann Indices

1.14. The Herfindahl-Hirschmann Index (HHI) is a commonly used measure of market concentration. It is calculated as the sum of the squares of the market shares of each supplier. Given the existence of six suppliers, the HHI can take a value from 1,667 (if shares were evenly distributed between the six suppliers) to just under 10,000 (if one supplier held virtually 100 per cent of the share).

1.15. The HHI varies considerably across the different fuels. At a national level the HHI is highest for gas-only accounts at 5,897, reflecting the very high share of British Gas (76 per cent). For dual fuel accounts, the HHI is 2,094 and for electricity-only it is 1,776 based on national market shares[43].

1.16. In its "Guidelines on merger assessment", the Office of Fair Trading categorises a market as concentrated if its HHI is above 1,000 and as very concentrated if above 2,000.

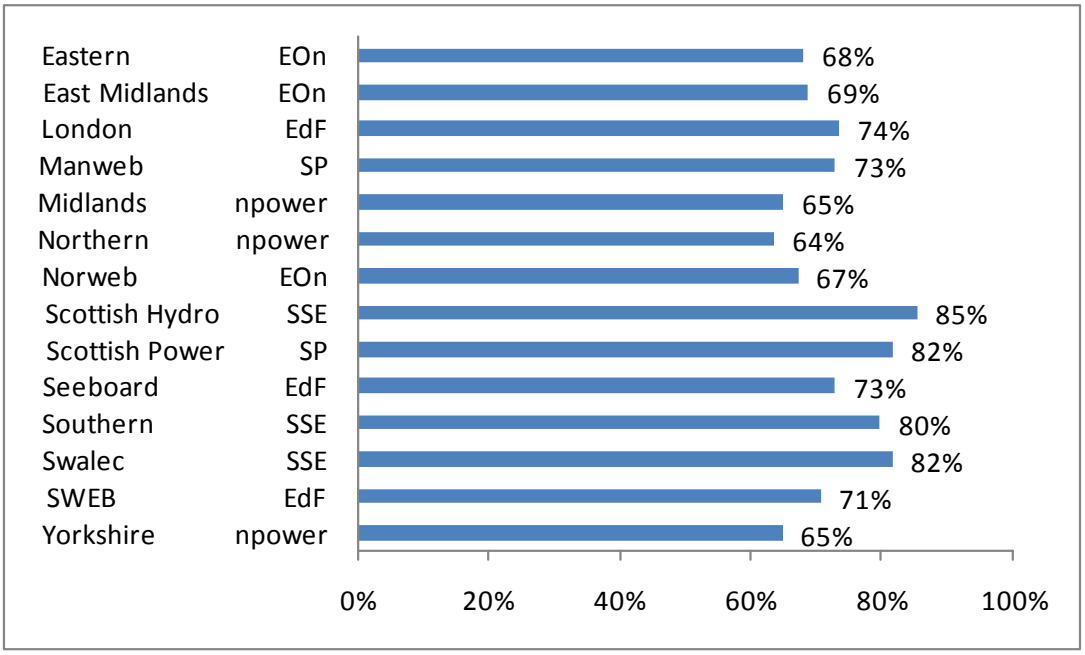
Regional market shares

1.17. The distribution of suppliers' share of accounts at the national level does not reveal the strong regional structure of the sector. This is particularly true in electricity where the regional monopoly suppliers that existed in the electricity sector prior to market liberalisation still retain a large proportion of customer accounts in each region. Therefore analysis at the regional level is particularly insightful with respect to the dual fuel and electricity-only accounts.

1.18. In each of the 14 regions, the former electricity incumbent has over 64 per cent of the electricity-only accounts; in four regions, Scottish Hydro, Scottish Power, Southern and Swalec, the share is 80 per cent or higher (see Figure 3).

[43] Both of these HHI's would be substantially higher if regional shares were used. The impact of incumbency is diluted compared to the gas only HHI as there is no single incumbent for electricity supply.

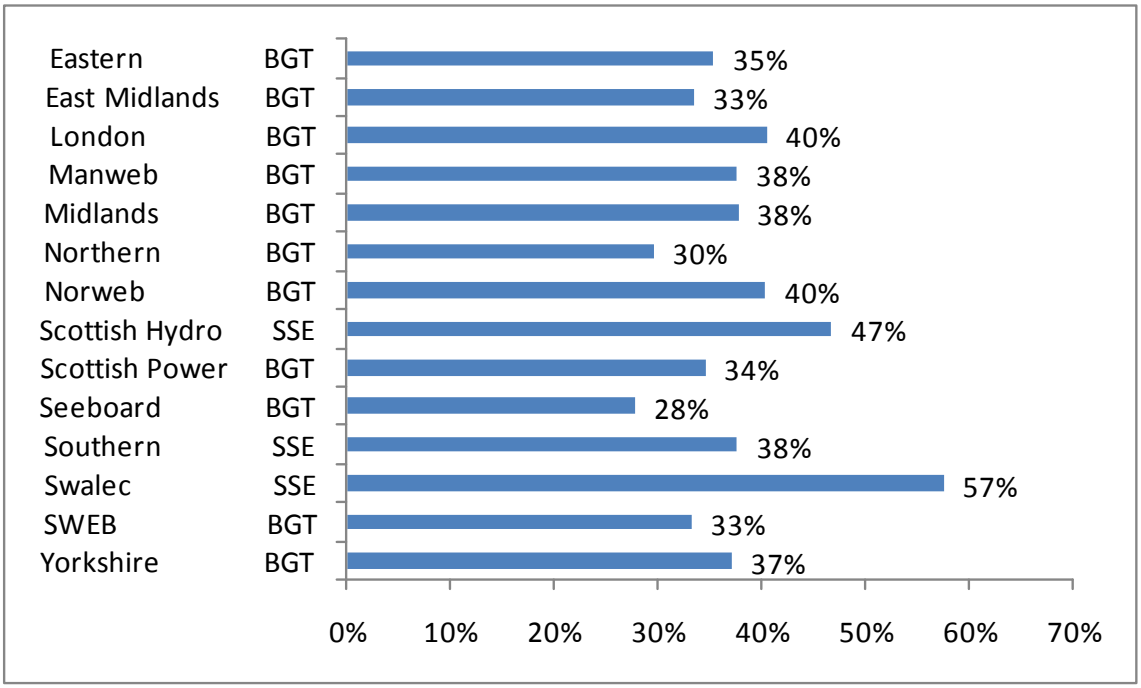
Figure 3: Share of largest supplier in each region, electricity-only; August 2010



Source: Big 6 suppliers, Ofgem analysis

1.19. We note the effect of legacy-fuel customers on the regional market shares of dual fuel customers. The largest supplier is either British Gas, in 11 of the 14 regions, or SSE, in the three regions where it was a monopolist prior to liberalisation (see Figure 4). The share of the largest supplier of dual fuel accounts is between 28 and 57 per cent.

Figure 4: Share of largest supplier in each region, dual fuel; August 2010

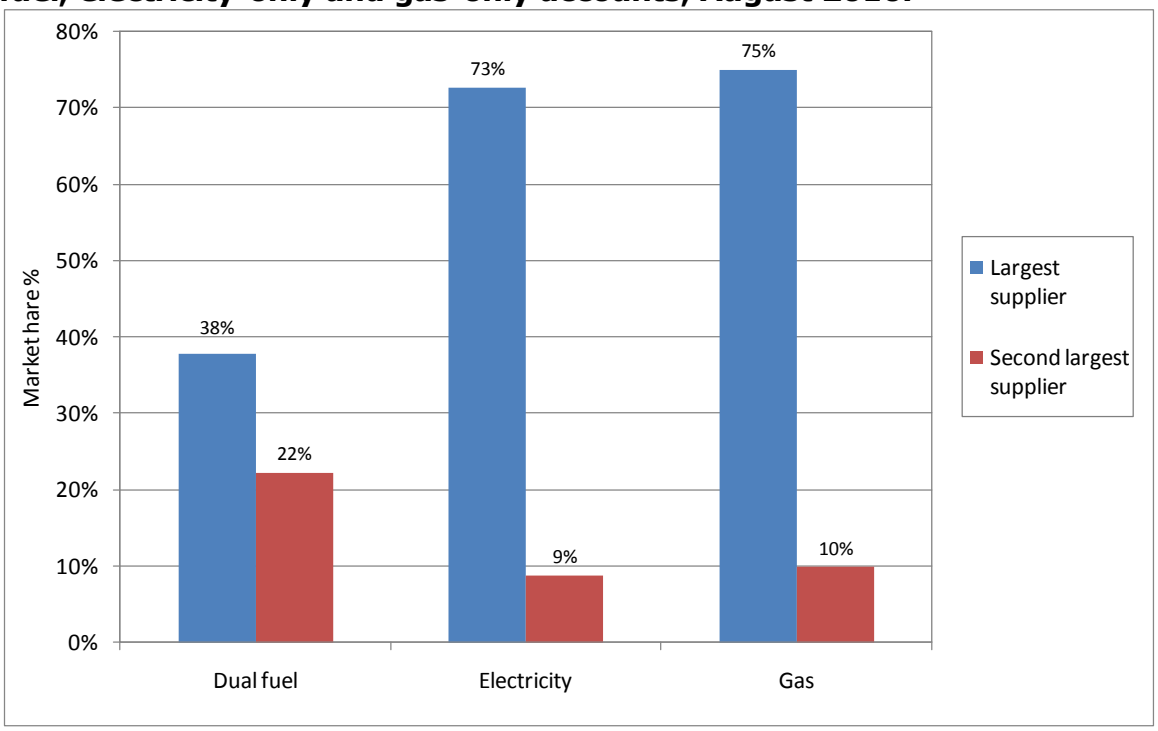


Source: Big 6 suppliers, Ofgem analysis

1.20. For gas-only accounts, the distribution of market shares at the national level is reflected at the regional level too. British Gas holds around three-quarters of the gas-only accounts in each of the 14 regions. The only exception to this is the Scottish Hydro region where British Gas' share of gas-only accounts is less than its national average at just over 60 per cent, and where the second largest supplier of gas-only accounts, SSE, has a market share of just over 20 per cent.

1.21. Figure 5 provides a summary snapshot of the level of concentration at the regional level for each type of fuel. It shows the market share of the largest and the second largest supplier averaged across all 14 regions. The figure highlights the size of the second largest supplier relative to the largest. For electricity-only accounts the average share of the second largest supplier is 9 per cent, and for gas-only accounts it is 10 per cent.

Figure 5: Average regional share of the two largest suppliers of dual fuel, electricity-only and gas-only accounts, August 2010.



Source: Big 6 suppliers, Ofgem analysis

In-area versus out-of-area

1.22. Finally, Table 1 gives the breakdown in the number of customers for dual fuel, electricity-only and gas-only. It distinguishes between the ex-host PES, British Gas and the "out-of-area" suppliers, which exclude the former electricity incumbent and British Gas.

Table 1 Number of Big 6 domestic customer accounts (million), August 2010

	Dual fuel	Gas-only	Electricity-only	**Total**
ex PES (in-area)	4.1	0.4	6.7	**15.2**
ex PES (out-of-area)	7.0	0.7	1.7	**16.5**
British Gas	5.7	3.5	0.8	**15.7**
Total	**16.8**	**4.6**	**9.2**	**47.5**[44]

Source: Big 6 suppliers, Ofgem analysis

1.23. Almost half, 48 per cent (15.2 out of 31.7 million), of the ex PES customer base is made up of their in-area customers. Of the 9.2 million of electricity-only accounts, the former electricity incumbents supply 73% of them. For gas-only accounts, British Gas retains roughly 75% of these customers.

[44] The number of dual fuel accounts has been doubled to calculate the Total column. Differences are the result of rounding to one decimal place.

Payment methods

1.24. There are three main methods of paying for domestic energy supply:

- Direct debit (DD) — A fixed amount is taken from a bank account on a regular basis (each month, quarter or year).
- Standard credit (SC) — Customers pay on receipt of the bill. This typically covers a range of payment mechanisms including cash, cheque, credit card and standing order.
- Prepayment meter (PPM) — Customers pay for energy by inserting electronic tokens, keys or cards into a meter. The meter generally requires payment for energy to be made in advance of use or the supplier will prevent the supply of gas or electricity.

1.25. Customers with dual fuel accounts may choose to use different payment methods to pay for their gas supply than they use for electricity. In the analysis below, we identify such customers as those using "multiple payments".

1.26. Direct debit is the most common form of payment for domestic energy supply; it is used to pay close to half (49 per cent) of all customer accounts. Standard credit is used to pay for around a third (33 per cent) of all accounts, and prepayment meters account for 13 per cent. In the Probe we noted the proportion of consumers on direct debit offers had been growing over time.

1.27. Since the Probe it appears this trend has continued and there has been an increase in the use of direct debit and a fall in the use of standard credit; although it is not possible to make a direct comparison with our current data and that available at the time of the Probe[45]. This is echoed in the data published within the "Quarterly energy prices" reports published by the Department of Energy and Climate Change (DECC). According to this dataset, for both gas and for electricity — dual fuel is not separated out — the share of customers using direct debit has been increasing steadily since 2005 while the share of customers paying their bills by standard credit has been on the decline[46]. The proportion of customers paying by prepayment meter has remained relatively stable over the last five years.

1.28. Looking in more detail, there are a number of differences across the different fuels, as seen in Figure 6. Direct debit is used by 57 per cent of all dual fuel customer accounts.

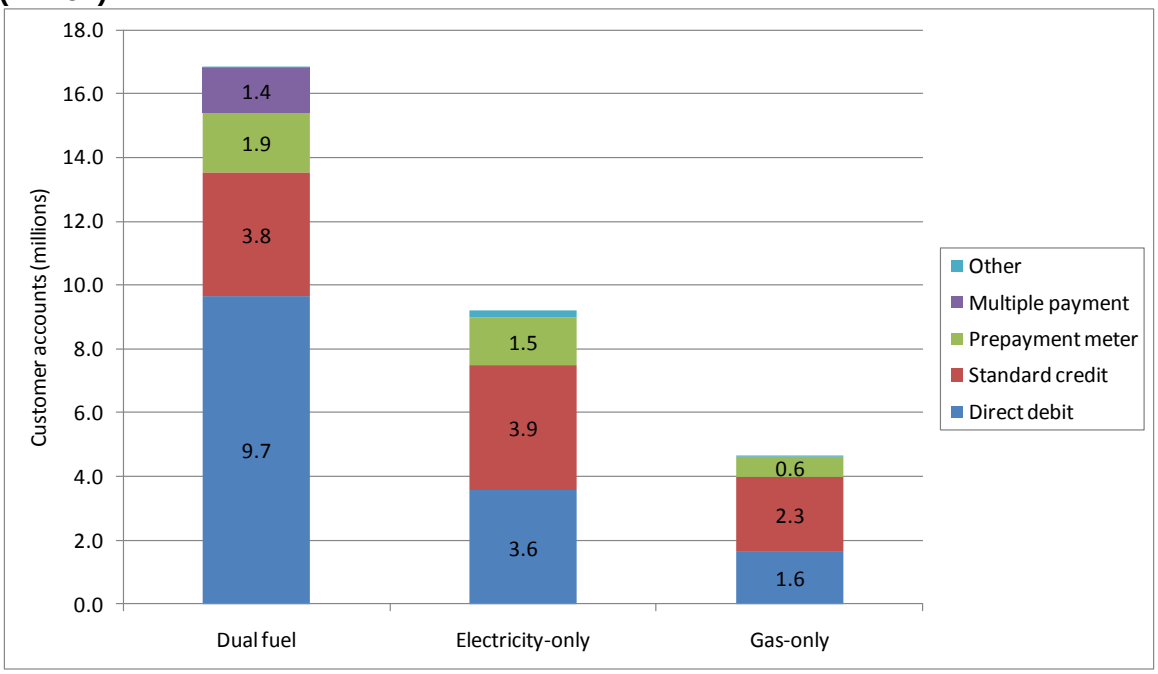
1.29. For single fuel accounts, the preferred method of payment is standard credit. Of the 9.2 million electricity-only accounts 3.9 million are paid by standard credit

[45] The data on payment methods that was analysed in the probe did not separate out dual fuel accounts and, consequently, did not consider "multiple payment" as a separate category. Further, dual fuel accounts were reflected on the Probe data as two separate accounts (ie they counted twice), whereas in our current analysis they are considered as a single account.
[46] See Tables 2.4.1 and 2.5.2 of the "Quarterly energy prices" publications.

(representing 43 per cent of that segment of the market), and of 4.6 million gas-only accounts 2.3 million (51 per cent) pay standard credit.

1.30. The shares of pre-payment meter accounts are broadly similar across the three fuels: 11 per cent for dual fuel, 13 per cent for gas-only and 16 per cent for electricity-only.

Figure 6: Breakdwon of payment types for domestic energy in GB, August 2010 (million)



Source: Big 6 suppliers, Ofgem analysis

Online accounts

1.31. There is no firm definition of online account within the industry, and some non-"online" offers may display similar features (eg paperless billing), but suppliers do designate certain tariffs to be "online" offers. Generally speaking, these are tariffs that a consumer signs up to online or that involves management of a customers gas or electricity account over the internet.

1.32. As of August 2010, there were around 2.7 million such online accounts. The majority of these (2.2 million) were dual fuel accounts and comprised for 13 per cent of all dual fuel accounts in the domestic energy retailmarket. Of the remaining online accounts, 0.4 million were for electricity-only (representing 4 per cent of electricity-only accounts), and 0.1 million were for gas-only (2 per cent of gas-only accounts).

1.33. As noted above, the Probe found there had been a rapid growth in the number of online accounts in the period from 2005 to 2008, and our most recent data points to the continuation of that trend.