

Press Release

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SUPPLY COMPANIES FAILING CONSUMERS: OFGEM PROPOSES RADICAL OVERHAUL

- **Ofgem proposes sweeping away complex and unfair pricing practices**
- **Big Six required to auction up to 20 per cent of their electricity generation output**
- **Firms risk facing a Competition Commission referral this year if they frustrate reforms**
- **Investigation launched into Scottish Power's standard credit prices**
- **Ofgem to appoint independent accountants to improve accounting disclosures**
- **Ofgem to review whether energy companies are frustrating switching in the non-domestic market**

Ofgem's Chairman Lord Mogg said: "Ofgem's proposals should force open the electricity and gas markets to ensure the market works effectively for consumers. The energy supply companies have eight weeks in which to engage constructively with Ofgem's proposals. If firms frustrate reforms they risk ending up at the Competition Commission (CC). This is a holistic package of changes. We will also discuss with Government, if we believe our consumer protection powers need reinforcement."

Ofgem's review found that competition is being stifled by a combination of tariff complexity, poor supplier behaviour, and lack of transparency. Further, the degree of influence the big six assert on the retail market has not diminished since Ofgem's 2008 probe. The clearest example, being the finding that for the first time there is evidence that the Big Six have adjusted prices in response to rising costs more quickly than they reduced them when costs fell.

Chief Executive Alistair Buchanan said: "Energy companies have failed to play it straight with consumers and so Ofgem is proposing to break the stranglehold the Big Six have over the electricity market by making them auction up to 20 per cent of their generation output. This would increase price transparency and make it easier for new players to enter the retail market.

"Consumers have told us that energy suppliers' prices are too complicated. It is no surprise that they are bamboozled when tariff complexity has increased from 180 to more than 300 since 2008. That is why we are planning to sweep away this complexity so suppliers' prices are fully exposed to allow easy price comparisons.

"We are also backing these reforms with a tough approach to enforcement. Consumers must have confidence that energy companies are playing fair at a time when they are being asked to foot the £200 billion bill to pay for the investment Britain needs to ensure secure and sustainable energy supplies."

Today Ofgem also announced a new investigation into **Scottish Power** and is exploring whether it needs to bring similar actions in the non domestic market (where the concerns rest on switching being frustrated). This is in addition to an ongoing investigation into **British Gas, EDF Energy and npower** and into how they handle consumers' complaints. Finally our investigations into misselling by **EDF Energy, npower, Scottish Power, and Scottish and Southern Energy** are also continuing.

Another finding of the review is that in general the companies' response to the 2008 Probe reforms has been disappointingly poor. Ofgem proposes to strengthen the existing reforms and pursue companies with appropriate enforcement action if they fail to implement them.

Further, the company accounting disclosures, required by the Probe, have led Ofgem to call in an independent accountancy firm to examine forensically companies' returns. Ofgem is also considering whether more needs to be done to help vulnerable consumers in addition to its five proposals. This may involve us liaising with government about additional consumer protection powers.

Ends

Notes to editors

1. Ofgem's five proposed reforms are:

Price simplification

Ofgem proposes to address confusion in the market by restricting the number of tariffs for standard evergreen products from each supplier, to just one per payment method in relation to domestic customers. We would also standardise the format of these tariffs across suppliers, with suppliers allowed to compete on just a single "per unit" price. Consumers would then be able to tell at a glance whether they can save money by switching supplier or moving to a new deal. This would be a major reform benefiting the three quarters (75 per cent) of customers currently on standard evergreen products. These are payment methods: Prepayment, Standard Credit and Direct Debit.

In order to allow genuine innovation and choice for customers, suppliers would still be free to offer an unrestricted number of fixed-term products. However, our focus would be on ensuring that domestic customers only buy into these products with full knowledge and assent to their terms and conditions. We would ban automatic rollovers to a new fixed-term product at the end of the period, with customers defaulting back to a standard product unless they make a positive choice for a new fixed term product.

We propose requiring suppliers to quote prices for all fixed-term products on a basis that is readily comparable to the unit price for standard evergreen products. This will allow direct comparisons between all tariffs in the market.

Breaking the power of the Big Six over the wholesale electricity market

Ofgem is proposing a new licence condition that would require the Big Six to make available between 10% and 20% of their power generation into the market through a regular Mandatory Auction (MA). Ofgem is also consulting on Mandatory Market Making

Arrangements to ensure that smaller players in the energy market have access to a transparent and accessible platform that allows continuous trading.

We are giving industry until 1 June 2011 to engage with us and develop our proposed interventions or to propose alternative arrangements to address our liquidity and contestability concerns.

Tougher enforcement and more requirements to ensure companies play straight with consumers

For the avoidance of doubt, the fact that Ofgem has launched investigations should not in any way be taken as implying that any supplier has breached its licence obligation. As part of the investigation process the evidence will be examined before conclusions are reached.

Because the performance in response to our 2008 Probe reforms has been patchy, and in some cases poor, we consider there is scope for strengthening a number of the licence conditions to give suppliers less freedom in how they interpret these obligations. We consider this is necessary in both the domestic and non-domestic sector in order to ensure the suppliers abide by the spirit and intent of the measures as well as the letter of the licence condition.

Failure to abide by these conditions is likely to be backed by appropriate enforcement action. For example, we announced today an investigation into Scottish Power over the significant difference between their standard and direct debit tariffs.

Reduce unfair contracting

Following the Probe, we introduced a range of remedies to address contracting practices that were adversely affecting micro-business consumers. We are concerned that performance against these remedies has not been complete. As a result, and as in the domestic sector, we intend to take action to ensure compliance with existing licence conditions and to consider whether further licence amendments are needed.

Improve transparency

Ofgem remains concerned that transparency regarding the way they account for the cost of gas and power in their supply business remains limited by company-specific policies, especially when they supply energy from another part of the same business. As a result, we feel that consumers are not provided with sufficient clarity about how retail prices relate to suppliers' costs.

Ofgem will therefore appoint an independent accounting firm to investigate further as well as looking at how new EU legislation can help increase transparency.

2. Ofgem's review findings

Ofgem's review found that the behaviour of energy suppliers and the structure of the market were acting against consumers' interests. Some of the key findings are as follows:

- Complex prices are putting off consumers from taking part in the energy market

- The Big Six generally make higher margins from customers who take only their electricity or gas (as a single fuel product) from the former monopoly provider. This may give the Big Six an advantage over new firms entering the market
- Sixty per cent of consumers are disengaged from the market according to our consumer research
- Lack of effective competition means that for the first time Ofgem has found evidence that suppliers are putting up prices quicker in response to wholesale price rises than they are cutting them when wholesale prices fall
- Concerns that suppliers are not adhering to standards of conduct for business customers.

3. Next Steps

The consultation period for the Retail Market Review closes on 1 June 2011. During this period, we welcome feedback on the analysis and proposals, as outlined in the document.

On our proposals to enhance liquidity, we are also giving industry the duration of the consultation to propose alternative ways forward. As set out in our December 2010 open letter to stakeholders, we are due to publish a further assessment of liquidity in the wholesale power market. Any future decision on these proposals will be accompanied by an impact assessment.

- 4.** Ofgem is the Office of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority, the regulator of the gas and electricity industries in Great Britain. The Authority's powers and duties are largely provided for in statute, principally the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002, the Energy Act 2004 as well as arising from directly effective European Community legislation.

For further press information contact:

Chris Lock 020 7901 7225

Alison Wright 020 7901 7217

Mark Wiltsher 020 7901 7006

Out of hours: 07766 511 470