



Overview

Ofgem produces regular snapshot estimates of the net margin on supplying a typical, standard tariff, dual fuel customer for the next 12 months. We intend to update this information on a weekly basis from today onwards.

Our latest calculations show that for the period February 2012 up to and including January 2013, the total indicative net margin for a typical, standard tariff dual fuel customer will be approximately £80 per customer. This represents a £20 reduction from our previous update in January 2012. We expect this 12 month margin to fall further to around £60 over the next six months, partly as the recently announced electricity and gas price cuts from the 'Big Six' take effect. However there are many uncertainties, not least wholesale prices, which could affect this figure.

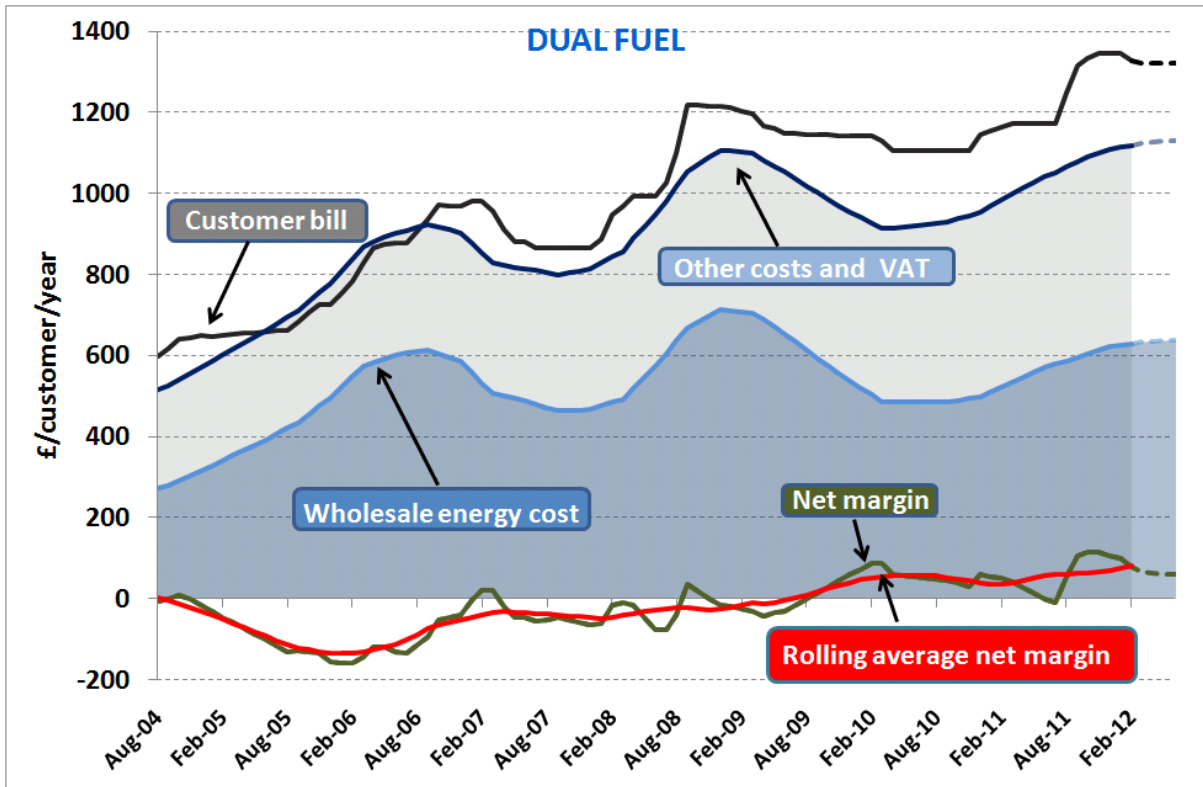
The rolling average net margin is also £80. This is an average of the previous six months, the current month, and the next six months' net margin data. A detailed description of the rolling average net margin indicator can be found in our methodology statement¹.

In February we saw a number of price cuts taking effect, with Npower and EDF introducing five per cent price cuts on the price of gas effective on 1 and 7 February respectively. In addition, on 27 February, E.ON reduced the price of electricity by six per cent, while Scottish Power reduced the price of gas by five per cent. These price cuts follow British Gas' five per cent cut on the price of its electricity, which became effective from 12 January.

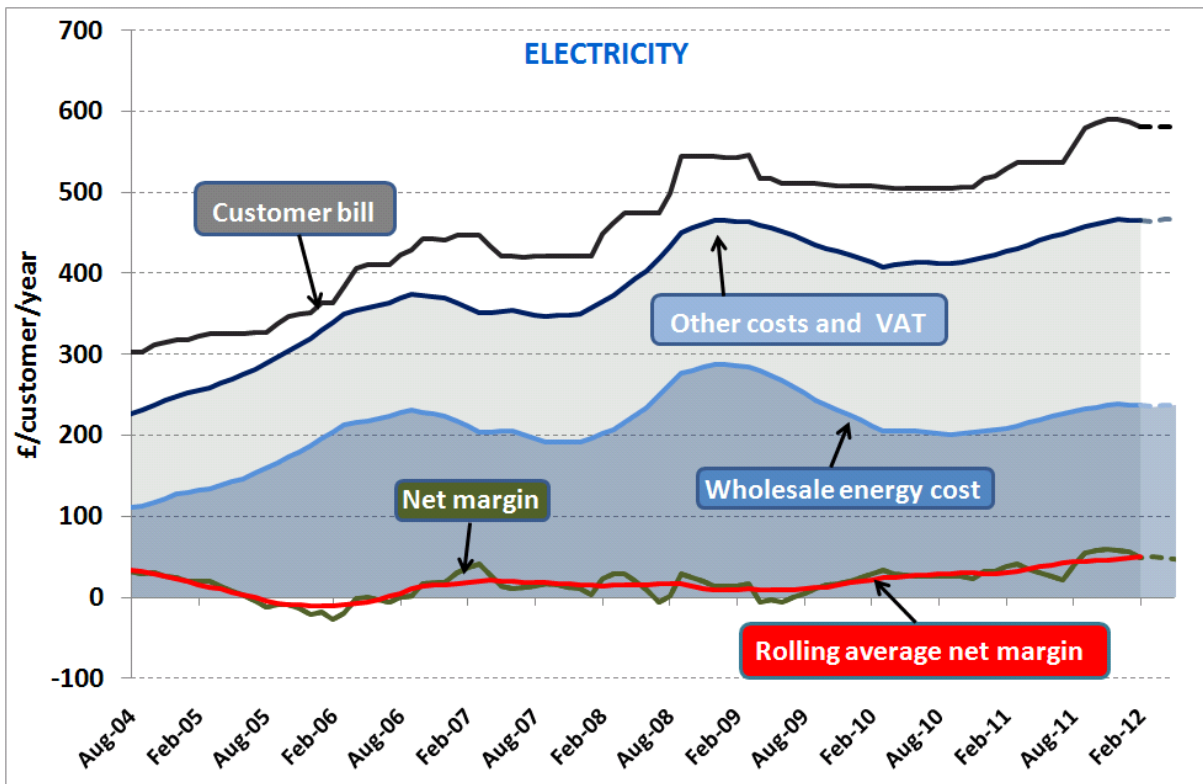
These cuts have reduced the average annual bill of a 'Big Six' standard tariff dual fuel customer from £1,345 in January 2012 to £1,325 in February 2012. The final price cut of 4.5 per cent for gas customers with SSE, effective from 26 March, will be factored into subsequent weekly updates.

¹ http://www.ofgem.gov.uk/Markets/RetMkts/rmr/smr/Documents1/SMR_METHODOLOGY.pdf

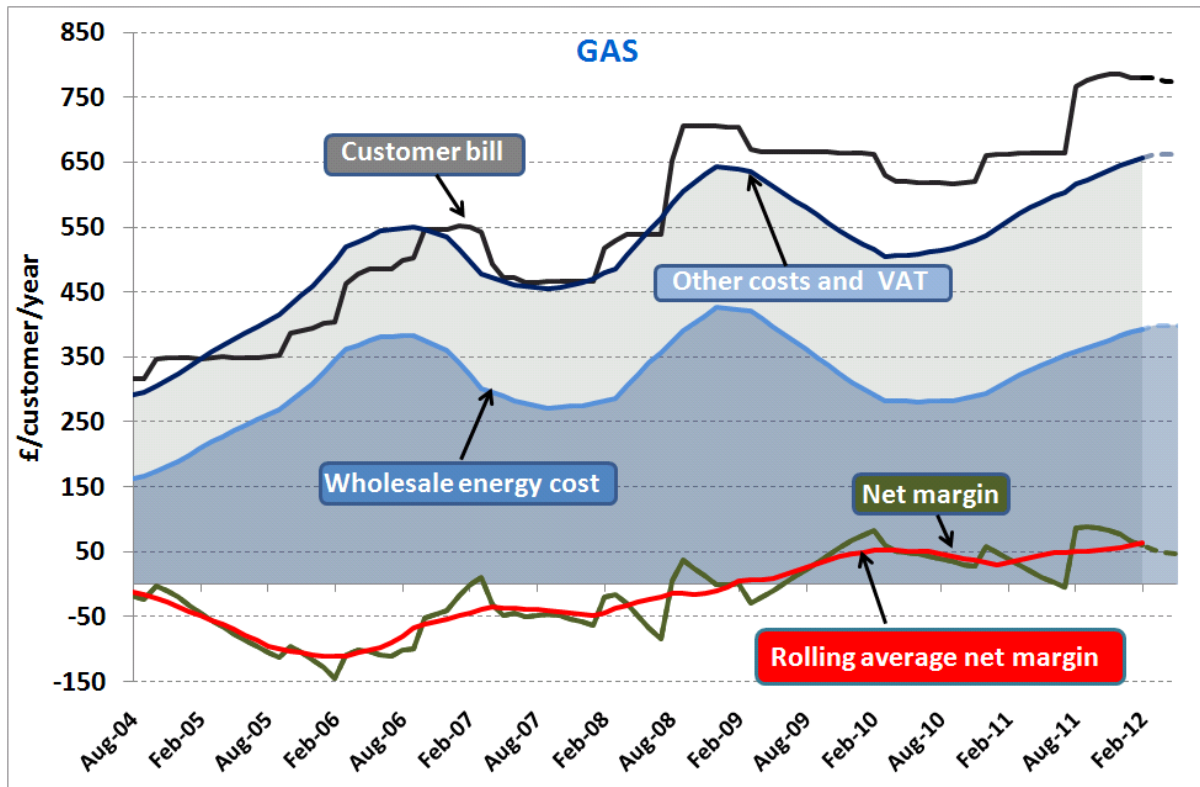
Typical dual fuel customer bill, costs and total indicative net margin for the next 12 months



Typical electricity customer bill, costs and total indicative net margin for the next 12 months



Typical gas customer bill, costs and total indicative net margin for the next 12 months



Changes in retail bills, costs and total indicative net margin for the next 12 months – February 2012

Dual Fuel	Year				
	Feb-08	Feb-09	Feb-10	Feb-11	Feb-12
Customer bill	£945	£1,205	£1,140	£1,165	£1,325
Wholesale costs	£485	£710	£505	£520	£630
VAT and other costs	£360	£395	£425	£465	£490
Gross margin	£105	£100	£215	£180	£210
Operating costs	£120	£125	£130	£130	£130
Total indicative net margin for the next 12 months	-£15	-£25	£85	£50	£80

Notes: Customer bill is for standard tariffs, weighted by payment method and market share. Average figures assume electricity consumption of 4MWh/yr, gas consumption of 16.9MWh/yr. Figures rounded to nearest £5 and may not sum due to rounding.

Electricity	Year				
	Feb-08	Feb-09	Feb-10	Feb-11	Feb-12
Customer bill	£450	£540	£505	£530	£580
Wholesale costs	£200	£285	£210	£210	£235
VAT and other costs	£165	£180	£200	£215	£230
Gross margin	£85	£80	£95	£105	£115
Operating costs	£60	£65	£65	£65	£65
Total indicative net margin for the next 12 months	£25	£15	£30	£35	£50

Notes: Customer bill is for standard tariffs, weighted by payment method and market share. Average figures assume electricity consumption of 4MWh/yr. Figures rounded to nearest £5 and may not sum due to rounding.

Gas	Year				
	Feb-08	Feb-09	Feb-10	Feb-11	Feb-12
Customer bill	£520	£705	£665	£665	£780
Wholesale costs	£285	£425	£290	£315	£395
VAT and other costs	£195	£215	£225	£245	£265
Gross margin	£40	£65	£145	£105	£125
Operating costs	£60	£65	£65	£65	£65
Total indicative net margin for the next 12 months	-£20	£0	£85	£40	£60

Notes: Customer bill is for standard tariffs, weighted by payment method and market share. Average figures assume gas consumption of 16.9MWh/yr. Figures rounded to nearest £5 and may not sum due to rounding.

Methodology

Our methodology is unchanged from the publication of the quarterly reports. The only addition is a 12 month rolling average net margin figure. We have introduced this indicator to increase transparency about net margin levels. As the net margin figure can vary significantly in a year, in reaction to falling or rising costs, a balanced alternative measure is to consider the average margin over an extended period of time. This then smoothes out fluctuations and volatile net margin figures. You can find a link to our methodology here².

Notwithstanding the introduction of a rolling average net margin indicator to the supply market indicators, it is important to remember that it is a 12 month forward-looking estimate of the net margin on supplying a typical, standard tariff, dual fuel customer. It is therefore likely to change over time as more information on costs and prices becomes available. It also does not capture all the discounted deals that may be available to consumers, including those available online.

More comprehensive information on individual energy companies' revenues, costs and profits in both their generation and supply arms is available on a backward-looking basis through their Consolidated Segmental Statements. These are produced

² http://www.ofgem.gov.uk/Markets/RetMkts/rmr/smr/Documents1/SMR_METHODOLOGY.pdf

annually by energy companies and are available on the Ofgem website. The requirement to produce these accounts was introduced by Ofgem following its Energy Supply Probe.

Updating our assumptions

Our estimate of net margin is based on numerous assumptions. These include assumptions about typical household energy consumption and estimates of suppliers' costs. We will periodically review these components in due course and will look to update our assumptions as they change, including for example, updating our consumption information. We may also utilise requests for information where this is the most appropriate route to gather data. However we do not intend to use this approach for the foreseeable future. In the meantime, if suppliers wish to provide us with updated information we will be happy to consider utilising it in the report.