Overview

Ofgem produces regular snapshot estimates of the net margin on supplying a typical standard tariff, dual fuel customer for the next 12 months.

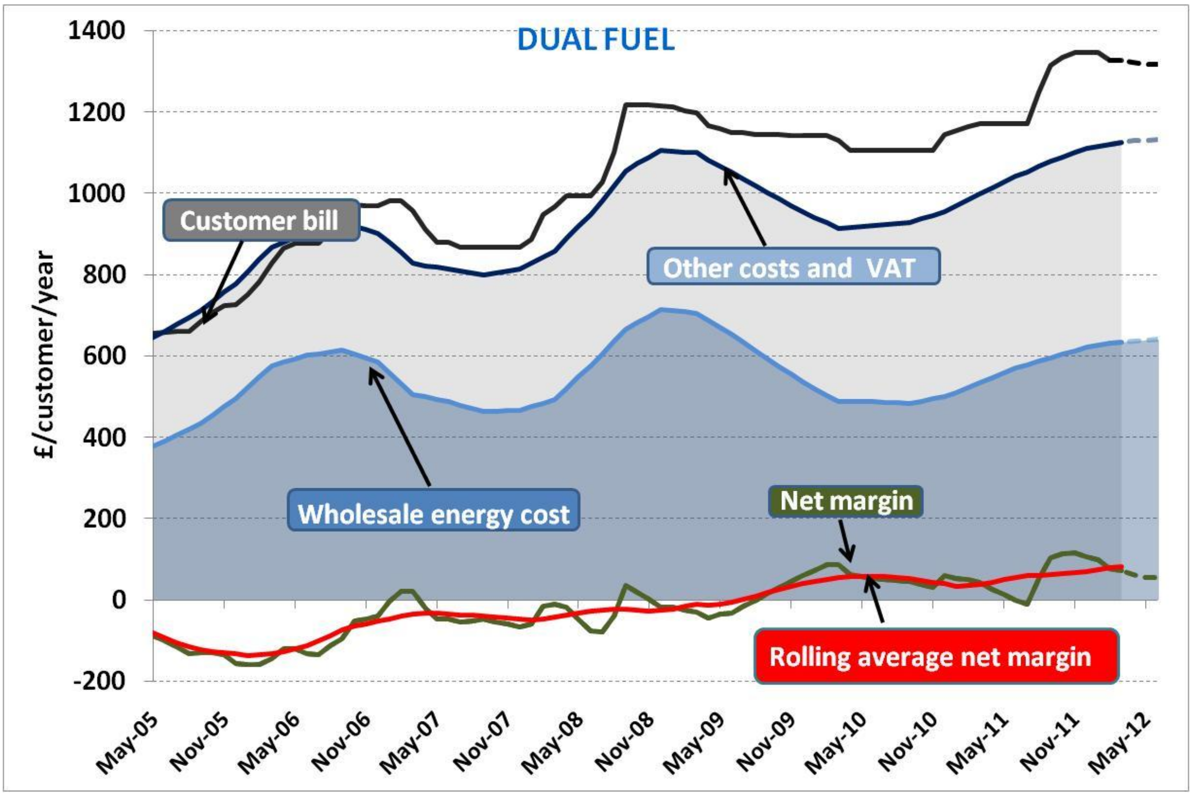
Our latest calculations show that for the 12 month period from March 2012 up to and including February 2013 the total indicative net margin for a typical, standard tariff dual fuel customer will be approximately £70 per customer. This represents no change from our previous update, which we updated on 7 March 2012. We expect this 12 month margin to fall further to around £55 over the next six months, partly as all six of the recently announced electricity and gas price cuts from the 'Big Six' take effect and partly due to known changes in wholesale prices. However there are many uncertainties, not least continued changes in wholesale prices, which could affect this figure.

The rolling average net margin is £80. This is an average of the previous six months, the current month, and the next six months' net margin data. A detailed decription of the rolling average net margin indicator can be found in our methodology statement[1].

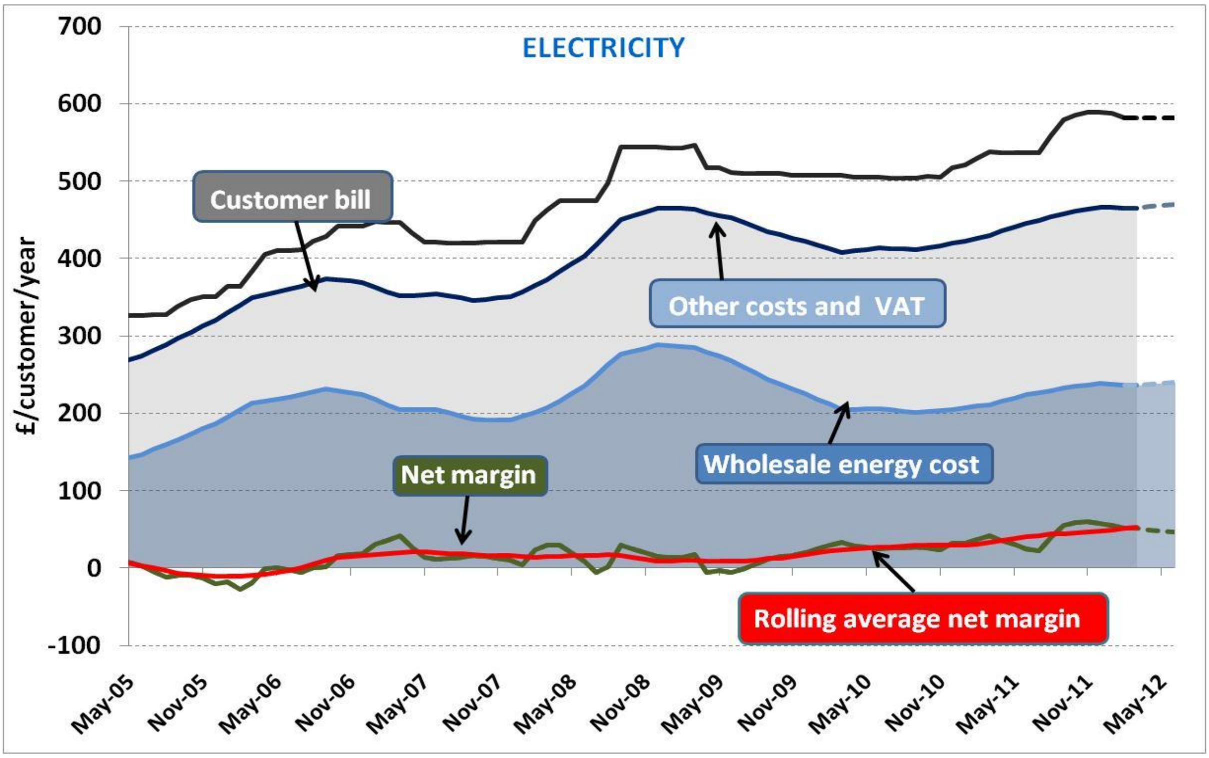
The average annual bill of a 'Big Six' standard tariff dual fuel customer remains at £1,325, the same level as that reported in our previous (7 March) report and down from the £1,345 reported in January 2012. Our latest figure captures five of the six recently announced price cuts by the 'Big Six'. The final price cut of 4.5 per cent for gas customers with SSE, effective from 26 March, will be factored into our indicators nearer this date.

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

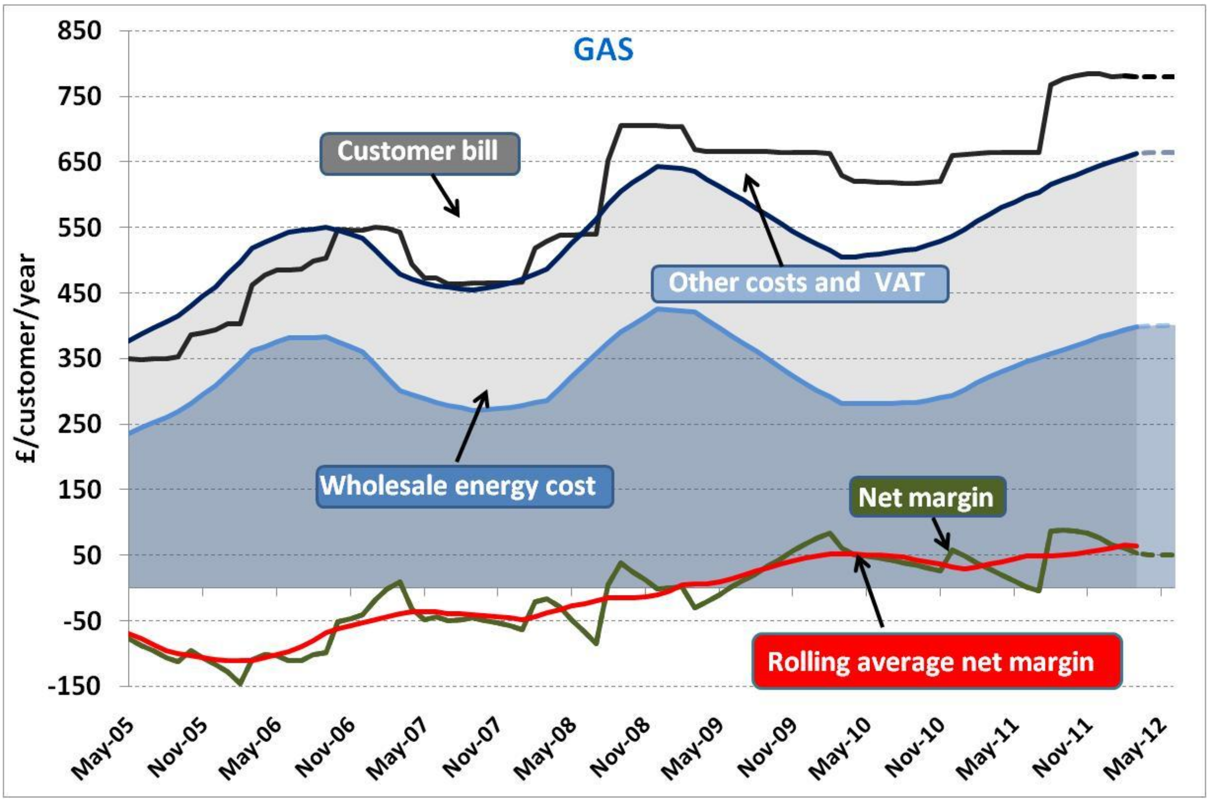
Typical dual fuel customer bill, costs and total indicative net margin for the next 12 months



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 – March 2012

Dual Fuel	**Year**				
	Mar-08	**Mar-09**	**Mar-10**	**Mar-11**	**Mar-12**
Customer bill	£965	£1,195	£1,130	£1,170	£1,325
Wholesale costs	£495	£705	£485	£535	£635
VAT and other costs	£365	£395	£425	£465	£490
Gross margin	£110	£100	£215	£170	£200
Operating costs	£120	£130	£130	£130	£130
Total indicative net margin for the next 12 months	**-£10**	**-£30**	**£85**	**£40**	**£70**

Notes: 1) 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.
2) The indicative net margin for a dual fuel customer may not equal the sum of the gas and electricity indicative net margins, partly reflecting different market shares for dual fuel and single fuel customers.

Electricity	Year				
	Mar-08	**Mar-09**	**Mar-10**	**Mar-11**	**Mar-12**
Customer bill	£460	£545	£505	£535	£580
Wholesale costs	£205	£285	£205	£210	£235
VAT and other costs	£165	£180	£205	£220	£230
Gross margin	£90	£80	£100	£105	£115
Operating costs	£60	£65	£65	£65	£65
Total indicative net margin for the next 12 months	**£30**	**£15**	**£35**	**£40**	**£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				
	Mar-08	**Mar-09**	**Mar-10**	**Mar-11**	**Mar-12**
Customer bill	£530	£670	£630	£665	£780
Wholesale costs	£285	£420	£280	£320	£400
VAT and other costs	£200	£215	£225	£250	£265
Gross margin	£45	£35	£125	£95	£120
Operating costs	£60	£65	£65	£65	£65
Total indicative net margin for the next 12 months	**-£15**	**-£30**	**£60**	**£30**	**£55**
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 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 here[2].

Notwithstanding the introduction of a rolling average net margin indicator to the supply market indicators, it is important to remember that it is a 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.

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

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 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.