ofgem Making a positive difference for energy consumers

www.ofgem.gov.uk

25 November 2013

Factsheet 123

Making the profits of the six largest energy suppliers clear

To help consumers understand the revenues, costs and profits of energy suppliers, Ofgem requires the six largest suppliers to produce yearly financial statements. This factsheet focuses on the profits the companies made in 2012.

The six largest energy companies are Centrica, EDF Energy, EON, RWE npower, Scottish Power and SSE. Each of them generate electricity and they supply electricity and gas to homes and businesses. They also trade between different parts of their businesses, both in Britain and abroad.

Ofgem has taken the lead in making the profits of these complex businesses clearer. Since 2009 we have required them to publish annual statements showing separately the revenues, costs and profits from their generation and supply activities. Ofgem has also ensured that these statements are independently reviewed and consistent with the companies' audited accounts.

What do the 2012 statements show?

The statements show that across all six suppliers, overall profits for energy supply and generation fell from £3.9 billion in 2011 to £3.7 billion in 2012. However, profits in supply to households and businesses increased from £1.25 billion in 2011 to £1.6 billion in 2012.

The table below shows average household bills between 2010 and 2012, together with average supplier profits per household customer, and average profit margins on supply to households.

	Average annual household bill for electricity and gas	Supplier profit per household customer	Profit margin for supply to household customers
2012	£1,174	£53	4.3%
2011	£1,006	£30	2.8%
2010	£1,063	£35	3%

The difference between the average bill figures and the supplier profit figures represents the total costs suppliers faced each year for buying and selling energy and running their businesses.

Do the six largest suppliers make a fair profit from consumers?

Making a profit is not an entitlement. It should be earned by suppliers gaining and retaining customers, offering competitive prices, the right products, and good customer service. How efficiently suppliers run their businesses also determines the profits they make.

Our analysis in 2011 showed that the way in which the whole retail market worked meant there was not as much competitive pressure on suppliers as there should be. This is why we've introduced the most sweeping reforms to the retail market since competition began. These reforms will break down the barriers that stop consumers from getting the best deals by making the market simpler, clearer and fairer.

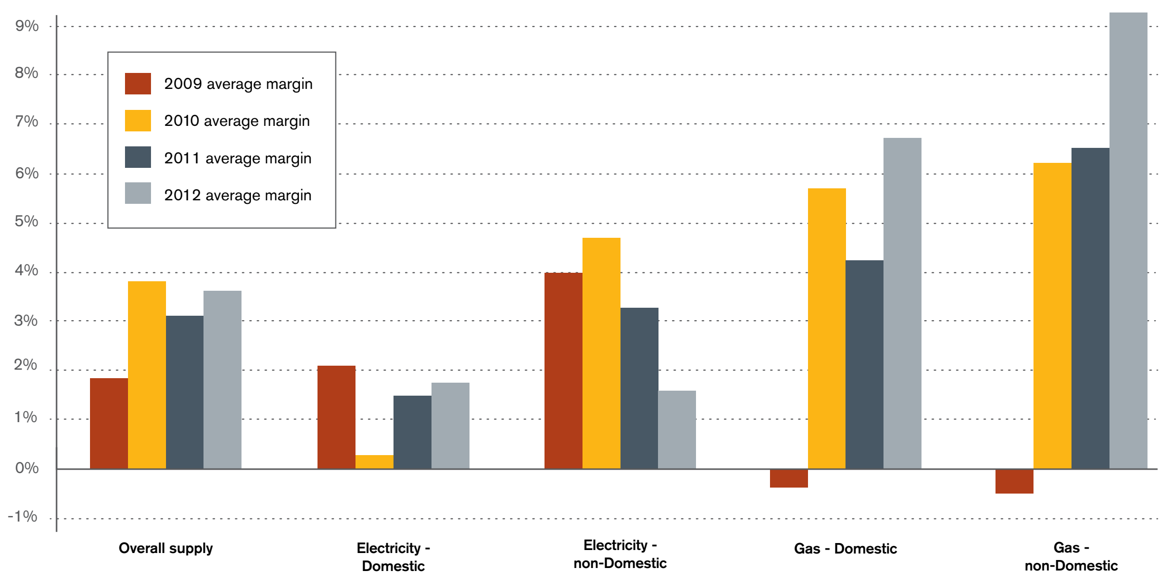
So far almost 2 million customers are supplied by independent suppliers. And we are proposing major changes to open up the wholesale electricity market to make it easier for independent suppliers and new entrants to compete effectively with the six largest suppliers.

These reforms include obligations for the six largest energy suppliers to publish the price at which they will trade wholesale power for up to two years in advance. The six largest energy suppliers and the two largest independent generators will also have to keep to rules meaning they must negotiate fairly with any independent supplier that wants to buy wholesale power.

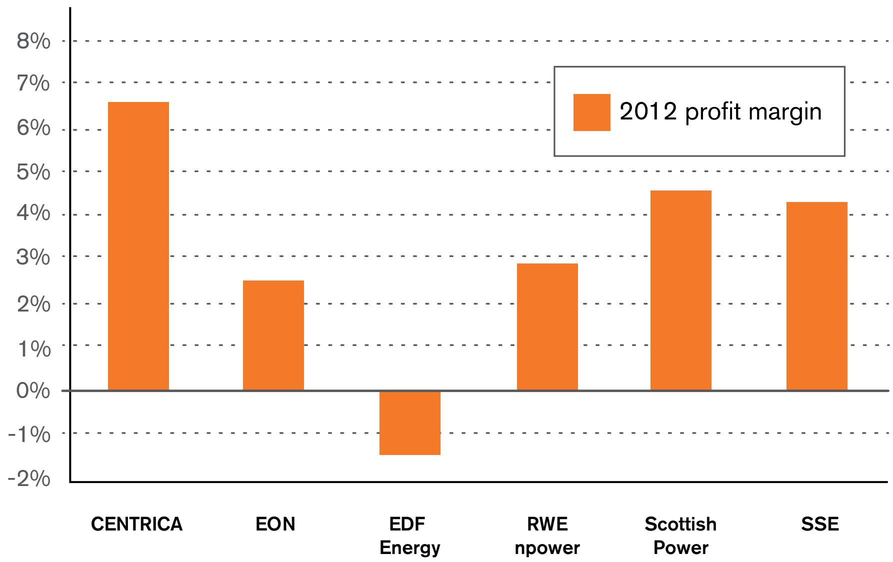
You can read more about our reforms to make the retail market simpler, clearer and fairer here

And more information about our proposals for opening up the wholesale power market can be found here

Graph 1: In the graph below we show average profit margins from 2009 to 2012 for all parts of the supply businesses of the six largest companies (Overall supply) and then the margins for the individual parts of their supply businesses.



Graph 2: This graph shows the total margins for each company in supply of gas and electricity to homes and businesses in 2012. When these margins are combined they produce the average margin for 2012 across all six companies under 'Overall supply' in Graph 1.



Differences between profit margins in supply and generation

The average margin the six largest suppliers made in generation in 2012 was 20 per cent compared with 24 per cent in 2011. Margins in generation are higher than for supply because the supply and generation parts of the suppliers' businesses are very different.

The generation part of a supplier's business needs to invest significant sums of money over the long term in building new power stations. So a higher margin is needed to ensure the companies can afford this investment. The supply side of the business does not need to make such investments.

Going forward we will consider whether companies should also provide additional profit measures in generation which take account of capital investment.

Checking that the statements are being produced properly

We recognise that consumers want to know whether the companies' financial statements represent a true and fair picture of their costs and profits. The statements are also an indicator that Ofgem uses to decide how well the market is working.

A review conducted for us by the accountancy firm BDO in 2011 showed that the method the companies use to produce the statements was broadly fair and appropriate.

Following the recommendations of the review, Ofgem made changes to the way the statements are produced by the companies to make them clearer and more comparable. These included a requirement that the statements were consistent with their audited financial accounts and more prescriptive rules around how costs are allocated.

Further information

The statements published by each company covering the 2009 to 2012 accounts are available here

For public enquiries contact:

Consumer Affairs team
020 7901 7295 email: consumeraffairs@ofgem.gov.uk

For media enquiries contact:

Chris Lock, Senior External Communications Officer
020 7901 7225 email: chris.lock@ofgem.gov.uk