October 1999

Reviews of Public Electricity Suppliers 1998 to 2000

Supply Price Control Review.

Initial Proposals

Contents

FOREWORD

The present regulatory controls on the Public Electricity Suppliers' (PESs') supply businesses prices to designated customers were set in place until 31 March 2000. This document sets out initial proposals for revised arrangements to protect customers' interests from 1 April 2000. The document explains the reasoning behind these proposals, and seeks views. It is anticipated that final proposals will be published around the end of November.

The June 1999 consultation document *Review of Domestic and Small Business Electricity Supply Price Regulation* set out the issues to be considered in setting revised restraints. The paper noted that the review would be informed by the development of the competitive market.

Ofgem's initial proposal is that revised maximum price restraints should continue to apply to Standard Domestic and Domestic Economy 7 tariffs for a period of two years. It is presently proposed that direct price regulation no longer be applied to non-domestic customers.

Views are invited on all aspects of the initial proposals. It would be helpful to receive comments no later than Friday 29 October 1999. Responses should be addressed to :

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It is open to respondents to mark all or part of their responses as confidential. However, we would prefer as far as possible that the responses are provided in a form that can be placed in Ofgem's library.

If you have any queries concerning issues raised in this document, Shaun Kent on 0121 – 456 – 6254 (or e-mail : kents@offer.gsi.gov.uk) or Colin Green on 0121 – 456 – 6385 (or e-mail : greenc@offer.gsi.gov.uk) will be pleased to help.

1 INTRODUCTION

The development of competition

1.1 Competition for customers with a maximum demand of less than 100 kW, which includes all domestic customers, was phased in over a period between September 1998 and 24 May 1999. All domestic customers are now able to choose to take electricity supply from a number of competing suppliers. In time, the development of competitive pressures should in general offer customers benefits in terms of both prices and service standards.

1.2 The June 1999 consultation paper noted that the appropriate form of revised arrangements would depend on the present and likely future development of competition for under 100 kW customers, the benefits this might deliver, and whether these benefits were spread evenly among different customer groups. It set out three broad options for revised arrangements, the appropriateness of which would largely depend on the present and likely competitive position.

Scope and preferred option

1.3 The full opening of the market to competition has seen a number of rapid and important developments. For example a significant and increasing proportion of non-domestic customers have taken the opportunity to change supplier. Price offers to these customers from competing suppliers have also been relatively competitive. Increasing competitive pressures for these customers suggest that it may be appropriate to remove all non-domestic customers from the scope of revised arrangements.

1.4 It is less clear that all domestic customers are benefiting to the same degree, or to the degree where continued explicit protection is no longer required. Neither is it clear that some form of relative price regulation, discussed in option 2 in the June consultation paper, would at this stage provide adequate protection of domestic customers' interests. Therefore the initial proposals in this document set a revised maximum price restraint for domestic customers. The restraint takes the form of a maximum restraint on each PES's prices for Standard Domestic and Domestic Economy 7 tariffs.

1.5 These restraints would be set for a further period of two years. This would allow time for the competitive domestic market to develop further. The competitive position will be reviewed during the course of this period in order to inform the nature of relevant arrangements to apply after this time.

Approach to setting the restraints

1.6 Among his statutory duties, the Director General of Electricity Supply (DGES) has duties to promote competition; to ensure that licence-holders are able to finance their licensed activities; to protect the interests of customers; and to promote efficiency and economy. The companies themselves have a statutory duty to develop and maintain an efficient, co-ordinated and economical system of electricity supply.

1.7 The setting of maximum price restraints should complement, rather than substitute, the protection afforded by an effective competitive market. It therefore follows that the form and level of the restraints should not prevent, restrict or distort the development of the competitive market. In the short term, however, social or other considerations may make it advisable to permit certain transitional measures which provide a

smoother path of prices for customers, particularly disadvantaged customers.

1.8 The setting of price controls should also aim to be consistent with the effects of a fully competitive market. Effective competition would tend to prevent the excess costs of inefficient generation purchasing or supply costs being passed through to customers. Nor would it allow companies to load additional costs on to a declining customer base. The initial proposals reflect these factors.

1.9 It would be inappropriate in setting restraints to pre-empt reductions in generation costs which may be anticipated as a result of, for example:

- implementing new electricity trading arrangements in England and Wales;
- the proposed trading arrangements for Scotland set out in Ofgem's October 1999 consultation paper; or
- the benefits of other changes or potential changes in the generation market, for instance the benefits of recent plant disposals or a relaxation of the Government's restricted consents policy in respect of new gas-fired stations.

1.10 At the same time, it would be inappropriate to permit supply companies to retain the full benefit that might arise from such wholesale price reductions if it was clear that there were first tier customers who were not benefiting in the same way as those in the fully competitive areas of the market. Accordingly, revised regulatory controls need to be supplemented with strict enforcement of the non-discrimination provisions of the licence and recourse, if appropriate, to the powers due to be assumed by Ofgem in March 2000 under the Competition Act 1998. It may also be appropriate to consider strengthening the existing non-discrimination provisions. PESs who do not reduce their first-tier

offers in line with wholesale price movements can expect to be investigated.

1.11 To aid Ofgem in its analysis, PESs will be required to produce regular reports on their wholesale electricity costs, including the costs of contracts being offered to them. These reports will be collated and it is intended that the results should be published, provided that such a publication is deemed consistent with any requirements for commercial confidentiality.

1.12 The costs of supplying customers include generation, distribution and transmission use of system, and supply business costs and a margin. Consistent with the principles set out above, Ofgem has sought convergence in the generation and supply costs for all customers in Great Britain. Transmission and distribution use of system charges are separately regulated. It is proposed that these should be reflected in the level of the restraints should reflect published charges for these elements as far as is possible.

1.13 It is clear that there are economies of scale in electricity supply. There have been a number of important changes in the structure of the market in the last few years and it is clear that further changes may occur as the market continues to develop. At the same time, it is important that existing businesses are permitted by the price restraints to finance themselves without reference to the context of their ownership. Due allowance has therefore been made for each company, for instance those with smaller customer numbers, in the proposals.

1.14 Chapter 2 discusses the form of control by reference to the choice of Options 1 to 3 as set out in the June consultation paper. Chapter 3 sets out an assessment and discussion of the development of the competitive market. It concludes that domestic customers should continue to receive

protection from revised price restraints. Chapters 4 to 7 set out Ofgem's assessment of the component costs of supplying domestic tariffs, and Chapter 8 brings the elements together in proposals for maximum price restraints.

2 FORM OF REGULATION

Introduction

2.1 The June consultation paper set out three broad options for revised arrangements. Option 1 is to set a revised maximum price restraint. Option 2 is some form of relative price regulation. Option 3 is to remove price restraints and rely on the operation of non-discrimination conditions.

2.2 The choice between these forms of regulation depends on the degree to which each meets the objectives of the review, as set out in the June consultation paper. Briefly, the appropriate option should:

- be simple, flexible and practical;
- promote competition;
- protect customers where competition is not yet effective;
- provide incentives to efficiency;
- protect standards of service;
- provide transparency; and
- be robust to gaming.

2.3 The remainder of this chapter describes the options and discusses their merits against these objectives.

Option 1 – Setting a revised price control

2.4 A price control may take one of several forms. The June consultation paper described for example RPI-X controls, profit controls, and an error correction mechanism. For any form of control, it will also be necessary to define the scope and level of the control.

2.5 The present maximum price restraints are a form of RPI-X control. They identify, for each PES, a list of tariffs that designated customers are able to take. The restraints are expressed in the form of a tariff basket, and specify that a weighted average of these tariff prices should increase no faster than RPI-X. The present control was set on the basis of a forward looking view of underlying costs, including generation costs. It allows pass through only of the fossil fuel levy (accounting for less than 1 per cent of final prices).

Respondents' views

2.6 Of the PESs, only three favoured the continued use of RPI-X controls as their first choice for revised arrangements. 9 PESs supported the removal of price controls and the use of non-discrimination conditions as their first choice. However, of those 9 PESs, 6 commented that if formal protection were to be introduced, it should take the form of a reduced scope RPI-X control. Three PESs expressed reservations about RPI-X control, one saying it damages the development of the competitive market, another saying that it focuses too much on net margins, and a third suggesting that RPI-X controls may be too inflexible.

2.7 British Gas Trading suggested that an RPI-X control is inconsistent with the transition from a regulated to a competitive market.

2.8 Of the ECCs, 11 out of 13 supported continued use of RPI-X controls, noting for example that they were a tried and tested form of control.

2.9 Of 6 remaining respondents, three favoured the retention of an RPI-X form of control, perhaps with a reduced scope to cover just domestic and / or disadvantaged customers. Independent Energy supported the removal of price controls and the use of non-discrimination conditions.

Discussion

2.10 The RPI-X form of control has the advantage of encouraging companies to achieve efficiency savings, since achieved cost savings over the period of the control are retained by the company. It is a particularly powerful incentive with regard to generation costs, which typically account for about half a domestic customer's bill, and are to some extent within the control of the PES. It is a form of control that has been widely used in the regulation of UK utilities and is relatively well recognised, understood and transparent.

2.11 Furthermore, if set at an appropriate level, an RPI-X price restraint should not prevent, restrict or distort the development of competition. This means that price restraints should offer adequate protection to customers by preventing excessive pricing, but not at such a low level that competitors are dissuaded from continuing to compete or entering the market.

2.12 An appropriate form for revised maximum price restraints would be an RPI-X control applying to Standard Domestic and Domestic Economy 7 tariffs. An allowance for generation costs would be pre-specified and so there would be no pass through of this element. It would be appropriate to pass through Distribution Use of System (DUoS) and Transmission Use of System (TUoS) charges, as well as the Fossil Fuel Levy (FFL).

2.13 It would be intended that all domestic customers would be guaranteed access to these two tariff types and hence prices. First tier domestic customers choosing not to take these tariffs are afforded protection by the operation of non-discrimination conditions. These prohibit dominant suppliers from discriminating unduly between customers or any class of customers in the relevant market. This would mean for example that customers taking similar but not identical domestic tariffs should not

normally be expected to face prices significantly different than those applying to the relevant price restrained tariff. This is particularly important for small business customers, who may have similar demand and cost characteristics to domestic customers.

2.14 For the purposes of the rest of this paper, references are made to 'Standard Domestic' tariffs and 'Domestic Economy 7' tariffs. Each PES in England and Wales offers these tariffs to its domestic customers. For the purposes of Scottish Power, 'Domestic Economy 7' refers to its White Meter tariff, and for Hydro-Electric 'Domestic Economy 7' refers to its Total Heating Total Control tariff.

Option 2 – Relative price regulation

2.15 In areas of the electricity supply market where a PES faces strong competition, it will have an incentive to attract and maintain custom by competing on both price and service terms. These incentives may be weakened in areas where competition is less effective. Where the PES operates in both markets, it may have an incentive to target efficiency gains and reductions in prices in the more competitive sector. Prices to different customer groups may diverge even if the costs of serving those differing customer groups are broadly similar. In this case, there may be 'undue discrimination' in pricing. The June consultation paper explained that such 'undue discrimination' is, under certain circumstances, prohibited under the terms of the PES licence and other legislation.

2.16 The prohibition on 'undue discrimination' should have the effect of passing on the benefits of the competitive market to customers in less competitive parts of the market. However, a price control (such as RPI-X) is unlikely to reflect fully the pressures that competition might bring on prices and service standards. For example, customers in a market

segment where competitive forces are relatively strong may see immediate and continuing benefits. A price control simultaneously operating in a segment of the market where competition is relatively weak would tend not to reflect those benefits.

2.17 Relative price regulation is a form of regulation that attempts to address the related issues of undue discrimination and the pass through of the benefits of the more competitive parts of the market to customers in the less competitive part. Broadly, it would involve the identification of a 'marker' tariff seen to be offered in the relatively competitive sector and a 'target' tariff seen to be offered in the less competitive sector. Relative price regulation would require that the target tariff be linked to the marker tariff, such that reductions in prices for the marker tariff would be reflected in prices for the target tariff.

Respondents' views

2.18 Of the PESs, two were in favour of relative price regulation. Two saw some merit or favoured further exploration of the idea. 8 commented that relative price regulation was impractical or open to gaming, and generally preferred a continuation of the existing form of control, if regulation were to continue. Six out of nine ECCs said they either disliked relative price regulation or preferred the existing form of control. Again, reasons for disliking it included concerns about gaming and the practicalities of operating the regime. Two ECCs preferred relative price regulation. Of four other respondents, three expressed a dislike for relative price regulation or a preference for the existing form.

Discussion

2.19 Regarding the electricity industry, the market for small business customers is relatively competitive. The market for domestic customers

is at present less competitive. A possible form for relative price regulation therefore would be to define the marker tariff as a (weighted) index of prices offered to small business customers. Adjustments would be required for appropriate regional differences, such as differences in DUoS and TUoS charges. The target tariff might be a Standard Domestic tariff. The link between the two might for example be that domestic prices should fall at least as fast as the index.

2.20 In setting such regulation, it would be important to determine the appropriate link between the marker and target tariffs. The link should for example reflect appropriate differences in the costs of purchasing electricity for the two tariff types and differences in the supply business costs. Specifying such a link would therefore require a detailed analysis of the relative costs of supplying each type of tariff.

2.21 In principle, this form of regulation might deliver the benefits outlined above by providing a clearer guide on the issue of undue discrimination and passing on the benefits of competition to the less competitive sectors of the market. It may also offer incentives to companies to achieve efficiency savings in the relatively less competitive sectors than might otherwise be achieved.

2.22 There is a risk however that this form of regulation might create inappropriate incentives for companies. A marker tariff in a portion of the market that is relatively unimportant to a company linked to a target tariff in a more important sector might discourage competitive behaviour towards marker tariff customers.

2.23 Other inappropriate incentives may include the increased use of 'affinity deals'. This is where the PES offers non-price or near non-price incentives to customers, such as air mile points or holiday offers, in order to attract or retain custom. Under relative price regulation, PESs

might have an incentive to offer affinity deals along with marker tariffs in order to prevent price offers being passed into target tariffs. The difficulty of valuing affinity deals would complicate the question of enforcing the link between the marker and target tariffs.

2.24 Linking prices to a competitive marker tariff would make difficult the prediction of the prices that protected customers are to pay. While this would be true of any market where prices are determined competitively, in the context of the developing competitive electricity market, stable and relatively predictable prices are a useful guide for both customers and competitors entering the market.

2.25 Relative price regulation offers some potential advantages in passing on the benefits of a relatively competitive sector to customers in a relatively uncompetitive sector. It would tend to offer maximum benefits where the competitive sector is large compared to the uncompetitive sector, and where the cost relationship between marker and target tariffs are relatively clear. In the emerging competitive electricity market, it is not sufficiently clear that conditions would allow the maximum benefits of this form of regulation to be realised. A significant number of respondents have also expressed doubts as to this form of regulation, preferring instead the previously used RPI-X form. In any case, it may be possible, as discussed in paragraphs 4.17 to 4.20, to structure the operation of an RPI-X control such that some benefits of the competitive market are passed on to customers in the less competitive part of the market. For these reasons, Ofgem does not at present propose to implement relative price regulation.

Option 3 – Removing price restraints

2.26 For customers adequately protected by competitive forces, one option for reform is to remove price restraints. The June consultation paper

explained that there would remain additional regulatory safeguards for these customers, based on condition 4A of the PES licence and competition legislation. It remains Ofgem's view that the development of the competitive market and the eventual removal of price restraints will offer the best long term protection of customers' interests.

Respondents' views

2.27 All PESs and most other electricity suppliers favoured the eventual removal of price controls. Most however recognised the need for some form of interim protection for vulnerable and/or domestic customers. Conversely, the ECCs unanimously considered that competition is insufficiently developed and so some form of price control should remain in place for the time being. Of the remaining respondents, most supported some form of continued price control.

Discussion

2.28 Experience in the sectors of the market where price controls have been removed and customers are able to choose suppliers tends to suggest that there have been benefits to these customers. The June consultation paper suggests for example that prices paid by medium sized industrial customers have fallen by about 23 per cent in real terms since April 1994.

2.29 Evidence discussed in Chapter 3 suggests that customers in the domestic sector are not yet receiving the full benefits of competition. To remove all price restraints from this sector of the market risks leaving domestic customers to face higher prices than otherwise might be the case.

2.30 The June consultation paper noted that it was likely that the assessment of competition would identify particular customer groups for whom

competition is beginning to deliver significant benefits and for whom it may be feasible to remove from the coverage of the price restraints. Evidence from Chapter 3 suggests that designated small business customers may be one such group. Ofgem's initial proposals therefore do not provide for direct price restraints for this group of customers.

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3 THE ASSESSMENT OF COMPETITION

Background

3.1 The Electricity Act 1989 provided the framework for the introduction of competition in the electricity supply market. Since 1990, customers with a maximum demand of over 1 megawatt (MW) have been able to take electricity either from their local PES, or from a competing 'second tier' supplier. Competition was extended to all customers with a maximum demand greater than 100kW from 1 April 1994. The remainder of the market was opened to competition over the period September 1998 to May 1999. As a result, all electricity customers are now able to choose their electricity supplier. By the time the present price restraints expire on 31 March 2000, all markets will have been open for at least 10 months.

3.2 Competition is a primary protector of customers' interests. Where competition is fully effective, there is generally little need to protect customers through specific price and service regulation. The non-discrimination provisions in the supplier licences and general competition law may then be expected to provide sufficient safeguards.

3.3 The June consultation document summarised the objectives and approach for considering the development of competition in the designated electricity market. In considering the development of competition, it may be appropriate to consider the following indicators:

- customer behaviour – customer switching and awareness;
- supplier behaviour – for example, entry, exit, market share and so on;

- the range of offers available from new entrants, including price savings, innovative products, standards of service and market coverage;
- whether incumbents base their business decisions on the behaviour of their competitors;
- the feasibility of competitors mounting an effective challenge;
- potential barriers to the development of effective competition; and
- the prospects for the future development of competition.

3.4 Most PESs supported the range of indicators for assessing the development of competition as set out in the June consultation paper. Some PESs noted that it was important to use a range of indicators broader than simply switching behaviour or market share. Three PESs identified customer awareness as an important factor in the development of effective competition. Of the ECCs that commented, most supported the use of the range of indicators for assessing the development of competition as set out in the paper. Concerning the use of indicators for assessing the development of competition, one other respondent noted that switching behaviour should not be taken in isolation. Another respondent suggested that an additional useful indicator would be to monitor customer experience by customer class within each PES.

3.5 Some respondents commented that a number of those customers that continued to be supplied by the incumbent PES were actively deciding not to change supplier. Two PESs commented that customer satisfaction was an important consideration in examining the benefits of competition.

3.6 The June 1999 paper *Review of the Development of Competition in the Designated Electricity Market* examined the early development of competition in the under 100kW sector. The conclusions of this document are complemented by the results of the recent MORI survey

undertaken on behalf of Ofgem. This survey examines the behaviour and awareness of domestic electricity customers. The remainder of this chapter examines some of the relevant findings from these documents.

3.7 The decision to extend price regulation for a further period will depend on the extent to which competition has developed or is likely to develop towards effective competition for all classes of customers. This will require an examination of the development of competition at three distinct levels.

- aggregate level – examining the experience of all customers with a demand less than 100kW;

- customer type – focusing on the experience of different customer groups, in particular domestic and small business customers; and

- payment type – examining the experiences of customers using different payment methods.

Customer Behaviour

3.8 Effective competition depends on customers having a choice of different products and services from a range of competing suppliers. More importantly, effective competition relies on customers being sufficiently well informed to exercise that choice effectively.

Table 3.1 - Proportion of customers that have changed or registered to change supplier (1 July 1999)

PES	Customers (%)	Weeks Since Market Opened
Eastern	11	43
East Midlands	10	28
London	10	30
Manweb	10	43
Midlands	10	37
Northern	9	36
NORWEB	8	32
SEEBOARD	10	37
Southern	7	24
SWALEC	9	26
South Western	5	32
Yorkshire	9	43
ScottishPower	6	43
Hydro-Electric	7	35
Average	9	-

Source: PES Registration Data

Customer Switching

3.9 The number of customers changing supplier has increased steadily since competition was extended to the under 100kW sector in September 1998. By 1 July 1999, around 2.2 million customers had registered to change supplier with around 6 per cent of all customers having completed registration and changed supplier. Table 3.1 shows the proportion of customers with a demand less than 100kW that have registered to change supplier in each of the 14 PES areas. The table shows that the pattern of customer movement is broadly consistent across all PES areas despite the phased introduction of competition.

3.10 These figures show an appreciable take up by alternative suppliers, although the incumbent PESs still remain dominant in the supply of electricity to all customers with a demand below 100kW. These broad percentages however conceal differences between customer categories.

Table 3.2 - Customer switching behaviour by customer type (1999)

	Domestic		Small Business		Other Non-Domestic		Total	
	1 April %	1 July %	1 April %	1 July %	1 April %	1 July %	1 April %	1 July %
GB Average	2.3	5.6	3.4	6.4	8.5	14.4	2.3	5.7
Highest PES	5.0	8.2	5.9	10.0	14.9	21.1	5.0	8.2
Lowest PES	0.4	2.3	1.7	4.1	2.4	6.5	0.5	2.6

Source: Competitive Market Survey
Note : 'Small Business' means customers taking non-domestic unrestricted and restricted load profiles

3.11 Table 3.2 show the switching behaviour of domestic and small business customers. By 1 July 1999, around 6 per cent of all domestic customers had changed electricity supplier. A similar proportion of small business customers had also changed supplier over the same period.

3.12 The experience of domestic and small business customers does however differ at the PES area level. No fewer than 4 per cent of small business customers had changed supplier by 1 July 1999. In comparison, some PES areas show as little as 2 per cent of domestic customers as having changed supplier.

Customer behaviour and payment method

3.13 The behaviour of customers using different payment methods is also relevant in considering the development of the market towards effective competition. At present some 7.8 million customers pay for their electricity by direct debit, with a further 3.8 million using a prepayment meter. The recent MORI survey suggested that those paying by direct debit were among the group of customers most likely to change supplier. In contrast, domestic prepayment customers were among the group least likely to change supplier.

3.14 Table 3.3 shows the behaviour of customers according to their payment type. By 1 July 1999, 7 per cent of all direct debit customers had changed supplier. In contrast, only 2 per cent of all prepayment meter customers had changed supplier over the same period.

Table 3.3 - Customer Switching by Payment Types (1 July 1999)

	Payment Method		
	Direct Debit %	**Prepayment %**	**Other %**
GB Average	7	2	6
PES Maximum	12	4	9
PES Minimum	4	0	2

Source: Competitive Market Survey

3.15 The experience of customers using different payment methods does however differ across PES areas. No fewer than 4 per cent of direct debit customers had changed supplier by 1 July 1999. In some areas as few as 2 per cent of those customers using typical cash payment methods had changed supplier. In contrast no more than 4 per cent of prepayment meter customers had changed supplier in any one area.

Customer awareness

Domestic

3.16 During January and February 1999, MORI interviewed about 1200 domestic customers in those areas open to competition by the end of December 1998. The survey results suggest that basic awareness of electricity competition is high among domestic customers. However, only about half of respondents felt well informed about the changes that had occurred in the electricity market. Those customers least informed about competition tended to be from less well off groups. More than half of low income customers and customers in social classes D and E felt that they were not very well informed.

3.17 The basic awareness of electricity customers can be compared with the results of initial surveys of gas competition undertaken by MORI. The proportion of customers who felt very or fairly well informed about gas competition was rather higher.

3.18 Awareness of the number of suppliers was limited among domestic customers. More than half of respondents to the MORI survey could only name one or two suppliers operating in their area.

3.19 The awareness of customers appears to differ between different classes of customer. The MORI survey found that almost two-thirds of direct debit customers felt that they broadly understood how the newly competitive market worked. In contrast, around half of prepayment meter customers felt that they did not understand how the market worked.

Non-Domestic

3.20 The evidence suggests that basic awareness of electricity competition is high within the domestic sector of the electricity supply market. It is difficult to reach any firm conclusions about the level of customer awareness in the non-domestic sector. Ofgem does not perceive that the level of customer awareness would be lower across non-domestic customer groups relative to awareness in the domestic sector.

3.21 Non-domestic customers will tend to have a higher commercial awareness and therefore an appreciation of the benefits afforded by competition, especially where electricity consumption accounts for a significant proportion of their costs. The success of earlier phases of competition, most recently the introduction of competition for non-domestic customers with a maximum demand less than 100kW, will

have increased the awareness of some smaller non-domestic users. It is however for consideration whether customer awareness differs significantly across smaller non-domestic users.

Customer satisfaction

3.22 A number of respondents to the June consultation document commented that a number of customers were actively choosing not to change supplier. The MORI survey found that a large proportion of non-switchers felt that they had no reason to change supplier. Around 90 per cent of non-switchers also commented that they were satisfied with the quality of service they received, with over half indicating that they were very satisfied. About 80 per cent of non-switchers indicated that they were unlikely to change supplier within the next 12 months.

Barriers to customer switching

3.23 Effective competition also depends on customers having sufficient freedom of action. The existence of barriers to customer switching may therefore distort the development of the competition.

3.24 Barriers to customer switching may include :

- customer behaviour, especially habit or trust in their present supplier;
- difficulties in making comparisons between suppliers, in terms of price and quality of service; and
- levels of effort required to change supplier, especially if price savings are low or an initial change proves unsatisfactory.

3.25 These factors are likely to be relevant to the electricity supply market. In addition, there may be barriers specific to the electricity industry, for example:

- price regulation;
- special terms – for example, affinity deals or dual fuel offers aimed at retaining customers; and
- change of supplier practices.

3.26 The impact of both general and specific barriers to customer switching must be considered in assessing the need for further regulatory controls. If these barriers have a minimal impact on switching or are likely to be addressed in the near future then the need for price regulation is reduced. If further price regulation is considered to be appropriate, it is important that it does not become a barrier to customer switching.

3.27 There is some evidence of the existence of general barriers to customer switching. The MORI survey found that three-quarters of non-switchers cited 'no reason to change/am satisfied with my supplier' as their reason for not changing supplier. This was particularly true of the elderly and those customers with small electricity bills. The lack of incentive and information were identified as major factors influencing customers' decisions. Qualitative research also found that around a quarter of non-switchers were also suspicious that lower prices would not be maintained in the future.

3.28 Respondents to the MORI survey were questioned about the comparability of electricity prices. About a third of respondents indicated that price comparisons were difficult, with only a third stating that they found them very/fairly easy to compare. The main reason why customers found prices difficult to compare prices was a lack of information.

Barriers to Entry

3.29 The relative ease with which suppliers can enter the market will in part determine the strength of competition in the market. There may be barriers that inhibit such entry and so an assessment of the relative strength of such barriers is necessary when determining the future development of the competitive market. Relevant barriers to entry include:

- integration of PES distribution and supply activities;
- difficulty in obtaining price hedging contracts for generation purchases; and
- administrative barriers.

3.30 There are indications that these perceived barriers are gradually being reduced. Ofgem proposals for the separation of businesses for example should reduce any adverse consequences for competition from the integration of PES supply and distribution activities. The implementation of the Review of Electricity Trading Arrangements should enable the striking of bilateral contracts between generators and suppliers.

Prices and pricing behaviour

3.31 The recent MORI survey found that price is the over-riding consideration in the decision to change supplier, similar to the experience in gas. Useful indicators of the development of competition include comparison of the price savings available to different customer groups relative to the prices offered by the incumbent PES, and the extent to which PESs are pricing at or below the level allowed by the present restraints.

Table 3.4 - Achievable savings for a Standard Domestic customer[1,2]

	1000 kWh		
	Average Saving	Average Maximum Saving	Average Minimum Saving
Direct Debit	0%	12%	(9%)
Quarterly Credit	(2%)	10%	(12%)
Prepayment	(12%)	6%	(43%)

	3300 kWh		
	Average Saving	Average Maximum Saving	Average Minimum Saving
Direct Debit	4%	10%	0%
Quarterly Credit	3%	9%	(1%)
Prepayment	(6%)	6%	(27%)

	6000 kWh		
	Average Saving	Average Maximum Saving	Average Minimum Saving
Direct Debit	5%	12%	(1%)
Quarterly Credit	5%	12%	(1%)
Prepayment	(3%)	7%	(23%)

Notes : 1. Excludes dual fuel and prompt payment offers.
2. Brackets indicate other suppliers more expensive than incumbent PES

Domestic

3.32 Annex C shows the range of achievable price savings for a standard domestic tariff customer in each PES area for a variety of payment methods and consumption levels. Table 3.4 summarises the scope of price savings available to domestic customers in Great Britain.

3.33 The table suggests that the range of price savings available to domestic electricity customers is dependent upon the payment method. There are only a small number of suppliers that offer any price savings to prepayment meter customers and these tend to be modest. In contrast, a

direct debit customer will on average expect savings of up to 12 per cent.

3.34 Tables C.1 to C.3 suggest that there are modest price savings available to all domestic customers. It is however important to consider how customers perceive the prices offered by new suppliers. The MORI survey found that only 25 per cent of respondents perceived the prices offered by competitors to be lower than those offered by the host supplier. However, switchers were found to have a better appreciation of the potential cost savings, with around 70 per cent commenting that prices are lower. MORI studies of the early stages of domestic gas competition indicated that about half of respondents perceived competitors' prices to be lower.

Comparison with gas

3.35 To put these price comparisons in to context it is useful to compare the savings in the domestic electricity market with the savings available during the early stages of domestic gas competition. Table 3.5 shows the typical savings available to domestic gas customers shortly after the roll out of gas competition had been completed.

Table 3.5 - Range of price savings available to domestic gas customers (Aug 1998)[1]

	Average Saving %	Minimum Saving %	Best Saving %
Direct Debit[2]	8	2	12
Standard Payment[3]	17	7	21
Prepayment[4]	2	(11)	7

Source: Suppliers' published tariffs

Notes:
1. Excludes tariffs for supplies to Independent Public Gas Transporters' Networks; tariff with no standing charge; and tariffs not available nationally.
2. Savings calculated for a customer consuming 691 Therms per year.
3. Savings calculated for a customer consuming 614 Therms per year.
4. Savings calculated for a customer consuming 425 Therms per year.

3.36 The achievable price savings were typically higher during the early stages of gas competition compared with the price savings presently available to domestic electricity customers.

Dual Fuel

3.37 One characteristic of the development of competition has been the introduction of 'Dual Fuel' offers for both gas and electricity supply. Dual fuel offers may allow customers to achieve modest savings on the combined energy bill. The recent MORI survey found that of the respondents that had changed supplier, around half considered the availability of dual fuel deals an important consideration.

3.38 There are 15 suppliers presently offering dual fuel deals across all areas of the country. Of these, 5 suppliers offer discounts of around £10 to £15 for customers taking combined supply of gas and electricity. The remaining suppliers do not offer additional discounts for taking a supply of both gas and electricity.

Small business price comparisons

3.39 Annex D shows the range of achievable price savings for a standard non-domestic tariff customer in each PES area for a variety of payment methods and consumption levels. Table 3.6 below summarises the average savings available to customers in Great Britain.

3.40 The table shows that the range of price savings available to small business customers is broadly comparable across all consumption levels and payment types. Significant savings are obtainable with some suppliers offering discounts of up to 16 per cent. These price savings are available across a range of different payment methods and consumption types.

Table 3.6 - Typical savings for a non-domestic standard tariff customer[1]

	3300 kWh		
	Average Saving	Average Maximum Saving	Average Minimum Saving
Direct Debit	6%	16%	(4%)
Quarterly Credit	6%	16%	(6%)

	6000 kWh		
	Average Saving	Average Maximum Saving	Average Minimum Saving
Direct Debit	7%	16%	0%
Quarterly Credit	7%	16%	(2%)

	12000 kWh		
	Average Saving	Average Maximum Saving	Average Minimum Saving
Direct Debit	7%	16%	(1%)
Quarterly Credit	7%	16%	(1%)

Notes : 1. Excludes dual fuel and prompt payment offers.
2. Brackets indicate other suppliers more expensive than incumbent PES

PES prices against those allowed by the maximum price restraints

3.41 The June consultation paper noted how PESs had priced against the levels allowed under the maximum price restraints in 1998/99 and 1999/00. Taking into account all designated customers, PESs had priced at about the level allowed in both 1998/99 and 1999/00. Only three PESs, Eastern, Midlands and Yorkshire, had priced significantly below the level of the cap for Standard Domestic customers. Midlands had done so partly to meet an anticipated further tightening of the restraint related to the previous supply price control.

3.42 Most PESs reduced prices further from 1 April 1998 for non-domestic tariffs than required by the restraints. This suggests that the sub-cap for this sector may have been set at too high a level. It may also provide

indirect evidence that competitive pressures for the non-domestic sector are stronger than for the domestic sector.

Non-price competition

3.43 A number of PESs have introduced a variety of schemes offering a range of benefits and incentives in order to attract and retain customers. These schemes enable suppliers to differentiate themselves from other competitors, particularly when achievable price savings are very low. The introduction of innovative schemes can therefore be considered a positive indication of the development of competition.

Supplier Behaviour

3.44 There are 20 suppliers licensed to supply electricity to customers with a demand below 100kW. Of these, all 14 PESs and 5 new suppliers are licensed to supply designated customers. Despite the number of suppliers licensed to operate in the below 100kW sector, not all are active in each PES area. Around a third of suppliers appear to have adopted a national customer acquisition strategy, targeting each PES area as it has been opened to competition. These include BGT and Independent Energy, which have already taken a significant share of domestic electricity customers changing supplier.

3.45 Of the remaining suppliers, many are PESs that have focused on acquiring customers in areas which are adjacent or close to their own. This approach capitalises on regional customer awareness about the suppliers' brand through regional advertising and so on.

3.46 In the small business market the number of suppliers actively targeting customers is generally higher than the domestic market. Again

Independent Energy has attracted a relatively large proportion of customers changing supplier.

Respondents' views

3.47 Most PESs indicated that in their opinion the competitive market was developing well and rapidly. Four PESs noted that the market had developed differentially for different customer groups, and that perhaps these customer groups were benefiting differentially. One PES for example suggested that the competitive market was still immature.

3.48 Broadly speaking, ECCs expressed concerns about the pace of the development of competition and the benefits it may be delivering to customers. In particular, some ECCS noted that there had not to date been a high level of switching and that the savings on offer were modest. Some ECCs also suggested that disadvantaged customers and prepayment meter customers were receiving fewer benefits than other customers.

3.49 Regarding the development of competition, most other respondents noted that the under 100 kW market remained in the early stages of development. One respondent suggested for example, that a switching rate of 6 per cent was not high. Another respondent argued that a number of barriers to entry were inhibiting the development of competition.

3.50 Most PESs expressed support for the removal of maximum price restraints. However a number of PESs commented that they would support some form of price regulation limited to domestic customers. In this context, most PESs supported a two-year price control. The ECCs supported some form of continued price regulation covering all domestic and small business customers, possibly for one or two years.

Of the seven other respondents, five supported continue price regulation limited to all, or a subset of, domestic customers.

Conclusions

3.51 The evidence above suggests that competition in the below 100kW sector of the electricity supply market has delivered, or appears likely to deliver, general benefits to customers before April 2000. By September 1999, 12 per cent of customers with a demand below 100kW had changed or registered to change electricity supplier.

3.52 Despite the benefits of competition, there is no evidence to suggest that all customers are benefiting sufficiently to justify the complete removal of price regulation.

3.53 The evidence suggests that small business customers have greater savings available to them compared with domestic customers, and that they are switching supplier at a slightly greater rate. This suggests that it may be appropriate not to extend revised price restraint arrangements to these customers. Nevertheless, these customers will continue to be protected by non-discrimination conditions.

3.54 Domestic customers are clearly benefiting from the introduction of competition. The extent to which customers benefit is however largely dependent upon payment type and their consumption level. The range of offers available to customers using prepayment meters is not so great as those offers available to customers willing or able to pay by direct debit. Prepayment customers are also among the group least well informed about how the newly competitive market works. As a result, the proportion of prepayment meter customers that have changed electricity supplier is significantly lower than for other customer groups.

3.55 Although there is evidence that other domestic customers are benefiting from the development of competition, it is not certain that this will be sufficient to protect customers' interests. The development of domestic competition to date has depended to some extent on the development of competition in the domestic gas market, a position that is likely to be unsustainable in the long term. However, present evidence suggests that competition has not developed sufficiently to protect the interests of all domestic customers. There is a need therefore for some form of continued price regulation to protect the interests of domestic customers.

4. SETTING REVISED PRICE RESTRAINTS – OVERVIEW

Introduction

4.1 The present price restraints were set in order to protect the interests of designated customers during the transition to the complete opening of the competitive market. They were of the form of a direct restraint on average prices, the level of the restraint moving forward at the rate of RPI-X. The form of the restraints provided for no pass through of outturn costs. This provided an incentive for companies to purchase efficiently, particularly with regard to electricity generation.

4.2 The two year duration of the restraints was intended to reflect the need for interim protection of customers' interests. A two year duration also reflected the view that the competitive market might develop rapidly initially, and that it would be appropriate to review the experiences of customers after a relatively short time.

4.3 The level of the restraints was set with a view on how future cost components might move. This included an assessment of future generation purchase costs and a view on the costs of, and appropriate margins on, running an electricity supply business.

4.4 Initial proposals for the form and duration of revised price restraints are broadly consistent with the present restraints. The following paragraphs set out the reasoning behind this and also set out the basis for the calculation of the level of revised price restraints. Subsequent chapters review the detail of the calculation of the level of revised price restraints.

Scope

4.5 Chapter 3 set out how competition has developed since the opening of the market to the remainder of all electricity customers and how different groups of customers have fared. It suggested that the experience of domestic customers has been mixed. Overall, domestic customers have seen savings on offer, and a significant proportion of customers have changed supplier. On the other hand, host PESs remain the main supplier to domestic customers within each PES area. Some domestic customer groups such as prepayment meter customers have also reaped fewer and smaller savings compared to their host PES than have other groups. The evidence tended to suggest that small business customers, who are at present designated customers, are obtaining significant price benefits from the opening of the market and are switching at a slightly faster rate than domestic customers.

4.6 The evidence at this time suggests that it is appropriate to continue to protect directly the interests of domestic customers. It is proposed therefore that maximum price restraints apply to Standard Domestic and Domestic Economy 7 tariffs.

4.7 Other domestic customers will continue to receive protection through the operation of non-discrimination and other supplementary conditions. It is anticipated for example that domestic customers paying by direct debit should face prices at or below those implied by the equivalent price restrained tariff.

4.8 Ofgem initially proposes not to extend direct protection to non-domestic customers. Such customers will receive indirect protection through the operation of non-discrimination conditions.

Form

4.9 Chapter 2 discussed the options for forms of control. It concluded that the most appropriate form of control under present circumstances would be an RPI-X type maximum price restraint.

4.10 Taking this together with the reduced scope of the control suggests that an appropriate form of control would be a direct restraint on the prices of principal domestic tariffs available to all domestic customers. PESs would be required to offer these tariffs to all domestic customers. An appropriate arrangement would be a price restraint on all Standard Domestic and Economy 7 tariffs, since at present all PESs offer these tariffs. It is for consideration whether small business customers should be allowed supply on similar terms.

4.11 The maximum price restraints for these tariffs will include a view on the appropriate level of costs. A pass through for outturn costs remains inappropriate.

Duration

4.12 The rapid development of the competitive market would tend to point to a shorter control for maximum price restraints, of perhaps 1 or 2 years. Shorter controls also reduce the risk that future projections of costs that underlie the level of restraints differ significantly from the outturn.

4.13 Generation purchase costs are a major component of final tariff prices, and so it is also important that the duration of restraints takes account of likely future developments. The present Review of Electricity Trading Arrangements (RETA) has proposed that new trading arrangements for the wholesale of electricity are introduced from October 2000. Such

revised trading arrangements are likely to have a significant impact on the level and pattern of wholesale prices. Similarly the timing and size of benefits from the revised trading arrangements in Scotland, outlined in Ofgem's October 1999 consultation paper, are unclear.

4.14 Of the PESs that expressed an opinion on the appropriate duration for revised price controls, the majority were supportive of a two year control. Of the ECCs, most said that a two year control was appropriate, with some suggesting a longer control. Other respondents that put forward an opinion mostly supported a two year control.

4.15 It is proposed therefore that revised restraints be put in place until the end of March 2002, that is, for a period of two years. This will enable sufficient time for the competitive domestic market to continue to develop, and for the impact of the revised electricity trading arrangements to become clearer.

4.16 In addition to the operation of price restraints over the two years, customers will continue to receive protection from legislative and licence conditions preventing, for example, PESs from exercising undue discrimination. Legislative protection is given by the Electricity Act 1989 and the Competition Act 1998. The June consultation paper described these non-discrimination conditions.

4.17 These conditions may be particularly important given that one disadvantage of revised price restraints is the risk that encountered generation costs move outside the range assumed in setting the restraints. The non-discrimination conditions would prohibit for example PESs from passing reductions in generation costs to some types of domestic customers in their area and not others. The conditions would tend therefore to encourage PESs to pass on the benefits of any purchase

cost reductions both to customers in the more and less competitive parts of the market.

4.18 It is for consideration whether the existing conditions provide a sufficiently strong incentive for PESs to pass on any reductions in generation costs over and above that assumed in setting restraints. Ofgem will continue to consider stricter enforcement of the existing provisions to prevent discriminatory pricing and, if necessary, whether licence modifications following the review should include strengthened powers for the DGES in respect of generation costs and non-discrimination issues.

4.19 A further means of ensuring adequate protection of price protected customers' interests might be to agree new licence conditions that enable the DGES to determine prices in the event that generation costs move significantly outside the range assumed in setting restraints.

4.20 In any case, it will be important to monitor generation purchase costs over the period that the restraints are in operation. Ofgem will continue for example to monitor Pool prices and in due course, terms offered under revised trading arrangements. It is also proposed that each PES provides regular statements to the DGES setting out its encountered generation purchase costs for the previous period and offers in respect of the forthcoming period. Such statements would relate to the PES's entire supply business, include hypothecation of total generation purchase costs to the separate parts of the market, and contain details of the PES's present hedging contracts. Ofgem would propose to publish such reports provided that any appropriate issues with regard to confidentiality were respected.

Level

4.21 The approach taken in setting indicative levels of the price restraints has been to consider the likely future component costs for Standard Domestic and Domestic Economy 7 tariffs. Generation purchase costs can be assessed for a standard domestic customer, for example, by considering the annual purchase profile of a standard domestic customer. Distribution and transmission use of system costs can be based on published charges for 1999/00, appropriately rolled forward to the year 2000/01. Supply business costs and margins can be assessed on the basis of the average costs of supplying a domestic customer.

4.22 The following chapters set out an initial assessment of these components. Chapter 8 brings these elements together and puts forward initial price restraint proposals for the PESs.

5. SETTING REVISED PRICE RESTRAINTS – GENERATION COSTS

Introduction

5.1 Generation purchase costs account for about 50 per cent of a standard domestic customer's final annual bill, excluding VAT. The June consultation paper noted that this proportion has risen over time as other components have fallen. The paper also set out the background to the generation market and how future generation costs might be assessed for the purposes of setting any revised price control. The rest of this chapter sets out an initial assessment of generation purchase costs in the context of Ofgem's intention to set a cap which permits the competitive market to develop.

General approach

5.2 A PES's total generation purchase costs will be influenced by a range of factors including at present the following :

- the mix of customers supplied;
- the demand profiles of those customers;
- wholesale ('Pool') prices;
- contract terms available from generators; and
- the PES's overall strategy in selecting a purchase portfolio (including Independent Power Projects (IPPs)).

5.3 The revised maximum restraints will apply to Standard Domestic and Domestic Economy 7 tariffs. One way of setting an appropriate allowance for generation purchase costs within the level of the revised restraint is to consider the generation purchase costs associated with these two tariffs.

5.4 Generation purchase costs for a particular customer group are significantly influenced by the demand profile (also called load profile) for that customer group. The Pool has defined, for customer groups that typically do not have half hourly metering, standard national load profiles, in order that payments can be reconciled between suppliers and generators in respect of supply to these customers. The load profile called the 'domestic unrestricted' specifies the demand taken by a Standard Domestic customer in each half hour in each of a set of standard days. The 'domestic restricted' profile approximates the consumption pattern of, among others, Domestic Economy 7 tariffs.

5.5 To the extent that a PES's individual load profiles differ from the relevant national load profile, its generation costs may differ from those implied by using the national average. It is for consideration whether the initial proposals require adjustment for this factor.

5.6 It is possible to estimate Pool purchase costs associated with the two main domestic tariffs by multiplying half hourly load profile demands by the relevant half hourly Pool price. The Pool Selling Price component for the domestic unrestricted profile was in 1998/99 £28.75/MWh of electricity purchased. This compares with a national demand weighted PSP for that year of £27.09/MWh.

5.7 PESs enter into contracts with generators and other parties in order to hedge against Pool price risk. The final payment for electricity purchases often exceeds the Pool price, and can be considered a premium payment. In estimating the forward costs for the two domestic profiles therefore it is necessary to estimate and add an appropriate premium to the Pool costs for those profiles.

Historic generation costs

5.8 The supply price control in operation until March 1998 applied to all customers with a maximum demand of less than 100 kW. The present restraints were set with reference to this customer set. Other customers could take competitive supply. The 100 kW threshold therefore gives a convenient division between PES customers for the review of historic generation purchase costs.

5.9 Table 5.1 sets out how generation purchase costs for the under 100 kW sector have changed over time.

Table 5.1 - PES generation purchase costs for the under 100 kW market (Pence / kWh 1998/99 prices)

	Generation Costs	Generation Costs	Generation Costs	Change 1994/95 to 1998/99
PES	**1994/95**	**1997/98**	**1998/99**	**%**
Eastern	4.35	4.24	3.95	-9.2
East Midlands	4.13	4.03	3.45	-16.5
London	4.34	4.07	3.45	-20.4
Manweb	4.42	4.23	3.58	-19.1
Midlands	4.27	4.18	3.61	-15.7
Northern	4.34	4.23	3.88	-10.5
NORWEB	4.15	4.10	3.52	-15.1
SEEBOARD	4.22	4.00	3.59	-15.0
Southern	4.25	4.06	3.73	-12.1
SWALEC	4.23	4.22	3.63	-14.2
South Western	4.12	3.88	3.65	-11.3
Yorkshire	4.29	4.10	3.52	-18.1
Scottish Power	5.14	4.09	3.68	-28.5
Hydro-Electric	5.02	4.17	3.64	-27.5
Unweighted mean	4.38	4.11	3.63	-16.9

Note : Figures include amounts in respect of TSP

5.10 Generation purchase costs for this sector of the market have fallen significantly. This partly reflects falling Pool prices. Demand weighted Pool Purchase Price (PPP) in 1994/95 was £29.73/MWh, £28.35/MWh in 1997/98, and £26.71/MWh in 1998/99 (all in 1998/99 prices), giving a real reduction over the period of about 10 per cent. Reductions will also reflect PESs' contracting strategies, reductions in contract premia paid and the ending in March 1998 of contracts placed at Vesting designed to support the use of coal in electricity generation.

5.11 PESs have historically tended to achieve greater reductions in the average generation purchase costs for the whole of their supply businesses than for the under 100kW sector. The introduction of maximum price restraints on 1 April 1998 however provided incentives for companies to reduce generation costs for the under 100kW sector by more than the level assumed by Ofgem. Recent reductions in generation purchase costs for the under 100kW sector have in general exceeded those achieved for the whole of the supply business. Between 1994/95 and 1998/99, PESs' average generation purchase costs for the whole supply business fell by 14 per cent in real terms. PESs' average generation costs for the under 100kW sector fell by 17 per cent in real terms over the same period, of which the reductions between 1997/98 and 1998/99 represent the largest proportion.

5.12 In their business plan submissions to Ofgem, PESs continue to forecast a modest fall in generation purchase costs, both for their supply businesses as a whole and for the under 100 kW first tier market. These reductions are also reflected in overall PES forecasts of Pool prices. Over the period 1998/99 to 2000/01 for example, PESs on average are forecasting a real reduction in generation purchase costs for the under 100 kW sector of about 3 per cent, and for the whole supply business of just under 3 per cent. Over the same period, PESs are forecasting a real terms reduction in Pool Purchase Price (PPP) of 1 per cent.

Assumed and outturn generation purchase costs

5.13 The present maximum price restraints were set on the basis of an assumption of how average generation purchase costs would change for the designated customers of each PES between 1997/98, the last year of the old supply price control, and 1998/99, the first year of the present maximum price restraints. In addition, the restraints assumed that generation costs would fall by 3 per cent in real terms between 1999/00 and 2000/01. Generation costs for designated customers were proxied by costs to the under 100 kW sector. Table 5.2 sets out the assumed and out-turn real reductions in generation costs.

Table 5.2 – Assumed and actual real reductions in per kWh generation purchase costs between 1997/98 and 1998/99 for the under 100 kW market

	Assumed real reduction	Out-turn real reduction	Difference
	%	%	%
Eastern	9.5	9.2	0.3
East Midlands	7.5	16.1	-8.6
London	7.8	15.1	-7.3
Manweb	7.7	16.6	-8.9
Midlands	8.4	13.9	-5.5
Northern	8.2	8.2	0.0
NORWEB	7.9	13.3	-5.4
SEEBOARD	6.7	9.0	-2.3
Southern	8.2	7.8	0.4
SWALEC	8.1	13.7	-5.6
South Western	7.4	5.7	1.7
Yorkshire	7.1	14.3	-7.2
Scottish Power	8.4	10.2	-1.8
Hydro-Electric	10.5	9.8	0.7
Average	8.1	11.6	-3.5

Source : PES business plans and Ofgem

5.14 On the basis of data provided by the PESs, most have achieved unit reductions in generation costs in excess of those assumed for the purposes of setting the price restraints. It seems reasonable therefore to set future restraints at a level which at least reflects the achieved reduction, in order to pass on the benefits of lower generation purchase costs to customers.

Long term contracts and IPPs

5.15 As noted above, PESs' generation purchase costs will be partly influenced by their strategy in constructing a portfolio of generation purchase contracts. A number of PESs have signed relatively long term contracts that hedge against Pool price volatility for a portion of the volume of their business. Some of these long terms contracts are with independent power projects (IPPs), as described in the June consultation paper.

5.16 Some PESs entered into these contracts in the expectation that they would hedge against future increased Pool prices. In the event, Pool prices have often turned out to be lower than expected and so net payments over and above Pool prices have generally been made. Long term contracts can be defined as all contracts with a duration over 5 years, and so include IPPs. Net payments on these contracts in 1998/99 added between 0 per cent and 17 per cent to a PES's whole business supply generation purchase costs.

5.17 One PES considered that its long term contract with an IPP, entered into prior to the full opening of the market to competition, would yield net costs for electricity purchased significantly above those available from the Pool or other contracting sources. This PES terminated the contract upon payment of a lump sum to the contracting parties involved. This yielded and is predicted to yield substantial savings on generation costs.

5.18 For vertically integrated PESs, the extent to which the contracts were internal to the organisation will tend to mitigate the effects of these net payments, because the generation business of the group merely benefits instead. In 1998/99, in aggregate, PESs were 30 per cent internally contracted.

Contract premia

5.19 In assessing an appropriate contract premium to add to Pool purchase costs, an appropriate guiding principle will be to have regard to the net premium paid by the PES over the whole of its generation purchase portfolio. Neither relatively expensive nor relatively inexpensive contracts should be apportioned to one part of the market over any other.

5.20 Table 5.3 sets out a variety of estimates of the contract premia. An estimate of the contract premium paid over the whole of the PES' supply is to divide total generation costs by the equivalent cost of direct purchases from the Pool. Column A of the table sets this out. Columns B and C exclude IPP and all long term contracts (with a duration greater than 5 years). An estimate of the total percentage net premium paid for the under 100 kW sector is shown in Column D. It should be noted that Column D is based on the PESs' allocation of generation costs to that sector as well as Ofgem's estimate of associated Pool costs.

Table 5.3 – Estimates of contract premia for 1998/99

Percentage	A	B	C	D
	Single Portfolio	**Single portfolio Excluding IPPs**	**Single Portfolio Excluding all Contracts > 5 yrs**	**Under 100 kW**
Eastern	17	17	17	27
East Midlands	7	4	4	15
London	7	7	7	6
Manweb	16	16	16	7
Midlands	9	6	6	14
Northern	12	8	8	18
NORWEB	8	6	6	14
SEEBOARD	11	10	6	14
Southern	8	5	5	17
SWALEC	10	6	6	15
South Western	13	11	0	15
Yorkshire	7	7	8	13
Scottish Power	10	9	9	20
Hydro-Electric	10	9	9	21
Unweighted mean	10	9	8	15

Source : PES business plans

5.21 Columns A to C represent each PES's overall generation purchase costs compared to the costs of purchasing from the Pool. Hence they are based on the overall effect of the set of hedging contracts, or single portfolio, of the PES. Such an approach will tend to reflect each PES's strategy of selecting contracts to fit with its whole supply business' generation purchase commitments. A PES may for example choose a particular hedging contract to reduce exposure to volatile winter Pool prices. It would be difficult to hypothecate the net costs of such a contract to one sector or another of the PES's supply market.

5.22 Column D however sets out a measure of net contract premia paid in the under 100 kW sector of the market. It would tend to suggest that contract premia exceed those calculated on a single portfolio basis. It is based on Ofgem's estimate of the associated Pool costs and the PESs'

allocation of generation purchase costs to this sector of the market. Contract premia so calculated are sensitive to such allocations. It would appear more reasonable therefore to base any measure of an appropriate contract premia on the basis of a single portfolio.

5.23 Paragraphs 5.15 to 5.18 above noted that IPP contracts have tended to increase PESs' generation purchase costs. Columns A to C support this view, suggesting that removing IPP contracts and to a lesser extent other long term contracts tends to reduce the overall premia paid.

5.24 There is also considerable variation between PESs. On an overall portfolio basis for example the minimum premium paid was 7 per cent, while the maximum was 17 per cent. This variation will in part reflect the uncertainties of contracting ahead against unknown Pool prices, but will also reflect relatively efficient or inefficient purchasing strategies.

5.25 It seems reasonable to set any allowance for a contract premium on the basis of a single portfolio measure. Furthermore, it would seem reasonable to set a single premium across all PESs. Setting a single premium on the basis of an average, for example, would tend to encourage PESs with relatively expensive contract portfolios to achieve savings. The upper end of any such premium would recognise the average cost of IPP and long term contracts. Such a premium would be of the order of 11 per cent. A lower end of the range for any such premium would recognise that in a competitive market, terms are available that exclude the costs of IPPs. This would tend to give a premium of the order of 7 per cent.

5.26 In attributing this premium to individual tariffs, a uniform uprate of 11 per cent has been applied to Pool costs. It is for consideration whether such an approach is reasonable, given the different profile of individual tariffs.

Future generation costs

5.27 Pool prices over the past few years have generally trended downwards. Real demand weighted PPP for example fell by just over 10 per cent in real terms between 1994/95 and 1998/99. These price movements reflect (but only partially) reductions in input prices, with the price of coal falling 26 per cent in real terms between 1994 and 1998, and gas prices falling by 17 per cent in real terms over the same period. Capital costs and the cost of capital have also fallen over a similar period. Over this time, the structure of the generation market has become more competitive. For example, in 1994/95 National Power and PowerGen together accounted for about 60 per cent of generation output. This had fallen to just under 40 per cent in 1998/99.

5.28 On a more recent basis, there is evidence to suggest that Pool prices are remaining relatively stable. Comparing the period April to August in 1998 and 1999, for example, the real PSP had increased by a modest 0.6 per cent. Input prices continue to remain stable. Recent plant divestments by National Power and PowerGen should reinforce the development of competitive pressures on prices within the Pool. Recent and current investigations by Ofgem into Pool prices should also tend to increase this pressure. As indicated in paragraph 5.12, in aggregate PESs are forecasting a modest real fall in Pool prices between 1998/99 and 2000/01.

5.29 It is anticipated that new electricity trading arrangements will be in place by October 2000. These arrangements, which are designed to facilitate bilateral contract negotiation and trading, should also promote increased competition. Further consents for gas fired stations, which may follow the implementation of new trading arrangements, would further reinforce this.

5.30 In summary, it seems reasonable to assume that pressures on Pool prices in the near future will be stable or downwards.

Respondents' views

5.31 Almost all respondents agreed that assessing future generation costs would be difficult and complicated by a number of factors. Respondents for example, cited the inherent difficulties of predicting price movements in the Pool, the Review of Electricity Trading Arrangements, plant divestment and the Government moratorium on new gas fired plant as reasons why assessing future generation purchase costs would be difficult.

5.32 Almost all respondents said that they were against the idea of generation purchase costs becoming a pass through item. The main reason put forward was that pass through would provide little or no incentive for PESs to purchase economically. Other reasons put forward included the view that cost pass through would require a hypothecation of overall generation purchase costs into the regulated and non-regulated sector, and that some form of subsequent correction factor for outturn costs would introduce uncertainty into prices for regulated customers.

5.33 Some PESs suggested that generation purchase costs in revised price restraints should be assumed to be at the same real level as those assumed in setting price restraints for 1999/00. Several PESs and one ECC suggested that any cap on generation costs within a price restraint should be accompanied by provisions in the price control that allow it to be reconsidered should outturn generation costs differ significantly from those assumed.

5.34 One respondent suggested that generation costs be set on the basis of a 'commodity price' to reflect the basic cost of a particular load profile, plus a 'flexibility price' to reflect contract costs. This is broadly similar to the Pool price and contract premia approach put forward above. The respondent suggested that the flexibility price should be in the region of 5 – 15 per cent of the commodity price.

5.35 Regarding the treatment of IPPs, some PESs argued for any additional costs that such contracts may have incurred to be allowed for in setting future price restraints. One PES and some other respondents argued against this. One respondent for example noted that PESs were aware of the advent of the competitive market when they signed such contracts. Another suggested that IPPs should be subject to independent review.

View on generation costs in setting maximum price restraints

5.36 It appears that during the duration of the present maximum price restraints, PESs have managed to purchase electricity at costs below the level assumed in setting the level of the restraints. On average, PESs are also predicting further, albeit modest reductions in unit generation purchase costs.

5.37 Developments in the wholesale generation market suggest that real increases in generation costs over the duration of the next price control are considerably less likely than significant real reductions. For example, it is anticipated that falling real primary fuel costs and revised trading arrangements will tend to put downward pressure on prices.

5.38 It also appears that the premia to be paid to secure hedges against variable Pool prices have both been falling and converging between the under and over 100 kW market sectors. This points to an allowance for contract premia of the order of 11 per cent.

5.39 It is appropriate therefore in setting an allowance for generation costs for the year 2000/01, in the context of the overall objectives for this review, to assume that wholesale prices will remain constant in real terms from their levels in 1998/99. For most PESs, this level is lower than that assumed in setting the present price controls.

5.40 It is necessary to set generation cost allowances for each of the principal price regulated tariffs. In order to estimate the generation costs for Standard Domestic and Domestic Economy 7 tariffs, calculations have been made based on national load profiles and 1998/99 Pool prices, with an addition of just under 11 per cent to represent appropriate contract premia. Prices also need to be uprated to reflect electrical losses between generation points and customer meters. In 1998/99 prices, therefore, an appropriate generation cost allowance in 2000/01 for a domestic unrestricted profile is on average £34.82/MWh, and for a domestic restricted profile is £29.66 / MWh.

6. SETTING REVISED PRICE RESTRAINTS – DISTRIBUTION AND TRANSMISSION USE OF SYSTEM CHARGES

Introduction

6.1 Distribution and transmission charges in 1998/99 together accounted for around one third to two fifths of a typical domestic customer's annual bill. Suppliers pay Distribution Use of System (DUoS) charges to distribution companies which pays for the local distribution of electricity from the national grid system to customers' premises. In England and Wales, suppliers pay Transmission Use of System (TUoS) charges to the National Grid Company (NGC) and this pays for the carriage of electricity from power stations to Grid Supply Points within each PES area. In England and Wales, TUoS charges are not separately identified in published tariffs. In Scotland, suppliers pay TUoS charges to the relevant Scottish PES for use of its transmission system, and these charges are separately identified in published tariffs.

6.2 Ofgem proposes, in setting revised restraints, to ensure that final prices to Standard Domestic and Domestic Economy 7 customers reflect published DUoS charges for those tariffs. Ofgem proposes to estimate TUoS charges that will prevail in England and Wales in 2000/01. In Scotland, final prices should reflect published TUoS charges. In order to calculate indicative levels for price restraints in 2000/01, it is necessary to estimate the level of published DUoS charges, and published TUoS charges (in Scotland) or implicit TuoS charges (in England and Wales). for these tariffs. The following sections set out the background and basis for these estimates.

Distribution use of system charges

6.3 Distribution companies – the PESs – are obliged to publish DUoS charges and to give five months notice of any changes to these charges. DUoS charges are based on particular tariff types. Hence PESs publish DUoS charges both for Standard Domestic and Domestic Economy 7 tariffs. Table 6.1 sets out DUoS charges in force at 1 April 1999 for these two tariff types.

6.4 The PES distribution businesses are monopoly businesses, and so charges are subject to regulation. The present distribution price control was set for the period 1 April 1995 to 31 March 2000. The control specified that for each PES average revenue in each financial year from distribution activities should increase no faster than RPI-X, subject to certain adjustments. In 1999/00, the last year of the present distribution control, X was set at 3 per cent for PESs in England and Wales, and at 2 per cent for the two Scottish PESs.

6.5 Ofgem is presently reviewing the distribution price controls for the 14 PESs. Draft proposals published in August 1999 *Review of Public Electricity Suppliers 1998 to 2000 Distribution Price Control Review Draft Proposals* indicate that distribution price controls on the PESs are likely to be of a similar form from 1 April 2000. That is, they will constrain average distribution revenue to increase no faster than RPI-X. The draft sets out initial views on a likely range of X factors that will apply to each of the PESs in 2000/01. The size of the X factors are influenced by the transfer of certain costs from PESs' distribution businesses to their supply businesses. The draft proposals were updated on 8 October 1999. The distribution costs assumed in the initial supply price restriction calculations are broadly consistent with this update, and appropriate allowance has been made for each of the principle tariff types.

Table 6.1 - Standard Domestic and Domestic Economy 7 distribution use of system charges 1 April 1999

	Standard Domestic[1]				Domestic Economy 7[2]				
PES	Standing charge	Unit rate	Annual DuoS charge	Average unit rate	Standing Charge	Day unit rate	Night unit rate	Annual DUoS charge	Average unit rate
	£/year	p/kWh	£	p/kWh	£/year	p/kWh	p/kWh	£	p/kWh
Eastern	14.53	1.40	60.73	1.84	21.64	1.41	0.41	78.70	1.19
East Midlands	23.00	1.50	72.50	2.20	35.24	1.53	0.16	86.90	1.32
London	28.80	1.42	75.76	2.30	39.31	1.63	0.24	96.85	1.47
Manweb	31.06	1.74	88.48	2.68	42.60	2.13	0.29	116.94	1.77
Midlands	26.48	1.34	70.54	2.14	34.44	1.57	0.19	88.38	1.34
Northern	18.76	1.88	80.80	2.45	30.96	1.98	0.22	98.28	1.49
NORWEB	32.81	1.48	81.65	2.47	45.71	1.69	0.10	100.01	1.52
SEEBOARD	18.47	1.48	67.31	2.04	31.54	1.48	0.21	83.50	1.27
Southern	23.40	1.48	72.24	2.19	33.80	1.60	0.19	88.64	1.34
SWALEC	38.69	2.05	106.34	3.22	48.92	2.19	0.40	129.02	1.95
South Western	0.00	2.52	83.16	2.52	0.00	2.84	0.57	105.72	1.60
Yorkshire	19.20	1.68	74.64	2.26	29.40	1.93	0.20	94.50	1.43
ScottishPower[3]	23.07	2.24	96.99	2.94	41.06	2.94	0.23	137.54	2.08
Hydro-Electric[4]	25.26	1.61	78.39	2.38	37.56	1.61	0.80	114.66	1.74
Unweighted mean	23.11	1.70	79.26	2.40	33.72	1.90	0.30	101.52	1.54

Note:

1,2 A Standard Domestic Customer is assumed to consume 3,300kWh per year. A Domestic Economy 7 customer is assumed to consume 3,000kWh during the day and 3,600kWh at night.

3,4 ScottishPower's Economy 7 tariff represents the Domestic White Meter tariff. Hydro-Electric's Domestic Economy 7 tariff represents the Domestic Total Heat and Total Control tariff.

6.6 PESs must set DUoS charges in advance of the year to which they apply, and must use best endeavours to ensure that charges set do not exceed the maximum allowed under the price control. Owing to the difficulties of forecasting a year or so ahead, outturn average revenues may be above or below that allowed. The price control allows an under or over recovery, within certain limits, to be passed on to the calculation of the maximum allowed average revenue for the following year. These correction factors may have the effect of making actual changes in average revenue differ to that implied by the X factor for that year.

Allowing DUoS charges in revised restraints

6.7 Indicative real reductions in Standard Domestic and Domestic Economy 7 tariff prices will be set on the basis of a view of the DUoS charges that might apply for those tariffs in 2000/01. It will be necessary, in forming a view, to make the following assumptions:

- under or over recoveries in 1999/00 are at the levels presently projected by the PESs;
- each PES makes neither an under or over recovery against its distribution price control in 2000/01;
- each PES retains its existing structure of DUoS tariffs, so that reductions in overall average revenue are translated directly to DUoS charges for the tariffs in question;
- each PES has an unchanged level and mix of units distributed between its forecast for 1999/00 and 2000/01;
- network losses do not deviate from the allowed level in 2000/01; and
- that the distribution business retains two-thirds of the present DMS allowance.

Transmission use of system charges – England and Wales

6.8 NGC charges suppliers in England and Wales transmission charges in two parts. One part is the Transmission Network Use of System (TNUoS) charge. This reflects the costs of transmitting electricity over the national grid. Charges vary by PES region. The other part is the Transmission Services Use of System (TSUoS) charge. This reflects many of the costs associated with maintaining a stable voltage and frequency on the national grid.

6.9 As with regional distribution, the electricity transmission business is a monopoly. NGC's revenue from its transmission business, which includes TNUoS but not TSUoS revenue, is therefore subject to a price control. The transmission price control presently in force was set for the period 1 April 1997 to 31 April 2001. Revenue from the transmission business is constrained to increase no faster than RPI-4 per cent in each of these financial years.

6.10 In their business plans, PESs have indicated the proportion of Standard Domestic and Domestic Economy 7 tariffs that can be ascribed to TNUoS charges. Ofgem's initial proposal in setting an allowance for TNUoS charges for PESs in England and Wales in price restraints for 2000/01 therefore will be to roll forward this estimate by the operation of NGC's transmission price control. As with distribution, this will involve making certain assumptions such as that NGC neither under or over recovers on its transmission price control in 2000/01.

6.11 TSUoS charges take the form of an addition to the half hourly Pool Selling Price (PSP), during certain half hours, which NGC passes on to suppliers in England and Wales. For a domestic unrestricted load profile, such costs were about 0.09 p/kWh in 1998/99.

6.12 NGC has a degree of control over the outturn level of these costs. NGC is therefore subject to incentive arrangements, which reward NGC if out-turn costs are below a target level. The present incentive arrangements were put in place over the two years 1998/99 and 1999/00, and have a target level of costs that falls by about 4 per cent in real terms.

6.13 Ofgem's initial proposal in setting price restraints for the England and Wales PESs in 2000/01 will be to assume that average per kWh TSUoS costs applying to the domestic unrestricted and restricted profiles fall by 4 per cent in real terms in 1999/00 and remain constant in real terms to 2000/01. This gives an allowance for each PES of 0.10 p/kWh for a Standard Domestic tariff and 0.09 p/kWh for a Domestic Economy 7 tariff in 2000/01.

Transmission use of system charges - Scotland

6.14 Scottish Power and Hydro-Electric each owns and operate a transmission network within its authorised area. Each publishes transmission charges alongside overall tariff prices to be charged to any supplier supplying a customer within its authorised area. Table 6.2 sets out their published TUoS charges for Standard Domestic and Domestic Economy 7 tariffs applying at 1 April 1999.

6.15 The transmission activity of each Scottish PES is a monopoly business and is subject to price control. The present transmission price controls were put in place from 1 April 1994 to 31 March 2000. In 1999/00, they constrained Scottish Power's and Hydro-Electric's transmission revenues to increase no faster than RPI-0 per cent for both companies.

Table 6.2 – Transmission use of system charges for the Scottish PESs

1 April 1999

	Standard Domestic	Domestic Economy 7	
	Unit rate p/kWh	**Day Unit rate p/kWh**	**Night Unit rate p/kWh**
Scottish Power	0.18	0.22	0.00
Hydro-Electric	0.44	0.44	0.00

6.16 Ofgem is presently undertaking a review of the Scottish PES's transmission price control review. The allowance for transmission in forming initial views on price restraints is broadly consistent with this, although some further adjustment may be required.

7. SETTING REVISED PRICE RESTRAINTS – SUPPLY BUSINESS COSTS AND MARGIN

Introduction

7.1 Supply business costs and margins in 1998/99 accounted for about 13 per cent of a typical domestic customer's annual bill. The proposed transfer of costs from PESs' distribution to supply businesses would increase this proportion to about 17 per cent. PESs' supply businesses deal with arranging the purchase and distribution of electricity to customers, as well as the reading of customers' meters, billing, and customer services. Some costs may vary with the number of customers served, while others may be relatively fixed. There may also be differences in cost between serving domestic and non-domestic customers, or between differing payment methods.

7.2 PESs have forwarded to Ofgem details of historic and forecast costs for their first tier under 100 kW market. These included a breakdown of costs by customer group as defined by load profile group. The PESs' forecasts covered a variety of assumptions, including forecasts of customer losses to other second tier suppliers.

7.3 An important factor in reviewing PESs' supply business costs is the transfer from distribution to supply of costs identified as supply business costs. Ofgem, as part of the parallel review of the distribution price control, has identified for each PES a number of costs presently identified as distribution business costs that should more properly be treated as supply business costs. Costs per PES were set out in table 2.2 of Ofgem's August 1999 paper *Distribution Price Control Review Draft Proposals* and have been amended in the October 1999 update. In aggregate, costs so identified are rather less than £300m. In establishing a suitable supply business cost base for the purpose of determining

maximum price restraint levels, it will be important to reattribute these costs to the supply business.

7.4 The rest of this chapter briefly reviews the present customer base, historic costs and PES forecasts of supply business operating costs. It sets out the reattribution of distribution costs, and describes how an allowance for supply business operating costs has been derived for the purposes of setting maximum price restraints.

Table 7.1 – Proportion of customers in the first tier under 100 kW market

PES	Total number of customers in the PES area '000s	Domestic		Non-domestic
		Unrestricted load profile %	Restricted Load profile %	%
Eastern	3136	58	35	7
East Midlands	2252	47	45	8
London	2019	80	8	12
Manweb	1297	84	9	7
Midlands	2165	76	16	8
Northern	1458	85	8	7
NORWEB	2204	82	10	8
SEEBOARD	1977	62	30	8
Southern	2655	77	14	9
SWALEC	961	84	8	8
South Western	1331	69	21	10
Yorkshire	2013	86	8	6
Scottish Power	1753	74	19	7
Hydro-Electric	616	60	30	10
Total	25837	72	20	8

Source : PES business plans

PES supply business customer numbers

7.5 Table 7.1 sets out information provided by the PESs concerning the number of customers in their first tier, under 100 kW markets. Domestic customers form the vast majority of the customer base.

7.6 Domestic customers use a variety of payment methods. Broadly speaking, the use of direct debit and prepayment meters have both increased in recent years. The use of prepayment meters in particular has associated costs over and above those associated with the traditional credit meter type arrangements. Table 7.3 sets out for domestic customers the relative numbers using differing payment types.

7.7 Following the full introduction of competition from May 1999, it is likely that PESs will lose first tier customers to second tier competitor suppliers. Depending on the relative cost structure of the PES supply businesses, significant losses could have the effect of increasing remaining supply business costs per customer. The range of PES forecasts of customer losses to the year 2001/02 is large. Table 7.2 sets out this range.

Table 7.2 – PES forecasts of customer losses from 1 April 1998 to 31 March 2001

	Customer loss for the period 01/04/98 – 31/03/01 for all customers %	Customer loss for the period 01/04/98 – 31/03/01 for domestic customers %
Largest customer loss	30	30
Smallest customer loss	8	7
Average customer loss	17	18

Source : PES business plans

Table 7.3 – First tier < 100kW customer base by payment method

PES	31 March 1998				31 March 1999			
	Total no. of domestic customers (000's)	PPM %	Direct Debit %	Other %	Total no. of domestic customers (000's)	PPM %	Direct Debit %	Other %
Eastern	2,903	12	34	54	2,899	11	35	54
East Midlands	2,129	13	36	51	2,079	13	39	47
London	1,783	22	25	53	1,783	22	25	52
Manweb	1,226	23	30	47	1,205	24	31	46
Midlands	2,072	16	32	52	1,996	17	35	48
Northern	1,360	10	34	56	1,354	11	37	52
NORWEB	2,032	13	36	51	2,030	13	36	51
SEEBOARD	1,829	12	39	50	1,815	12	39	49
Southern	2,413	12	46	41	2,425	13	44	43
SWALEC	895	18	30	52	884	18	32	50
South Western	1,200	17	31	52	1,205	17	33	50
Yorkshire	1,929	13	31	56	1,883	13	27	60
Scottish Power	1,648	24	25	51	1,635	24	25	51
Hydro-Electric	571	22	26	52	556	25	28	47
Total	23,990	15	34	51	23,749	16	34	50

Source : Customer Accounting Statistics

7.8 Table 3.1 sets out the latest information on the proportion of customers that have changed or registered to change supplier. The figures show that between 5 per cent and 11 per cent of each PES's customers have switched in this way.

PES Supply business operating costs

7.9 PESs have provided details of their first tier under 100 kW supply business operating costs for base years 1997/98 and 1998/99, as well as forecasts for 1999/00 to 2001/02. Table 7.4 sets out supply business operating costs in aggregate and per customer. Costs vary significantly between PESs, reflecting in part the cost structure and customer base of each PES.

Table 7.4 – PES supply business operating costs (excluding exceptional costs)

PES	Total costs		Per customer	
	1997/98 £m	1998/99 £m	1997/98 £/customer	1998/99 £/customer
Eastern	53.3	63.3	16.94	20.18
East Midlands	36.6	44.7	15.87	19.85
London	51.2	53.5	25.34	26.50
Manweb	17.8	26.1	13.46	20.12
Midlands	48.7	51.0	21.65	23.55
Northern	38.8	43.8	26.39	30.03
NORWEB	31.8	59.0	14.37	26.77
SEEBOARD	37.8	47.9	18.82	24.23
Southern	47.6	51.9	18.01	19.56
SWALEC	17.6	24.9	18.06	25.90
South Western	19.1	24.9	14.37	18.71
Yorkshire	45.0	59.1	21.73	29.35
Scottish Power	36.6	45.9	20.68	26.18
Hydro-Electric	28.7	32.0	45.32	51.99
GB Average	36.5	44.9	19.56	24.31

Source : PES business plans

7.10 Companies projections of costs also vary significantly. Table 7.5 sets out some projections of real reductions in costs between 1998/99 and 2001/02.

7.11 There is considerable variation. To some extent variation will be determined by each PES's cost allocation policy, and each PES's view on the interaction between the relative split between fixed and variable costs and customer losses. PESs' forecasts also reflect various assumptions regarding factors that might influence supply business costs. For example, one PES included in forecasts for the year 2000/01 costs of about £1 million to reflect the implementation costs of the Climate Change Levy. Another PES included within its future cost base estimated costs (£9 million in 2000/01) of separating out its distribution and supply businesses.

Table 7.5 – PES forecasts of real changes in the < 100kW first tier supply business cost base.

	Change in total operating costs for the period 01/04/99 to 31/03/01 %	**Change in operating cost per customer for the period 01/04/99 to 31/03/01 %**
Highest decrease in costs	-34	-27
Highest increase in costs	21	48
Average change in costs	-4	11
Number of PESs projecting reductions	9	2

Source : PES business plans

Transfer of Distribution Costs to Supply

7.12 In setting a view on supply business operating costs for future maximum price restraints, it is necessary to add the relevant proportion of the costs transferred from distribution to the costs detailed in table 7.4. Costs to be transferred must be apportioned between the under and over 100kW markets. Table 7.6 sets out how costs identified in table 2.2 of the distribution document are to be added to under 100kW first tier costs of the PES supply businesses. Costs have been apportioned to the under 100kW first tier market on the basis of customer numbers.

7.13 The 8 October 1999 update proposes some alterations to the cost transfer which will affect these figures, although the materiality of the change in the context of the supply review is relatively modest.

Table 7.6 – Analysis of costs transferred from distribution

PES	Cost transferred from Table 2.2 £m	Costs apportioned to < 100kW market £m	Costs apportioned to < 100kW market (1998/99 prices) £m
Eastern	35.2	29.0	29.9
East Midlands	26.2	23.2	24.0
London	44.9	37.4	38.6
Manweb	20.1	18.9	19.5
Midlands	17.0	14.9	15.4
Northern	14.0	11.3	11.6
NORWEB	23.8	20.5	21.1
SEEBOARD	30.8	27.5	28.4
Southern	11.1	9.4	9.7
SWALEC	11.1	9.6	9.9
South Western	9.8	8.9	9.2
Yorkshire	23.1	18.8	19.4
Scottish Power	22.7	19.2	19.8
Hydro-Electric	7.9	6.9	7.1
GB Average	21.3	18.3	18.9

Separation of businesses

7.14 In May 1999, Ofgem published the paper *Separation of businesses: Proposals and consultation* dealing with the separation of PES distribution and supply businesses. It noted that the PESs may incur costs in achieving the required degree of separation. In addition to the allowance for PESs' distribution businesses announced in the 8 October 1999 update, it is proposed to make a further allowance of £200 000 per PES supply business per year in respect of these costs. This allowance has been reflected in setting revised maximum price restraints.

Data Management Services

7.15 Proposals for the present maximum price restraints were published in October 1997 *The competitive electricity market from 1998: Price restraints Proposals October 1997*. These proposals suggested that costs in respect of Data Management Services (DMS) should be allowed for in the distribution price control. Accordingly, PESs were allowed to recoup through the operation of the distribution price control sums of money in respect of set up allowances (£4.87 million in 1997/98 prices per year until 2002/03) and an allowance per year that varied between PESs in respect of operating allowances.

7.16 The allowances were made in respect of a number of individual elements. Some elements are more properly considered supply business functions. Ofgem's proposals for the separation of PES distribution and supply bring to attention the need to split the DMS allowance into a distribution and supply business element. It is appropriate in setting the level of price restraints to allow the supply business element. The supply element is equal to approximately one third of the DMS allowance. Table 7.7 gives the cost transfer per PES.

Benchmarking of Supply Business Costs

7.17 A major determinant of a PES's supply business costs is the number of customers that a PES serves. There may also be an element of costs that do not vary with customer numbers. Ofgem's approach in taking a view on the appropriate level of supply business costs in determining the level of price restraints for 2000/01 has therefore been to consider an appropriate per customer allowance, equal across PESs, together with an appropriate allowance for costs that do not vary with customer numbers.

Respondents' views

7.18 One PES argued strongly for an approach to setting an allowance for supply business costs based on the concept of an 'efficient operator'. This respondent argued in particular that costs transferred from distribution to supply should not simply be recouped by the PES by being factored directly into the level of the price restraint. One other PES, conversely, argued against using the 'efficient operator' approach. One other respondent said that the allowance for supply business costs and margins should be unchanged in real terms from those set for the present maximum price restraints.

7.19 Most PESs argued in broad terms for any costs reattributed from distribution to supply to be factored into any revised price restraints. Several PESs and one other respondent also argued for the costs of business separation and/or RETA costs to be similarly treated. Conversely, 2 ECCs and one other respondent suggested that business separation and/or RETA costs should not be borne by customers.

7.20 Paragraphs 7.9 to 7.11 above indicated that there was reasonable variation both between PESs present supply business costs, on a per customer basis, and their forecasts of these costs. PESs took different views, for example, on whether costs would rise or fall over the next few years. In a competitive market, and assuming all other things equal, companies that had costs significantly above the average would tend either to earn lower profits, or charge higher prices that might lead to loss of market share. It would be expected that these companies would tend to achieve efficiency savings that moved them closer toward the average, or exit the market. On this basis, it is appropriate to set an allowance for supply business costs based on average costs for all PESs.

7.21 The set of base costs from which initial average costs have been derived are 1998/99 first tier under 100 kW costs. For each PES, the distribution to supply cost transfer has been added, together with an allowance for DMS costs, and a £200 000 allowance in respect of separation costs. Table 7.7 sets out the adjustments.

7.22 Analysis of these adjusted operating costs would tend to suggest that, on average, each additional customer increases a PES's total operating costs by about £26. On average, the analysis suggests that each PES incurs costs of up to about £14 million per year that do not vary by customer number. This is an initial estimate. Further analysis is required to determine whether this represents a reasonable approximation to the fixed costs of a supply business.

7.23 For the purposes of the initial proposals, Ofgem has assumed a maximum, non-customer varying, allowance of £14 million. It is likely that horizontally integrated PESs will have combined costs less than this. Ofgem has therefore assumed that an allowance for non horizontally integrated PESs of £14 million, and for integrated PESs an allowance of £11 million. Since domestic customers on average account for 85 per cent of these fixed and variable costs, but 93 per cent of customer numbers, costs have been adjusted accordingly.

Table 7.7 – Adjusted First-tier under 100 kW supply business operating costs (1998/99 prices £m)

PES	1998/99 Under 100 kW 1st tier supply business costs	Exceptionals	Transfer from Distribution to Supply	DMS allowance	Allowance in respect of separation costs	Adjusted supply business costs
Eastern	63.3	0.0	29.9	3.3	0.2	96.7
East Midlands	44.7	-6.9	24.0	3.0	0.2	65.0
London	53.5	0.0	38.6	2.9	0.2	95.2
Manweb	26.1	0.0	19.5	2.7	0.2	48.5
Midlands	51.0	-13.8	15.4	3.0	0.2	55.8
Northern	43.8	0.0	11.6	2.7	0.2	58.3
NORWEB	59.0	-4.2	21.1	3.0	0.2	79.2
SEEBOARD	47.9	0.0	28.4	2.9	0.2	79.4
Southern	51.9	-2.5	9.7	3.2	0.2	62.5
SWALEC	24.9	0.0	9.9	2.5	0.2	37.5
South Western	24.9	-2.2	9.2	2.7	0.2	34.8
Yorkshire	59.1	0.0	19.4	2.9	0.2	81.6
Scottish Power	45.9	0.0	19.8	2.8	0.2	68.7
Hydro-Electric	32.0	-18.8	7.1	2.4	0.2	22.9

Source : PES business plans and Ofgem

7.24 Given that some costs may not vary with customer numbers, a PES's overall supply business costs per customer may tend to increase as it loses customers. However, in a competitive market it is unlikely that such increased costs could easily be passed on in prices. Accordingly, Ofgem does not propose simply to factor in to the allowance for supply business operating costs any increased costs due to the interaction between fixed costs and PES's forecasts of customer losses. It would however seem reasonable in the short term to make some allowance for this effect.

7.25 Extrapolation of competitive market data suggests that, on average, PESs will in aggregate lose about 14 per cent of under 100 kW customers up to 31 March 2000. On this basis, it seems at this stage reasonable to assume that PESs in aggregate will lose a further 5 per cent of customers between 31 March 2000 and 31 March 2001. It is anticipated that PESs with domestic gas businesses will tend to attract gas customers that will contribute to spreading fixed costs.

7.26 Taken together, these assumptions give a per customer supply business cost for each PES for 2000/01. Table 7.8 sets these out.

7.27 It is for consideration whether the use of these averages of supply business costs for both tariff types are appropriate, or whether there are arguments for applying differential costs to different tariffs.

Table 7.8 – Supply business costs per domestic customer in 2000/01 (1998/99 prices)

PES	Supply business cost £/customer
Eastern	29.86
East Midlands	31.91
London	31.00
Manweb	34.05
Midlands	32.21
Northern	35.80
NORWEB	32.09
SEEBOARD	32.97
Southern	29.32
SWALEC	41.74
South Western	34.05
Yorkshire	32.67
Scottish Power	31.58
Hydro-Electric	45.04

Supply Business Margins

7.28 The present restraints were set on the basis that a 1½ per cent margin might be seen as the minimum achievable by a reasonably efficient PES. In the first year of the present regime, PESs have on average reported higher margins than this for their under 100kW first tier supply businesses. In 1998/99 for example, in aggregate PESs achieved a 5 per cent margin on turnover.

7.29 Differences in achieved margins are more marked for the different sectors of the PES' businesses. PESs reported margins on their standard domestic tariffs in 1998/99 for example. Table 7.9 sets out the PESs' reported margins on these tariffs.

Table 7.9 – PES reported margin on standard domestic tariff 1998/99

PES	Margin %
Eastern	4.9
East Midlands	17.0
London	6.7
Manweb	11.9
Midlands	2.0
Northern	4.4
NORWEB	4.1
SEEBOARD	8.2
Southern	0.5
SWALEC	5.9
South Western	1.1
Yorkshire	-2.9
Scottish Power	3.7
Hydro-Electric	7.4
GB unweighted mean	5.1

Source : PES business plans
Notes : Assumes annual consumption of 3300 kWh
Excludes Fossil Fuel Levy

7.30 A number of PESs expressed the view that the allowed margin should reflect the appropriate degree of risk for an electricity supply business, and that setting it too low would risk deterring competitors in the market. A number of PESs argued for an allowed margin in excess of 1.5 per cent, mainly citing increased risks as a reason. Of the other respondents, one argued for a margin in excess of 1.5 per cent, and another said that margins should remain at 1.5 per cent.

7.31 The return that a company will tend to earn on its business over time is largely determined by the risk of that business compared to alternative businesses and investment opportunities. The main risk to PESs is that competitors will attract away customers and/or place pressure on prices. Since the initial price restraints proposed in this paper are set on the assumption of the absence of such pressures, assumed risks are unlikely

to change significantly, indicating a continued margin of 1.5 per cent. It does not necessarily follow that this is an appropriate margin in a fully competitive area of the market.

Standards of Performance

7.32 The June consultation paper noted that PESs are required to meet certain guaranteed and overall Standards of Performance (SoPs) which are designed to maintain levels of service for customers. It noted that a question for the review included the extent to which revised restraints should recognise these obligations on PESs.

7.33 Following publication in March 1998 of proposals for SoPs, PESs agreed to revised SoPs to take effect from April and July 1998. Costs of meeting the SoPs fall within the PESs' supply business operating costs.

7.34 A number of PESs and two other respondents who commented on SoPs argued that a minimum level should apply to all suppliers. One PES suggested that a primary consideration of whether higher SoPs should apply to a supplier was whether or not that supplier was dominant. Another PES argued that SoPs should not be applied to new entrants. About half the PESs and one other respondent argued that the costs of SoPs, or the incremental costs of PES specific SoPs, should be recognised in setting revised restraints. A number of PESs commented that the advent of competition would encourage suppliers to focus on standards of service.

7.35 Of the ECCs that commented on the issue, most supported the existing levels of SoPs. One ECC and one other respondent argued that additional costs should not be reflected in revised price restraints.

7.36 The estimation of an efficient level of supply business operating costs, as discussed above, includes an implicit allowance for funding of the present level of SoPs. No new or increased SoPs have been proposed. It would not appear appropriate therefore to make an explicit additional allowance in setting revised price restraints to reflect obligations on the PESs in respect of SoPs.

Energy efficiency

7.37 The June consultation paper set out the background to the standards of performance for PESs regarding the efficient use of energy by customers. It noted that the costs of meeting these standards was allowed for in setting the present restraints, that Ofgem proposed to consult on energy efficiency matters during the summer, and that it may be appropriate to make an allowance for renewed costs in setting a revised level for restraints

7.38 A number of respondents to the June consultation paper included comments about the EESoPs. Respondents who commented generally favoured retaining some form of EESoPs. PESs also in general favoured placing standards on all suppliers. Some PESs argued in favour of the costs of meeting the EESoPs to be factored into revised restraints, although one PES argued for the costs to be met through DUoS charges.

7.39 Several ECCs and some other respondents favoured retention of the EESoPs, with some suggesting that resulting costs should be taken into account in setting the restraints. Some other respondents emphasised that any obligations should not distort competition, with some arguing that consequently obligations should be placed on all suppliers.

7.40 The Energy Saving Trust argued that over time it would be necessary for an increased level of EESoPs, with a consequent need for increased

expenditure. The Trust suggested that over the next two years, EESoPs be set at a level requiring around £2 per domestic customer in electricity and gas.

7.41 In July 1999, Ofgem published *Energy efficiency A consultation document*. Its main conclusions regarding the electricity industry were that the DGES is minded to extend the present standards for a further period of two years from 1 April 2000, and that the associated costs of around £1 per domestic customer per year should be taken into account in setting any supply price controls from April 2000.

7.42 Ofgem will publish proposals on energy efficiency standards of performance in late October. This will include a view on the appropriate level of the standards, and the associated cost implications. For the present purposes of putting forward initial maximum price restraint proposals, it is at this stage appropriate to assume that PESs will continue to incur costs of about £1 per year per customer in meeting the standards.

8. INITIAL PROPOSALS FOR MAXIMUM PRICE RESTRAINTS

Introduction

8.1 Ofgem's initial proposals are for maximum price restraints on two basic tariffs, Standard Domestic and Domestic Economy 7. Restraints have been calculated for each of these tariffs for each PES for the year 2000/01.

8.2 Each price restraint has been calculated as the sum of :

- the appropriate generation cost (as set out in Chapter 5);
- an estimate of DUoS and TUoS charges applicable to each category (as set out in Chapter 6). To the extent that these turn out to be different, the caps will vary accordingly;
- an appropriate allowance for supply business costs (as set out in Chapter 7);
- a margin of 1.5 per cent on all costs; and
- a fossil fuel levy of 0.3 per cent in England and Wales and 0 per cent in Scotland.

Final prices will also include VAT, which is not considered further in this document.

As discussed in paragraphs 8.12 to 8.17, the appropriate supply business surcharge for prepayment meter customers will be the subject of a separate consultation paper and is not considered further in proposing initial restraints.

Principles

8.3 The guiding principles in setting the new price restraints have been :

- to allow a competitive market to develop for all customers. It is apparent that, at this stage of the development of the market, price is the principal source of competition for domestic customers. To set restraints which allow little or no scope for pricing competition would risk distorting or hindering the development of a competitive market;
- consistent with the first principle, not to try to capture anticipated but unrealised reductions in generation and other costs arising from implementation of the new electricity trading arrangements. It is to be hoped that these savings, when they materialise, will form the basis of further competition in the market. If such competition has the effect of driving down prices in the competitive sectors of the supply market, Ofgem will wish to see this benefit appropriately reflected in the first tier market. The proposals to strengthen pressure on PESs to achieve this are an important part of these price restraints and should be regarded as complementary to the restraints themselves;
- to protect customers who are not presently benefiting from competition. As such, the restraints need to complement the development of the competitive market, reflecting the benefits that the competitive domestic market is seeing today. There is a natural temptation for companies to load additional cost onto areas of the market that are or appear less competitive;
- to harmonise, so far as is possible, the average generation and supply costs for each company, while recognising the need for efficient companies to be capable of financing their businesses. In the context of an industry with evident economies of scale, this implies an appropriate allowance for smaller companies. A full pass through of

costs onto a diminishing customer base should not necessarily extend into the future; and

- to represent a smooth passage toward a fully competitive market where price restraints play no part. The proposals to remove small non-domestic customers from the price restraints and the proposals to rely more fully on the DGES's powers under the Electricity Act 1989 and the Competition Act 1998 should be seen as part of that transition.

8.4 It is recognised that the competitive electricity market is developing rapidly. Competition has been introduced fully from May 1999 and the levels of customer change are higher than originally predicted. The opening of the market has been accompanied by a radical restructuring of the players in that market. A number of companies are vertically integrated, and there have been three mergers which have effectively combined (in each case) two PES supply businesses. An appropriate fixed cost saving in respect of merged supply businesses has been included in the supply costs for the relevant companies.

Price reductions

8.5 Tables 8.1 to 8.4 set out Ofgem's initial proposals for the real price reductions that should apply to each of the PES's Standard Domestic and Domestic Economy 7 tariffs. The initial proposals envisage an average real reduction in Standard Domestic prices of about 10 per cent, with reductions in individual PES areas varying between about 5 per cent and 15 per cent. For Domestic Economy 7 tariffs, the real average reduction on average is about 6½ per cent, with individual reductions varying between about 3 per cent and 10 per cent.

8.6 Reductions are given as the real differences in the average unit rates for each tariff assumed for 1999/00 and 2000/01. Ofgem has assumed

consumption levels of 3300 kWh per year for Standard Domestic and 6600 kWh per year for Domestic Economy 7 tariffs (3000 day and 3600 night) in calculating these averages.

8.7 Tariff prices for 1999/00 have been published by PESs. Ofgem has calculated unit allowances in respect of generation, distribution and transmission use of system charges, supply business costs and margins in the manner outlined in chapters 5 to 7.

8.8 The margin for 1999/00 tariffs is given as the residual following the hypothecation of costs for each PES's relevant published tariff. The margin for 2000/01 is given as 1.5 per cent of the sum of Ofgem's cost allowances for tariff. Hence the change in margins may reflect both a reduction in margins and PES's hypothecation of costs to published tariffs.

8.9 Ofgem presently anticipates that real price reductions of this order will be appropriate from 1 April 2000. The precise breakdown between tariff groups however should be taken as indicative. It will be necessary in formulating final proposals for Ofgem to consider further the appropriate relativities between tariff groups, and consider points raised in respect of them.

Vertical integration

8.10 It is not part of these proposals to make special arrangements for vertically integrated companies. Ofgem though remains concerned about the effect such mergers may have on the market and on the accuracy of information relating to the business activities of those companies, which will continue to be closely monitored.

Future efficiencies

8.11 As stated above, it has been considered inappropriate in setting restraints which are intended to permit competition to develop, to seek to capture the future benefits of wholesale price reductions. In addition, the supply cost proposals contain no explicit assumption about future efficiencies, even though it is reasonable to expect that these will arise as a consequence of developments in the market. In a competitive market, there would be real pressure to contain price increases in nominal terms. Ofgem believes that it is appropriate to reflect this pressure by requiring the restrained prices not to rise in nominal terms in the second year of the operation of price restraints (2001/02). It is for consideration whether this treatment will form an appropriate basis for default arrangements to apply from 2002/03 should new licence modifications not be agreed at that time.

Prepayment meter customers

8.12 At present most PES prepayment meter customers are charged a surcharge over and above the standard quarterly charge. Excluding Hydro Electric, which does not levy a surcharge, the annual surcharge ranges from £10 - £27. Customer groups have expressed concern about the surcharge and the degree of variation across the country. PESs have argued that the present charges significantly understate the level of additional costs incurred.

8.13 Ofgem has been conducting a detailed review of prepayment meter costs. A paper setting out the findings will be published shortly as part of the work under the Social Action Plan. In summary, prepayment meter additional charges comprise three elements. First a meter charge levied by the distribution business. In the distribution review proposals Ofgem

has proposed capping the level of distribution meter surcharge at £15 (or the existing charge when lower).

8.14 Second, an infrastructure charge levied by the PES supply business on all suppliers to cover the cost of issuing keys or cards to collect payments and charge keys. Third, there are other costs incurred by the supply business in operating the customer's account.

8.15 The present supply infrastructure charge was capped at between £2.50 and £7.50 in the previous supply review. Work conducted by Ofgem's consultants suggests that this charge is significantly below the costs actually incurred and that an annual charge closer to £13 - £18 would be appropriate. These infrastructure costs are, however, largely offset by other supply business savings which are estimated to amount to around £13 a year. On this basis, a surcharge over quarterly billed customer charges of around £15 - £20 a year would appear justifiable on cost grounds. This is similar to the conclusions reached by Ofgas last year on the additional costs of prepayment meters in the gas markets. The bottom end of the range is also consistent with the present national average level of the prepayment meter surcharge.

8.16 It is for consideration how these findings should be implemented through revised price restraints. For example, if the net supply surcharge is assumed to be £0 (that is, consistent with the lower end of the range) and adjustments are made for companies where distribution surcharges will be below £15, then five companies have present prepayment meter tariff surcharges within £1 of the assumed level (Eastern, Manweb, Southern, Scottish Power and Hydro-Electric); four companies would see small increases in the present surcharge (London, Midlands, Seeboard, and SWEB), and five companies would need to reduce their surcharge (East Midlands, Northern, NORWEB, Swalec and Yorkshire).

8.17 It is also for consideration whether any surcharge over standard quarterly tariffs is justifiable when the meter has been installed at the PES's request to recover debts. This issue will be discussed further in the paper on prepayment meter costs and services, to be published later this month.

Standards of Performance

8.18 Consideration has been given to the service standards required by PES supply businesses. These are considered appropriate for retention while there are customers who require protection. However, it is clear that in many instances competitive pressures are leading to better or different quality standards and this is to be welcomed. In these circumstances it does not seem appropriate to make any further adjustment to the price restraints in respect of quality measures.

Fossil fuel levy

8.19 The initial proposals set out in this paper include an allowance for the fossil fuel levy of 0.3 per cent in England and Wales, and 0 per cent in Scotland. Revisions to the levy rate in England and Wales take effect from 1 October each year, and in Scotland from 1 April each year.

8.20 It is proposed that the maximum price restraints allow for the pass through of the levy. In order to avoid revising the level of the restraints from October each year however, it is proposed that the level of the restraints change from 1 October only if the levy rate changes by more than a predetermined level. It would seem reasonable to set this level of change at one half of a percentage point. It is proposed that changes below this level be passed into the level of restraints applying from 1 April the following year.

Hydro benefit

8.21 The figures quoted for Hydro-Electric assume application of the Hydro benefit above the present sub cap of £29 million (1990/91 prices). There is a full discussion of this issue in the open letter which has been sent to each PES on 8 October 1999 concerning the distribution price control review. To the extent that the application of Hydro benefit is lower than that assumed, the reduction in prices in Hydro-Electric's area will be diminished.

Summary of initial proposals

8.22 A summary of the revised price restraints for Standard Domestic and Domestic Economy 7 customers in 2000/01 is set out in tables 8.1 and 8.2 below. The impact on a typical Standard Domestic and Domestic Economy 7 bill in each area is set out below in tables 8.3 and 8.4 respectively. The tables in annex A give a more detailed analysis for each company.

Table 8.1 - Indicative allowed price per unit supplied to Standard Domestic customers

PES	Existing tariff p/kWh	Proposed 2000/01 tariff (1999/00 prices) p/kWh	Real reduction %
Eastern	7.24	6.24	13.9
East Midlands	7.33	6.40	12.7
London	7.42	6.63	10.6
Manweb	8.03	7.15	10.9
Midlands	7.30	6.59	9.7
Northern	7.96	6.72	15.5
NORWEB	7.40	6.55	11.4
SEEBOARD	7.26	6.42	11.5
Southern	7.36	6.84	7.1
SWALEC	8.37	7.94	5.2
South Western	7.92	7.35	7.2
Yorkshire	7.35	6.56	10.7
Scottish Power	7.91	7.37	6.8
Hydro-Electric	8.02	7.54	6.0
Unweighted mean	7.63	6.88	9.9

Table 8.2 - Indicative allowed price per unit supplied to Domestic Economy 7 customers

PES	Existing tariff p/kWh	Proposed 2000/01 tariff (1999/00 prices) p/kWh	Real reduction %
Eastern	5.12	4.61	10.0
East Midlands	5.06	4.71	6.9
London	5.21	4.75	8.8
Manweb	5.49	5.27	4.0
Midlands	5.29	4.81	8.9
Northern	5.36	4.89	8.7
NORWEB	5.19	4.79	7.7
SEEBOARD	4.92	4.70	4.4
Southern	5.16	5.01	2.9
SWALEC	5.72	5.49	4.0
South Western	5.59	5.23	6.4
Yorkshire	5.09	4.85	4.6
Scottish Power	5.72	5.54	3.2
Hydro-Electric	6.12	5.55	9.3
Unweighted mean	5.36	5.01	6.4

Table 8.3 - Indicative impact of initial proposals on a typical Standard Domestic customer's annual bill

PES	**Existing** **£**	**Proposed 2000/01** **£**	**Reduction** **£**
Eastern	239	206	33
East Midlands	242	211	31
London	245	219	26
Manweb	265	236	29
Midlands	241	218	23
Northern	263	222	41
NORWEB	244	216	28
SEEBOARD	240	212	28
Southern	243	226	17
SWALEC	276	262	14
South Western	261	242	19
Yorkshire	243	217	26
Scottish Power	261	243	18
Hydro – Electric	265	249	16
Unweighted mean	252	227	25

Table 8.4 - Indicative impact of initial proposals on a typical Domestic Economy 7 customer's annual bill

PES	**Existing** **£**	**Proposed 2000/01** **£**	**Reduction** **£**
Eastern	338	304	34
East Midlands	334	311	23
London	344	313	30
Manweb	362	348	15
Midlands	349	318	31
Northern	354	323	31
NORWEB	343	316	26
SEEBOARD	325	310	14
Southern	341	331	10
SWALEC	378	362	15
South Western	369	345	24
Yorkshire	336	320	15
Scottish Power	378	366	12
Hydro – Electric	404	366	38
Unweighted mean	354	331	23

ANNEX A
BREAKDOWN OF INITIAL PROPOSALS

Eastern

	Units	Standard Domestic	Domestic Economy 7	Weighted Average
Real reduction[1]				
Generation	%	6.9	0.1	4.0
Distribution	%	6.8	6.3	6.6
Transmission	%	1.5	2.1	1.8
Supply	%	(5.9)	(2.7)	(4.6)
Margin 1.5%	%	4.2	3.7	4.0
Fossil fuel levy 0.3%	%	0.4	0.5	0.4
TOTAL REAL REDUCTION	%	13.9	10.0	12.2
1999/00 Typical annual bill	£	239	338	-
2000/01 Typical annual bill (1999/00 prices)	£	206	304	-
Real reduction	£	33	34	-
2000/01 GB average typical annual bill (1999/00 prices)	£	227	331	-

East Midlands

	Units	Standard Domestic	Domestic Economy 7	Weighted Average
Real reduction[1]				
Generation	%	(3.7)	(7.7)	(6.3)
Distribution	%	8.7	7.5	7.9
Transmission	%	1.7	0.5	0.9
Supply	%	(9.4)	(6.6)	(7.6)
Margin 1.5%	%	15.0	12.7	13.6
Fossil fuel levy 0.3%	%	0.4	0.4	0.4
TOTAL REAL REDUCTION	%	12.7	6.9	8.9
1999/00 Typical annual bill	£	242	334	-
2000/01 Typical annual bill (1999/00 prices)	£	211	311	-
Real reduction	£	31	23	-
2000/01 GB average typical annual bill (1999/00 prices)	£	227	331	-

London

	Units	Standard Domestic	Domestic Economy 7	Weighted Average
Real reduction[1]				
Generation	%	(0.6)	2.9	(0.1)
Distribution	%	9.4	8.6	9.3
Transmission	%	(0.9)	(1.5)	(1.0)
Supply	%	(3.0)	(3.0)	(3.0)
Margin 1.5%	%	5.2	1.5	4.7
Fossil fuel levy 0.3%	%	0.4	0.4	0.4
TOTAL REAL REDUCTION	%	10.6	8.8	10.3
1999/00 Typical annual bill	£	245	344	-
2000/01 Typical annual bill (1999/00 prices)	£	219	313	-
Real reduction	£	26	30	-
2000/01 GB average typical annual bill (1999/00 prices)	£	227	331	-

Manweb

	Units	Standard Domestic	Domestic Economy 7	Weighted Average
Real reduction[1]				
Generation	%	(0.4)	(2.3)	(0.7)
Distribution	%	7.8	7.5	7.8
Transmission	%	(1.0)	(1.5)	(1.1)
Supply	%	(6.5)	(4.4)	(6.1)
Margin 1.5%	%	10.6	4.2	9.6
Fossil fuel levy 0.3%	%	0.4	0.4	0.4
TOTAL REAL REDUCTION	%	10.9	4.0	9.8
1999/00 Typical annual bill	£	265	362	-
2000/01 Typical annual bill (1999/00 prices)	£	236	348	-
Real reduction	£	29	15	-
2000/01 GB average typical annual bill (1999/00 prices)	£	227	331	-

Midlands

	Units	Standard Domestic	Domestic Economy 7	Weighted Average
Real reduction[1]				
Generation	%	2.6	(3.0)	0.9
Distribution	%	7.4	0.3	7.1
Transmission	%	0.4	6.4	0.4
Supply	%	(3.2)	(2.2)	(2.9)
Margin 1.5%	%	2.0	7.0	3.5
Fossil fuel levy 0.3%	%	0.4	0.4	0.4
TOTAL REAL REDUCTION	%	9.7	8.9	9.4
1999/00 Typical annual bill	£	241	349	-
2000/01 Typical annual bill (1999/00 prices)	£	218	318	-
Real reduction	£	23	31	-
2000/01 GB average typical annual bill (1999/00 prices)	£	227	331	-

Northern

	Units	Standard Domestic	Domestic Economy 7	Weighted Average
Real reduction[1]				
Generation	%	7.3	2.1	6.2
Distribution	%	7.7	7.0	7.6
Transmission	%	0.1	0.5	0.2
Supply	%	(2.7)	(0.7)	(2.3)
Margin 1.5%	%	2.6	(0.4)	1.9
Fossil fuel levy 0.3%	%	0.4	0.4	0.4
TOTAL REAL REDUCTION	%	15.5	8.7	14.1
1999/00 Typical annual bill	£	263	354	-
2000/01 Typical annual bill (1999/00 prices)	£	222	323	-
Real reduction	£	41	31	-
2000/01 GB average typical annual bill (1999/00 prices)	£	227	331	-

NORWEB

	Units	Standard Domestic	Domestic Economy 7	Weighted Average
Real reduction[1]				
Generation	%	1.9	0.1	1.4
Distribution	%	10.0	8.7	9.7
Transmission	%	1.1	0.2	0.9
Supply	%	(9.1)	(6.1)	(8.4)
Margin 1.5%	%	7.6	4.8	6.9
Fossil fuel levy 0.3%	%	0.4	0.4	0.4
TOTAL REAL REDUCTION	%	11.4	7.7	10.5
1999/00 Typical annual bill	£	244	343	-
2000/01 Typical annual bill (1999/00 prices)	£	216	316	-
Real reduction	£	28	26	-
2000/01 GB average typical annual bill (1999/00 prices)	£	227	331	-

SEEBOARD

	Units	Standard Domestic	Domestic Economy 7	Weighted Average
Real reduction[1]				
Generation	%	(0.1)	(7.3)	(3.1)
Distribution	%	10.2	9.3	9.8
Transmission	%	0.4	0.2	0.3
Supply	%	(8.2)	(5.4)	(7.1)
Margin 1.5%	%	8.8	7.3	8.2
Fossil fuel levy 0.3%	%	0.4	0.4	0.4
TOTAL REAL REDUCTION	%	11.5	4.4	8.6
1999/00 Typical annual bill	£	240	325	-
2000/01 Typical annual bill (1999/00 prices)	£	212	310	-
Real reduction	£	28	14	-
2000/01 GB average typical annual bill (1999/00 prices)	£	227	331	-

Southern

	Units	Standard Domestic	Domestic Economy 7	Weighted Average
Real reduction[1]				
Generation	%	3.6	(2.9)	1.9
Distribution	%	5.2	4.6	5.1
Transmission	%	0.4	0.5	0.5
Supply	%	(2.3)	(0.1)	(1.7)
Margin 1.5%	%	(0.4)	0.4	(0.2)
Fossil fuel levy 0.3%	%	0.4	0.4	0.4
TOTAL REAL REDUCTION	%	7.1	2.9	5.9
1999/00 Typical annual bill	£	243	341	-
2000/01 Typical annual bill (1999/00 prices)	£	226	331	-
Real reduction	£	17	10	-
2000/01 GB average typical annual bill (1999/00 prices)	£	227	331	-

SWALEC

	Units	Standard Domestic	Domestic Economy 7	Weighted Average
Real reduction[1]				
Generation	%	2.8	(1.9)	1.9
Distribution	%	8.6	7.6	8.4
Transmission	%	0.4	0.4	0.4
Supply	%	(9.7)	(7.1)	(9.2)
Margin 1.5%	%	2.6	4.5	3.0
Fossil fuel levy 0.3%	%	0.4	0.4	0.4
TOTAL REAL REDUCTION	%	5.2	4.0	4.9
1999/00 Typical annual bill	£	276	378	-
2000/01 Typical annual bill (1999/00 prices)	£	262	362	-
Real reduction	£	14	15	-
2000/01 GB average typical annual bill (1999/00 prices)	£	227	331	-

South Western

	Units	Standard Domestic	Domestic Economy 7	Weighted Average
Real reduction[1]				
Generation	%	2.8	1.4	2.3
Distribution	%	6.7	6.0	6.4
Transmission	%	0.6	0.3	0.5
Supply	%	(6.5)	(3.0)	(5.3)
Margin 1.5%	%	3.3	1.3	2.6
Fossil fuel levy 0.3%	%	0.4	0.4	0.4
TOTAL REAL REDUCTION	%	7.2	6.4	6.9
1999/00 Typical annual bill	£	261	369	-
2000/01 Typical annual bill (1999/00 prices)	£	242	345	-
Real reduction	£	19	24	-
2000/01 GB average typical annual bill (1999/00 prices)	£	227	331	-

Yorkshire

	Units	Standard Domestic	Domestic Economy 7	Weighted Average
Real reduction[1]				
Generation	%	3.0	(0.8)	2.3
Distribution	%	7.3	6.7	7.2
Transmission	%	0.1	(0.7)	0.0
Supply	%	3.8	4.4	3.9
Margin 1.5%	%	(3.8)	(5.2)	(4.1)
Fossil fuel levy 0.3%	%	0.4	0.4	0.4
TOTAL REAL REDUCTION	%	10.7	4.6	9.6
1999/00 Typical annual bill	£	243	336	-
2000/01 Typical annual bill (1999/00 prices)	£	217	320	-
Real reduction	£	26	15	-
2000/01 GB average typical annual bill (1999/00 prices)	£	227	331	-

Scottish Power

	Units	Standard Domestic	Domestic Economy 7	Weighted Average
Real reduction[1]				
Generation	%	4.2	3.0	3.7
Distribution	%	6.1	6.0	6.1
Transmission	%	0.2	0.1	0.2
Supply	%	(5.3)	(2.9)	(4.3)
Margin 1.5%	%	1.5	(3.0)	0.2
Fossil fuel levy 0.0%	%	0.0	0.0	0.0
TOTAL REAL REDUCTION	%	6.8	3.2	5.4
1999/00 Typical annual bill	£	261	378	-
2000/01 Typical annual bill (1999/00 prices)	£	243	366	-
Real reduction	£	18	12	-
2000/01 GB average typical annual bill (1999/00 prices)	£	227	331	-

Hydro-Electric

	Units	Standard Domestic	Domestic Economy 7	Weighted Average
Real reduction[1]				
Generation	%	2.6	4.0	3.0
Distribution	%	4.4	4.3	4.4
Transmission	%	1.0	0.6	0.9
Supply	%	(8.1)	0.1	(5.7)
Margin 1.5%	%	6.0	0.3	4.3
Fossil fuel levy 0.0%	%	0.0	0.0	0.0
TOTAL REAL REDUCTION	%	6.0	9.3	7.0
1999/00 Typical annual bill	£	265	404	-
2000/01 Typical annual bill (1999/00 prices)	£	249	366	-
Real reduction	£	16	38	-
2000/01 GB average typical annual bill (1999/00 prices)	£	227	331	-

Great Britain average

	Units	Standard Domestic	Domestic Economy 7	Weighted Average
Real reduction[1]				
Generation	%	2.3	(0.9)	1.3
Distribution	%	7.6	6.9	7.4
Transmission	%	0.4	0.1	0.3
Supply	%	(5.4)	(2.8)	(4.6)
Margin 1.5%	%	4.7	2.8	4.1
Fossil fuel levy 0.3%	%	0.4	0.4	0.4
TOTAL REAL REDUCTION	%	9.9	6.4	8.8
1999/00 Typical annual bill	£	252	354	-
2000/01 Typical annual bill (1999/00 prices)	£	227	331	-
Real reduction	£	25	23	-
2000/01 GB average typical annual bill (1999/00 prices)	£	227	331	-

Note:

1. Annual bill for Standard Domestic and Domestic Economy 7 has been rounded to the nearest pound.

ANNEX B

LIST OF RESPONDENTS TO THE JUNE 1999 CONSULTATION PAPER

1. Supply Licence Holders

Eastern Energy

PowerGen

London Electricity

National Power

Northern Electric

NORWEB

SEEBOARD

Scottish and Southern Energy

SWALEC

South Western Electric

Yorkshire Electricity

Scottish Power

2. Electricity Consumers' Committees

Eastern ECC

East Midlands ECC

London ECC

Merseyside and North Wales ECC

Midlands ECC

North East ECC

North West ECC

South East ECC

Southern ECC

South West ECC

Yorkshire ECC

North Scotland ECC

National ECC

3. Other respondents

Aquila Energy

British Energy

British Gas Trading

Y Dutta

Electricity Association

Energy Saving Trust

Enron

Independent Energy

RJB Mining

ANNEX C Price Savings Available to Domestic Customers (Prices at 1 July 1999) (Note includes VAT)

Table C.1 Achievable Savings for a Standard Quarterly Credit Domestic Tariff Customer

	Eastern	East Midlands	London	Manweb	Midlands	Northern	NORWEB	SEEBOARD	Southern	SWALEC	South Western	Yorkshire	Scottish Power	Hydro-Electric
1000 kWh p.a.														
Incumbents Prices	£95	£102	£110	£118	£98	£119	£103	£94	£105	£120	£108	£106	£112	£118
Average Saving	(2%)	(3%)	(2%)	0%	(6%)	7%	(8%)	(5%)	(3%)	(5%)	(5%)	3%	(2%)	4%
Best Saving	8%	3%	14%	5%	4%	15%	4%	22%	10%	6%	14%	11%	4%	13%
Minimum Saving	(14%)	(15%)	(12%)	(8%)	(19%)	(3%)	(19%)	(15%)	(13%)	(15%)	(17%)	(4%)	(10%)	(2%)
3300 kWh p.a.														
Incumbents Prices	£251	£254	£257	£278	£253	£276	£256	£251	£255	£290	£274	£255	£274	£278
Average Saving	6%	3%	2%	4%	3%	7%	2%	4%	2%	2%	1%	4%	2%	6%
Best Saving	10%	9%	8%	10%	9%	11%	9%	9%	9%	9%	6%	10%	9%	13%
Minimum Saving	1%	(1%)	(2%)	(1%)	(1%)	3%	(1%)	1%	0%	(3%)	(2%)	0%	(5%)	(1%)
6000 kWh p.a.														
Incumbents Prices	£425	£433	£429	£466	£434	£438	£437	£436	£431	£490	£469	£429	£464	£466
Average Saving	6%	5%	3%	6%	6%	3%	6%	7%	4%	4%	4%	5%	5%	8%
Best Saving	11%	11%	10%	14%	13%	8%	13%	12%	11%	11%	10%	11%	11%	16%
Minimum Saving	0%	(1%)	(2%)	(1%)	0%	(2%)	(1%)	(2%)	(1%)	(3%)	0%	0%	(4%)	(1%)

Table C.2 Achievable Savings for a Standard Direct Debit Domestic Tariff Customer

	Eastern	East Midlands	London	Manweb	Midlands	Northern	NORWEB	SEEBOARD	Southern	SWALEC	South Western	Yorkshire	Scottish Power	Hydro-Electric
1000 kWh p.a.														
Incumbents Prices	£93	£91	£100	£113	£95	£115	£100	£86	£102	£117	£105	£94	£107	£115
Average Saving	2%	(7%)	(5%)	2%	(1%)	11%	(3%)	(6%)	2%	(1%)	0%	(2%)	0%	9%
Best Saving	10%	5%	14%	9%	9%	21%	7%	18%	16%	12%	14%	7%	7%	21%
Minimum Saving	(6%)	(17%)	(14%)	(4%)	(12%)	3%	(13%)	(19%)	(10%)	(11%)	(13%)	(11%)	(9%)	5%
3300 kWh p.a.														
Incumbents Prices	£245	£244	£247	£270	£245	£268	£248	£243	£248	£283	£266	£242	£265	£269
Average Saving	7%	3%	1%	5%	4%	7%	3%	4%	3%	2%	2%	3%	3%	6%
Best Saving	11%	8%	8%	10%	10%	11%	9%	9%	10%	9%	7%	10%	10%	15%
Minimum Saving	3%	(1%)	(2%)	0%	1%	4%	(1%)	1%	0%	(2%)	(2%)	(1%)	(3%)	(1%)
6000 kWh p.a.														
Incumbents Prices	£415	£422	£417	£456	£421	£425	£422	£428	£420	£477	£455	£416	£451	£449
Average Saving	6%	6%	3%	6%	6%	2%	5%	7%	4%	4%	4%	5%	4%	7%
Best Saving	12%	12%	10%	15%	13%	8%	12%	13%	11%	12%	10%	11%	11%	15%
Minimum Saving	1%	0%	(3%)	0%	0%	(2%)	(1%)	1%	(2%)	(2%)	0%	0%	(3%)	(2%)

Table C.3 Achievable Savings for a Standard Pre-Payment Domestic Tariff Customer

	Eastern	East	Londo	Manweb	Midlands	Northern	NORWEB	SEEBOAR	Southern	SWALEC	South	Yorkshire	Scottish	Hydro-

		Midlands	n					D			Western		Power	Electric
1000 kWh p.a.														
Incumbents Prices	£107	£124	£127	£136	£108	£137	£125	£90	£122	£149	£123	£131	£126	£116
Average Saving	(12%)	(11%)	(8%)	(9%)	(14%)	(4%)	(12%)	(35%)	(12%)	(5%)	(14%)	(5%)	(15%)	(17%)
Best Saving	4%	4%	3%	9%	5%	14%	4%	9%	4%	17%	4%	7%	2%	5%
Minimum Saving	(30%)	(37%)	(34%)	(37%)	(57%)	(24%)	(46%)	(90%)	(40%)	(25%)	(48%)	(30%)	(35%)	(70%)
3300 kWh p.a.														
Incumbents Prices	£263	£276	£268	£294	£263	£293	£274	£263	£269	£317	£286	£280	£288	£273
Average Saving	(1%)	(7%)	(5%)	(5%)	(6%)	(3%)	(7%)	(6%)	(8%)	(3%)	(5%)	(4%)	(7%)	(10%)
Best Saving	8%	4%	2%	6%	6%	11%	3%	11%	3%	13%	5%	3%	4%	7%
Minimum Saving	(10%)	(24%)	(28%)	(29%)	(33%)	(17%)	(35%)	(31%)	(28%)	(15%)	(29%)	(23%)	(20%)	(52%)
6000 kWh p.a.														
Incumbents Prices	£447	£455	£434	£479	£444	£476	£448	£467	£441	£513	£477	£454	£477	£458
Average Saving	2%	(5%)	(3%)	(3%)	(4%)	(2%)	(4%)	1%	(5%)	(1%)	(2%)	(3%)	(4%)	(7%)
Best Saving	9%	4%	3%	7%	7%	10%	7%	12%	5%	11%	6%	5%	5%	7%
Minimum Saving	(10%)	(21%)	(26%)	(27%)	(26%)	(17%)	(32%)	(17%)	(27%)	(16%)	(24%)	(21%)	(18%)	(47%)

ANNEX D Price Savings to Non-Domestic Customers (Prices at 1 July 1999) (Note excludes VAT)

Table D.1 Achievable Savings for a Standard Quarterly Credit Non-Domestic Tariff Customer

	Eastern	East Midlands	London	Manweb	Midlands	Northern	NORWEB	SEEBOARD	Southern	SWALEC	South Western	Yorkshire	Scottish Power	Hydro-Electric
3300 kWh p.a.														
Incumbents Prices	£252	£298	£282	£290	£268	£313	£303	£249	£269	£299	£305	£279	£373	£351
Average Saving	4%	8%	7%	6%	0%	6%	11%	2%	3%	1%	5%	9%	14%	6%
Best Saving	11%	16%	15%	15%	18%	15%	19%	18%	19%	20%	14%	13%	22%	15%
Minimum Saving	(8%)	(2%)	(6%)	(3%)	(15%)	(6%)	2%	(12%)	(9%)	(13%)	(6%)	3%	6%	(9%)
6000 kWh p.a.														
Incumbents Prices	£437	£479	£460	£468	£459	£531	£492	£442	£453	£499	£521	£454	£562	£577
Average Saving	7%	8%	7%	5%	5%	8%	12%	7%	5%	3%	9%	8%	10%	8%
Best Saving	12%	13%	15%	15%	18%	15%	17%	18%	19%	20%	12%	13%	16%	16%
Minimum Saving	(1%)	0%	(3%)	(3%)	(5%)	2%	3%	(2%)	(4%)	(7%)	2%	3%	(3%)	(4%)
12000 kWh p.a.														
Incumbents Prices	£843	£881	£855	£863	£883	£987	£851	£870	£863	£942	£944	£836	£982	£1077
Average Saving	9%	7%	8%	5%	8%	7%	6%	10%	7%	5%	6%	7%	6%	9%
Best Saving	16%	11%	15%	15%	18%	15%	16%	18%	19%	20%	10%	13%	15%	16%
Minimum Saving	2%	(1%)	1%	(1%)	2%	(2%)	(7%)	2%	0%	(1%)	1%	(1%)	(14%)	0%

Table D.2 Achievable Savings for a Standard Direct Debit Non-Domestic Tariff Customer

	Eastern	East Midlands	London	Manweb	Midlands	Northern	NORWEB	SEEBOARD	Southern	SWALEC	South Western	Yorkshire	Scottish Power	Hydro-Electric
3300 kWh p.a.														
Incumbents Prices	£245	£288	£278	£283	£260	£309	£302	£241	£262	£291	£295	£268	£365	£340
Average Saving	4%	8%	9%	6%	0%	7%	13%	2%	4%	1%	5%	8%	15%	5%
Best Saving	11%	16%	16%	15%	17%	16%	21%	17%	19%	20%	13%	13%	22%	15%
Minimum Saving	(7%)	(2%)	(3%)	(1%)	(14%)	(3%)	5%	(11%)	(8%)	(11%)	(5%)	3%	8%	(9%)
6000 kWh p.a.														
Incumbents Prices	£425	£469	£453	£459	£445	£527	£490	£434	£441	£487	£506	£436	£552	£556
Average Saving	7%	8%	8%	6%	4%	10%	13%	8%	5%	3%	8%	7%	11%	6%
Best Saving	12%	13%	16%	15%	17%	16%	19%	19%	19%	20%	11%	11%	16%	15%
Minimum Saving	0%	2%	0%	0%	(4%)	4%	5%	0%	(2%)	(5%)	3%	0%	4%	(6%)
12000 kWh p.a.														
Incumbents Prices	£820	£871	£843	£850	£857	£983	£842	£862	£838	£919	£858	£803	£968	£1037
Average Saving	9%	8%	8%	6%	7%	8%	8%	11%	6%	4%	(2%)	5%	8%	7%
Best Saving	15%	11%	16%	15%	17%	17%	17%	19%	19%	20%	3%	12%	16%	15%
Minimum Saving	1%	0%	0%	2%	0%	0%	(6%)	4%	0%	(2%)	(7%)	(4%)	(6%)	(8%)