Overview

Ofgem produces a rolling average net margin on supplying a typical standard tariff, dual fuel customer. This is an average of the previous six months, the current month, and the estimated net margin data for the next six months[1]. We also produce a snapshot estimate of the net margin on supplying a typical, standard tariff customer for the next 12 months.

Our latest calculations show that the rolling average net margin for a typical, standard tariff dual fuel customer is approximately £40. This is the same level as our previous estimate, which we published on 11 July.

Our estimates also show that for the 12 month period from July 2012 up to and including June 2013 the total indicative net margin for a typical, standard tariff dual fuel customer will be approximately £30 per customer. This is the same level as our previous estimate.

We expect the snapshot margin to rise to around £45 over the next three months, mainly due to a reduction in forward-looking wholesale prices. However, there are many uncertainties, not least continued changes in wholesale prices, which could affect this figure.

The average annual bill of a 'Big Six' standard tariff dual fuel customer remains unchanged from our previous estimate, at £1,310 per year.

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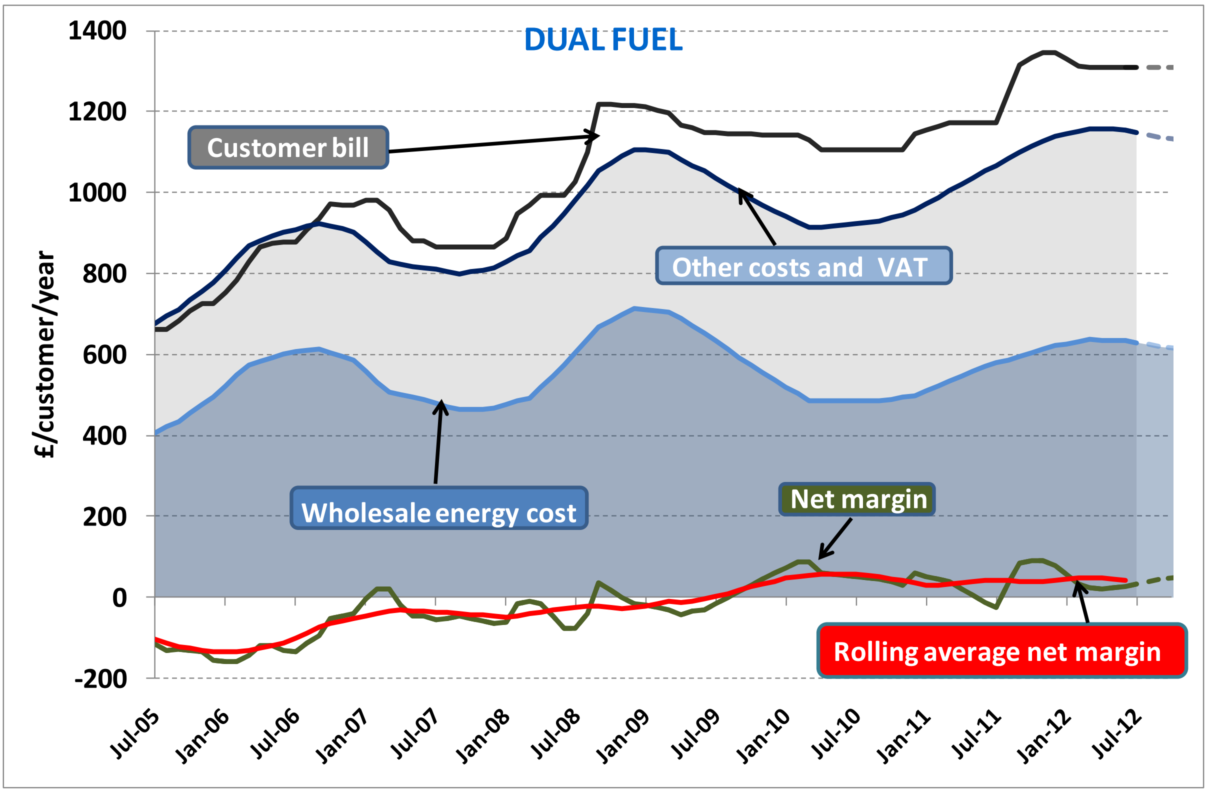
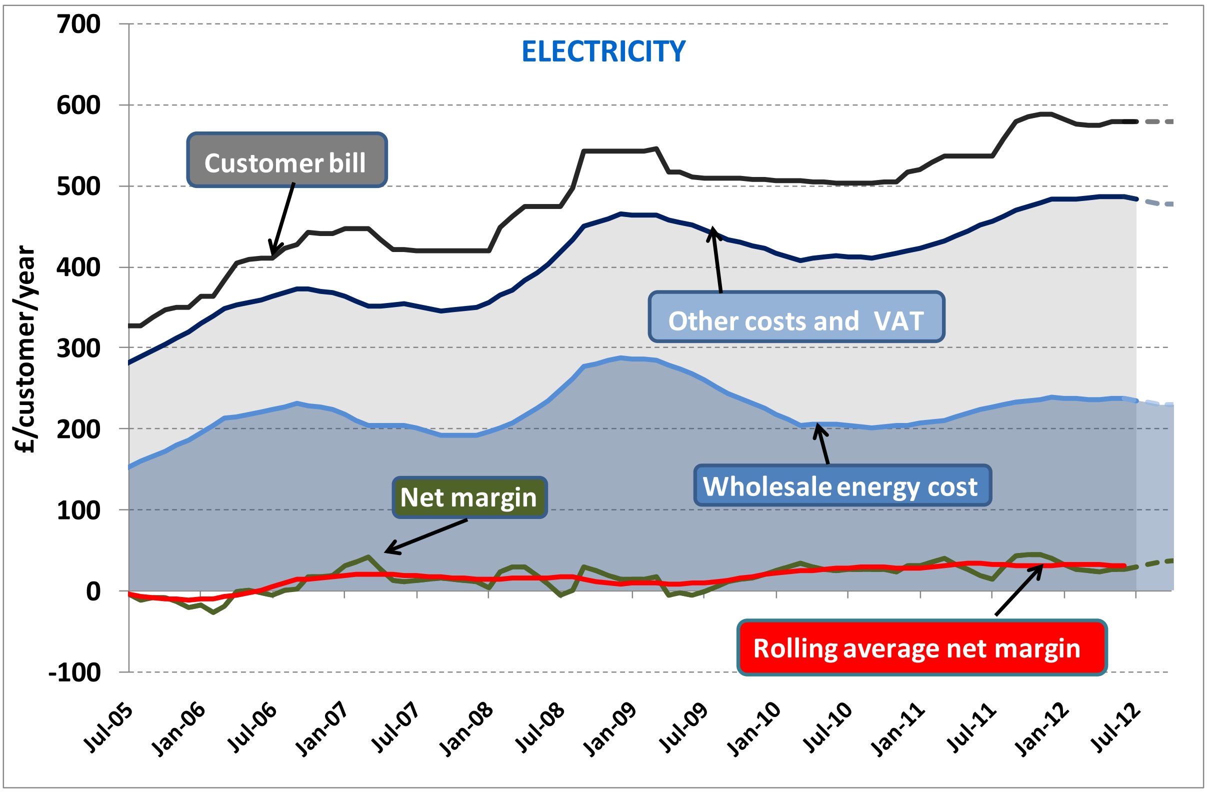
[1] A detailed description of the rolling average net margin indicator can be found in our methodology statement, available at:
http://www.ofgem.gov.uk/Markets/RetMkts/rmr/smr/Documents1/SMR_METHODOLOGY.pdf

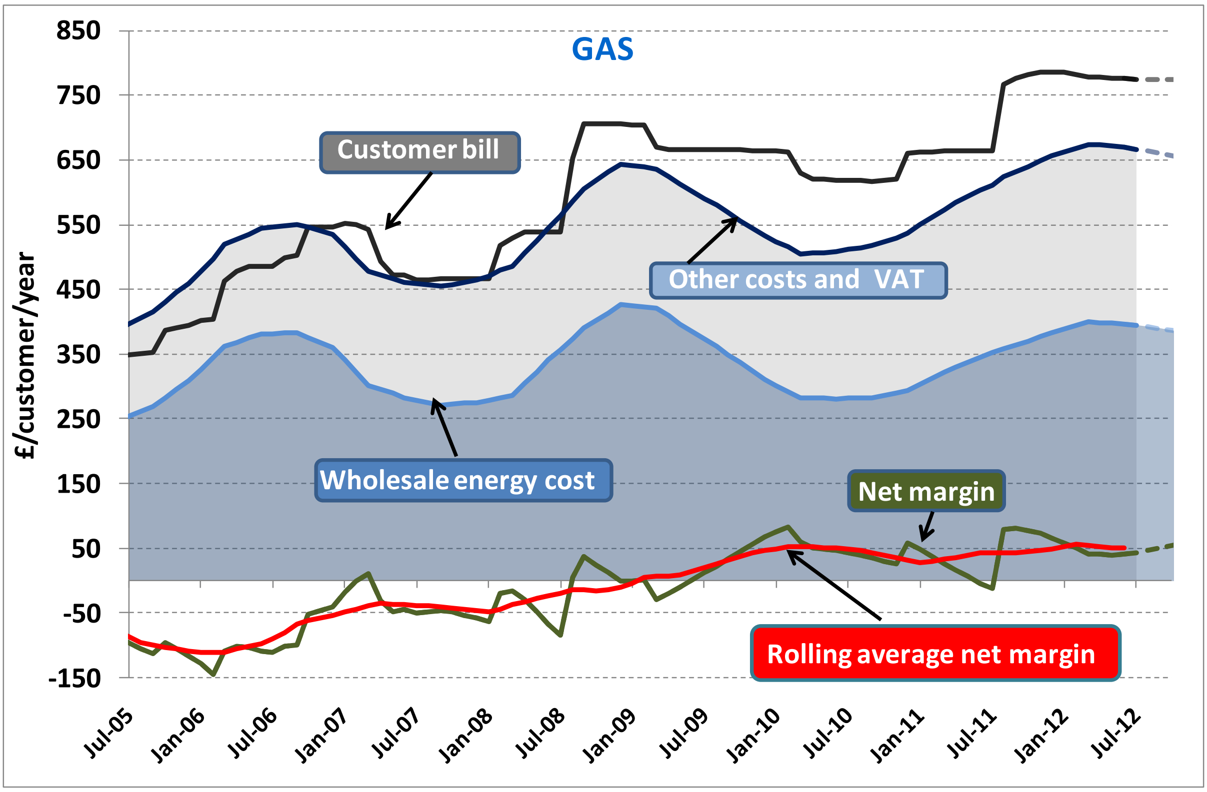
Typical dual fuel customer bill, costs and total indicative net margin for the next 12 months



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 – July 2012

Dual Fuel	**Year**				
	Jul-08	**Jul-09**	**Jul-10**	**Jul-11**	**Jul-12**
Customer bill	£1,030	£1,150	£1,105	£1,170	£1,310
Wholesale costs	£605	£635	£485	£580	£630
VAT and other costs	£375	£405	£440	£490	£520
Gross margin	£45	£115	£180	£105	£160
Operating costs	£125	£130	£130	£130	£130
Total indicative net margin for the next 12 months	-£80	-£15	£50	-£25	£30
Rolling net margin	**-£25**	**£0**	**£55**	**£45**	**£40**

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				
	Jul-08	**Jul-09**	**Jul-10**	**Jul-11**	**Jul-12**
Customer bill	£475	£510	£505	£535	£580
Wholesale costs	£250	£260	£205	£225	£235
VAT and other costs	£170	£185	£210	£230	£250
Gross margin	£55	£65	£90	£80	£95
Operating costs	£65	£65	£65	£65	£65
Total indicative net margin for the next 12 months	-£5	£0	£25	£15	£30
Rolling net margin	**£15**	**£10**	**£30**	**£35**	**£30**
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				
	Jul-08	**Jul-09**	**Jul-10**	**Jul-11**	**Jul-12**
Customer bill	£540	£665	£620	£665	£775
Wholesale costs	£355	£375	£280	£350	£395
VAT and other costs	£205	£220	£230	£260	£270
Gross margin	-£25	£75	£105	£55	£110
Operating costs	£60	£65	£65	£65	£65
Total indicative net margin for the next 12 months	-£85	£10	£40	-£10	£45
Rolling net margin	**-£20**	**£20**	**£50**	**£40**	**£50**
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.

Where we update our data, we will keep a log of when a change takes effect and a short description, as below.

Updates to assumptions used

2 July 2012 – updated suppliers' market shares and updated payment method shares (Direct Debit, standard credit and prepayment)

20 June 2012 – update to other costs including the inclusion of ECO in the model

21 May 2012 – updated suppliers' market shares

25 April 2012 – updated electricity network charges in 'other costs'.

11 April 2012 – updated payment method shares (direct debit, standard credit and prepayment).

21 March 2012 – updated suppliers' market shares.