

Press Release

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OFGEM TO PRESS AHEAD WITH RADICAL OVERHAUL OF THE RETAIL GAS AND ELECTRICITY MARKET

ENTERPRISE ACT INVESTIGATION LAUNCHED INTO POTENTIALLY MISLEADING MARKETING BY SCOTTISH POWER

- **Wide support for the ambition of Ofgem's reforms from consumers, small suppliers, independent generators and businesses**
- **Big Six engaging in the reform process, but option of Competition Commission referral remains**
- **Rising energy prices reinforce the need for sweeping reforms to the retail gas and electricity market to ensure companies play fair with consumers**

Ofgem today signalled its determination to press ahead with a radical overhaul of the retail energy market following wide support from consumers, Consumer Focus, Which?, CAB, Age UK and uSwitch along with independent generators and small energy suppliers.

Ofgem's Chief Executive Alistair Buchanan said: "Responses to our reforms show that there is increasing consensus across a range of consumer and business groups that in a period of rising energy prices energy suppliers have to transform the way they deal with consumers. We are also seeing signs that the penny has dropped with the Big Six and they are ready to take part constructively in the debate.

"This is why Ofgem is pressing ahead with its consultations to sweep away complex tariffs in order to expose energy suppliers' prices to consumer power. We will also pursue breaking up the stranglehold of the Big Six on the electricity market to encourage more firms, like new arrival the Co-op, to enter the energy market and increase the competitive pressure on the Big Six.

"Our latest report on prices also gives even more impetus to the need for radical reform as it shows that turmoil in global energy markets during 2011 has pushed up wholesale costs by 30 per cent since December 2010. Now more than ever, consumers need to have confidence that competition can operate effectively in setting energy prices."

Ofgem also reinforced the commitment it made in March to take a tough approach to enforcement action by today launching an Enterprise Act investigation into Scottish Power over potentially misleading marketing at the time of its recent price rise (see Notes to Editors).

"Our new investigation into potentially misleading marketing by Scottish Power is a further strong signal to the industry that we wish to see a sea change in the way customers are treated. Companies that fail to play it straight with consumers need to understand that they risk facing enforcement action," Mr Buchanan said.

Scottish Power is also under investigation to see whether the difference between their Standard Credit and Direct Debit tariffs are cost reflective and, along with EDF Energy, npower, and SSE, as to whether the company has misold energy to customers.

Ofgem has also received broad encouragement from consumer groups and businesses to look at more options to help vulnerable consumers and small firms.

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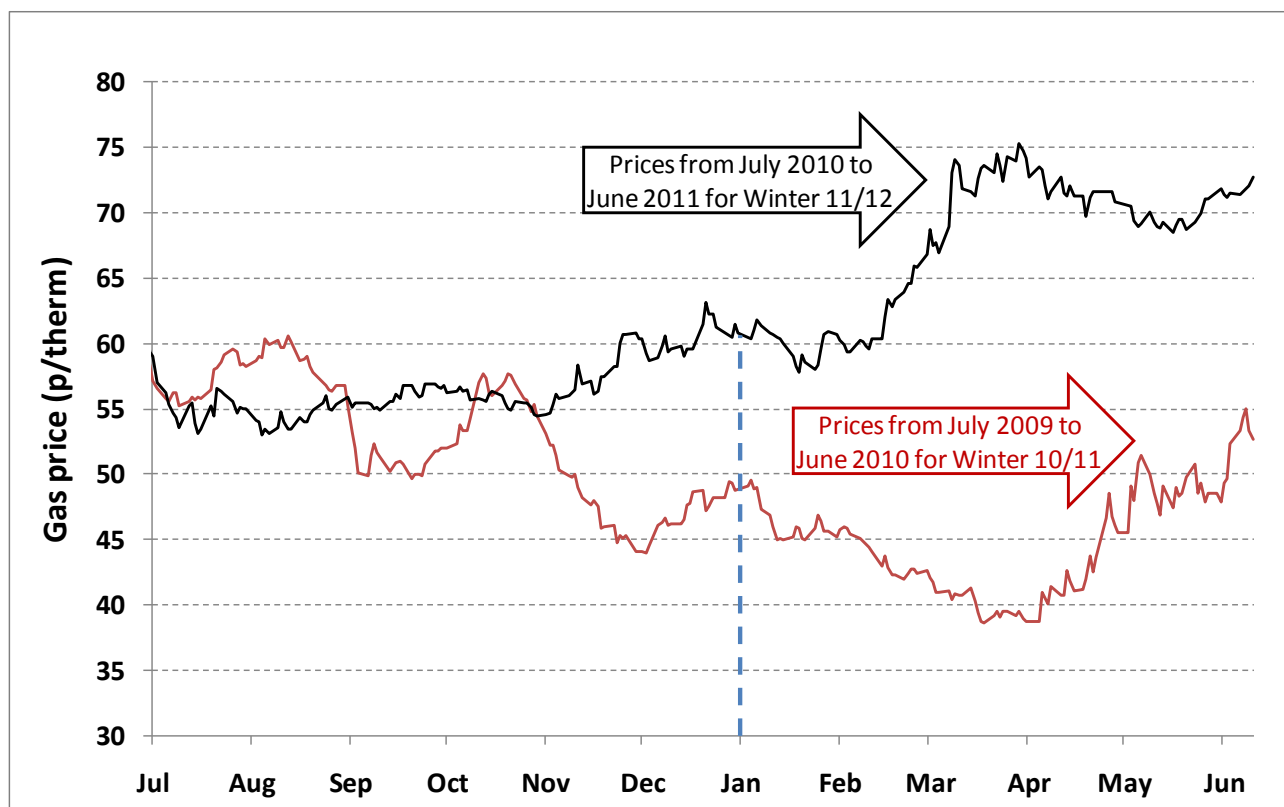
Notes to Editors

1. Energy Prices

Ofgem's latest Supply Market report shows that wholesale costs are rising. Gas for delivery this winter has risen from 60 pence per therm in January of this year to over 70 pence per therm. This compares to gas for last winter which was 55p per therm by June 2010. This is a 30 per cent increase in wholesale gas prices.

Ofgem's modelling shows that this increase in wholesale prices and other costs means that an estimated margin for supplying a typical, standard tariff dual fuel customer is approximately £15 per customer for the year from June 2011.

Winter gas price contract comparison in 2010 and 2011



2. Investigation into Scottish Power

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

Radical change takes time to implement and Ofgem has acted on its commitment in March to vigorously pursue enforcement action where it suspects firms are not operating within the law.

Ofgem today announced that it is to investigate Scottish Power under its Consumer Protection powers under the Enterprise Act in relation to potentially misleading marketing. The investigation will focus on the claim of £459 savings from the "Direct October 2012 offer".

The Enterprise Act gives Ofgem powers to seek enforceable undertakings in relation to misleading acts or omissions which may harm consumers.

3. Timetable

Ofgem will now develop its proposals on the retail market drawing on the responses it has received from its consultation. It will also carry out further consumer testing of its proposals. By the end of the year it will publish impact assessments alongside detailed proposals for consultation. In 2012 it will publish proposals to put in place its reforms. The Big Six can then decide whether to accept Ofgem's proposals or appeal some or all of Ofgem's reforms to the Competition Commission.

4. Ofgem's legal powers

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.

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