ofgem Promoting choice and value for all gas and electricity customers

Press Release

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OFGEM TO DELIVER AN IMPROVED DEAL FOR SMALL AND INDEPENDENT ELECTRICITY SUPPLIERS IN WHOLESALE MARKETS

- **Ofgem aims to raise the competitive pressure on the big six energy suppliers by improving wholesale market liquidity making it easier for new firms to enter the electricity market**
- **Ofgem continues to keep pressure on companies by publishing analysis of prices and margins and ensuring firms adhere to its probe remedies**
- **After British Gas' latest price cut a competitive gap of around £100* has opened up between the cheapest and more expensive suppliers**

Ofgem today published its plans to increase the competitive pressures on energy suppliers. Previously, in its energy supply market probe, Ofgem identified that liquidity - the ability of smaller firms to purchase a variety of deals to help them manage risk - in wholesale electricity markets was poor and therefore a major obstacle preventing new suppliers entering the market. Today's consultation sets out Ofgem's plans to address this issue and help the market work in consumers' interests.

Ideally, new market-led initiatives, like the recent N2EX and the existing APX exchanges, will deliver this extra liquidity and meet the needs of new independent suppliers. Ofgem intends to be ready to take action if this does not happen promptly and today's consultation proposes a range of options to drive more liquidity and create a level playing field for any new firms entering the market. Ofgem's solutions would ensure that large energy suppliers make available the electricity that small and independent suppliers need to manage their risks better and compete in the market.

Ofgem's Senior Partner for Markets, Andrew Wright, said: "Ofgem believes that the lack of liquidity is a major reason for the lack of a strong competitive pressure from independent suppliers. We have put forward proposals for consultation with the industry to ensure that, if the market-led initiatives fail to deliver, we have reforms that are ready to be implemented."

Ofgem's regular scrutiny of energy companies' prices, also published today, shows that the net margin for a typical standard tariff dual fuel customer rose by a further £30 in February 2010 from November as wholesale energy costs continue to fall.

This is less than Ofgem forecast last quarter, because one major supplier, British Gas, has cut its gas prices by an average of 7%. Ofgem waits to see how and whether other major suppliers respond to this move, which, if reflected across all suppliers, would roughly cancel out this quarter's increase.

British Gas' price cut and the wide range of discounted online and fixed-price deals means that many consumers can now reduce their bills significantly by switching to another supplier. Savings of up to £100 a year are available on standard tariffs and even larger savings are available on non-standard deals.

Andrew Wright said: "Although we expect energy prices to rise in the longer term to pay for the up to £200 billion investment, which is needed to secure supplies and reduce carbon emissions, we would also expect recent falls in wholesale energy costs to be passed on to consumers.

"We are seeing a lot of activity in the market with over 5 million people having switched in 2009, and now a £100* gap has emerged between the best and worst deals. However, we will continue to monitor the market closely, and if, at any time, we believe that current arrangements and our proposed market reforms are insufficient, we will not hesitate to consider further measures to protect consumers."

** Savings of over £100 on standard tariffs are available in a number of regions for dual fuel customers assuming consumption levels of 3,300kWh for electricity and 20,500kWh for gas. Precise savings depend on region and payment type.*

Notes to editors

1. **Liquidity**

The GB wholesale electricity market suffers from low levels of liquidity which causes a range of problems. Low levels of liquidity, in particular limited trading of forward products, leads to lack of transparency regarding wholesale electricity costs for supply businesses and revenues for generation businesses. This makes it difficult for existing participants and potential entrants to take effective decisions on investment and entry. There is also a notable lack of wholesale products required by small/independent suppliers to meet the demand and manage the risks associated with a smaller customer base. These factors pose significant barriers to entry. This is of particular concern in the supply market where there has been very limited entry (the Big 6 account for over 99% of the market) and where we have recently seen a steep rise in retail margins.

Proposals

The policy options, which could be implemented either individually or in combinations, if the market-based solutions fails to deliver, are as follows:

- **An obligation requiring large generators to trade with independent/ small suppliers.** Currently there is no requirement to trade and so the obligation would require large generators to offer reasonable terms when approached by independent/small suppliers. The obligation would be supplemented by guidelines. We may also consider extending this to requiring large suppliers to offer purchase terms to small, independent generators.

- **Market making arrangements**, supported by a licence obligation on the Big 6 to provide electricity in defined products. Under this option the Big 6 would be obliged to provide bids and offers to a Market Making Agent. The agent would post the best bid and offer on a trading platform.

- **Mandatory auctions**, focused either on the prompt market with the aim of developing trusted reference prices and hence financial derivatives, and/or focused on longer term products. This would be supported by an obligation on all large generators to offer volume into the auction.

- **Self-supply restrictions** on the large vertically integrated utilities, i.e. a licence condition limiting the extent to which they may supply their own retail business.

  The aim of these interventions would be to improve overall liquidity in the GB electricity wholesale market, including liquidity in forward products. They are also specifically aimed at improving the ability of independent/small suppliers and potential new entrants to meet their wholesale energy purchasing and risk management needs, and thereby to promote supply market contestability.

2. Probe remedies

Ofgem's Probe

Following its energy retail market probe Ofgem has introduced the following rules and conditions to better protect consumers:

1. Licence conditions prohibiting unjustified price differences (September 09)
2. Tougher rules governing door-step sales (January 2010)
3. Requirements for suppliers to include key information on bills and produce annual statements (July 2010)
4. Rules to improve customer access to small business contract terms and conditions and limit roll-over of contracts (January 2010)
5. Requirements for publishing segmental financial information on different parts of their business (due to come in October 2010)
6. Rule change meaning PPM customers could still switch if they owe their supplier up to £200 (January 2010)

3. Getting the most out of the energy market

- If you change your energy supplier, you could make savings of around £100. You could make greater savings if you have never changed supplier or choose a discounted on-line or fixed price deal.
- If you have a card, key or token prepayment meter and have an energy debt of less than £200 then you can still switch supplier.
- If you do not want to switch supplier, contact your supplier and check you are on their cheapest tariff. Vulnerable customers may also be eligible for their suppliers' social tariff or other financial assistance – check with your supplier what help is available.
- Direct debit can be a cheaper and easier way to pay for your energy. If you pay by direct debit and think the level of your regular payment is too high in relation to your energy usage you should contact your supplier. Suppliers must base direct debit payments on the best available information and explain clearly the basis for the level of payment.
- If you think your supplier has accumulated an unreasonable amount of credit on your account you can request a refund unless the supplier has reasonable grounds to withhold this. It is worth remembering that credit built up over the summer is used to pay for higher use in the winter.
- You may also be able to reduce your bill by being more energy efficient - check with your supplier what help and advice they can provide.

Know your rights

- If you are behind with your energy bills, contact your supplier as soon as possible. Suppliers are obliged to offer you alternative methods of repaying an energy debt, including through regular instalments, making arrangements for repayments to be taken directly from certain social security benefits (known as 'Fuel Direct') or through a prepayment meter.
- When calculating repayment levels to recover an energy debt, suppliers must take your ability to pay into account and set repayment levels accordingly.
- Suppliers are not allowed to disconnect you without first offering you the ability to repay through the alternative methods mentioned above and at a level you can afford.
- Suppliers must not disconnect you in winter (October – March) if you are of pensionable age and live alone or only with other pensioners or are under the age of 18.
- Suppliers must take all reasonable steps to avoid disconnecting you in winter if the occupants in your household are of pensionable age, disabled or chronically sick.

For further press information contact:

Chris Lock 020 7901 7225 / 07766 511470

Alison Wright 020 7901 7217 / 07771 980297

Mark Wiltsher 020 7901 7006 / 07879 602838