

August 2000

Domestic gas and electricity supply

Market survey 2000

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1. Introduction

Purpose of this document

- 1.1 This survey is part of the Office of Gas and Electricity Market's (Ofgem's) review of the development of competition in the domestic gas and electricity supply markets and the small business electricity supply market.¹ The review started with a public workshop in June involving suppliers, shippers, customer representatives, regulators and government to discuss the factors that Ofgem should take into account when assessing the development of competition.
- 1.2 Ofgem is required under the Gas Act 1986 (as amended 1995 and 2000) and the Electricity Act 1989 (as amended 2000) to review the development of competition in the gas and electricity supply markets annually.² This review will inform Ofgem of progress towards promoting effective competition in the domestic gas and electricity supply markets and the small business electricity supply market as a whole, and in specific parts of the markets. Among other things, the facts and views collected via this survey will be used to:
- ◆ inform the decision about whether to remove British Gas Trading Ltd's (BGT's) gas supply price control for customers on its PromptPay, Standard and Prepayment tariffs from April 2001;
 - ◆ help monitor the behaviour of BGT and the Public Electricity Suppliers (PESs) in the gas and electricity supply markets; and
 - ◆ inform decisions about actions which might need to be taken to remedy problems associated with the development of competition.
- 1.3 To take account of the increasing interactions between the domestic gas and electricity supply markets, as shown by the increasing number of 'dual fuel' offers, this is the first

¹ This review covers all electricity customers in the below 100 kW market, which includes all domestic and most small business electricity customers. Bearing in mind the coverage of the present supply price controls and the format of this year's industrial and commercial surveys, at this stage it seems sensible to stay with the present definitions. However, next year it is likely, depending upon the results of the present consultation, that the survey will be defined as covering small customers. For more details see: "Focusing specific regulatory safeguards on 'small customers'", Ofgem, July 2000.

² The conclusions of the industrial and commercial gas supply market review will be published shortly and the conclusions of the review of the industrial and commercial electricity supply market will be published by the end of

year that Ofgem has carried out a combined review of the domestic gas and electricity supply markets.

Background

- 1.4 In June 2000, Ofgem published a document setting out the licence modification to enforce BGT's price control.³ As well as setting out the licence modification, the document also explained the approach Ofgem would take to decide whether to remove BGT's price control from April 2001 and the timetable for this competition assessment and the review of BGT's future price regulation.
- 1.5 On 20 June 2000, Ofgem held a public workshop to discuss its proposed approach to assessing competition and the factors that would be considered when deciding the future regulation of BGT's domestic prices. Suppliers, customer representatives, regulators and the Department of Trade and Industry (DTI) were represented at the workshop. The main issues raised at the workshop are discussed in Chapter 2.
- 1.6 On 27 July 2000, the Utilities Act 2000 received royal assent. The Act replaces the roles of the Director General of Gas Supply and the Director General of Electricity Supply, with the 'Gas and Electricity Markets Authority'. The Authority has a primary duty under the Act to, 'protect the interests of consumers, where possible by promoting effective competition'. The Act also allows the introduction of the New Electricity Trading Arrangements and requires the legal separation of the PESs electricity supply and distribution businesses.
- 1.7 This review takes place as the DTI is carrying out a review of the barriers to customers switching suppliers in the gas and electricity market. This review was announced by the Secretary of State for Trade and Industry on 18 November 1999 to address concerns that only one in four gas and electricity customers had chosen to switch supplier despite the price savings available. Ofgem understands that the DTI is comparing the gas and electricity supply markets with other customer products markets to see whether there are any lessons that can be learnt from these markets about the reasons for customer switching. It is expected that the conclusions of this review will be announced in the autumn.

³ "Review of British Gas Trading's price regulation, Licence modification", Ofgem, June 2000.

- 1.8 In addition, the National Audit Office is currently reviewing Ofgem's role in the introduction of competition into the domestic and small business electricity supply market. This review will assess the introduction and development of competition in this market and identify any actions that Ofgem can take to improve the development of competition. It is expected that the conclusions of this review will be published later this year.

Structure of the document

- 1.9 At the public workshop in June, Ofgem explained the approach it intended to take to assess the development of competition and asked for views on its proposed approach. This approach is explained in Chapter 2. Chapter 2 also summarises the views expressed at the workshop and in response to the licence modification document, and explains how Ofgem will take account of these views.
- 1.10 As in previous surveys of the gas supply markets, this survey is split into two parts, quantitative and qualitative. The quantitative survey covers the year from 1 July 1999 to 30 June 2000, with information requested for each quarter. Chapter 3 sets out the quantitative information that is requested on the domestic gas supply market. Chapter 4 sets out the quantitative information that is requested on the domestic and small business electricity supply market.
- 1.11 Qualitative issues include any issue that hinders customers taking, or suppliers making, potentially competitive offers. Chapter 5 sets out some issues, which may be adversely affecting the development of gas and electricity supply competition. These include issues discussed at the public workshop and raised by respondents' to the BGT licence modification document. Comments are requested on the significance of these issues, any other issues that respondents believe may be adversely affecting the development of supply competition, and what action can be taken to address these issues.
- 1.12 Chapter 6 sets out the timetable for the rest of this review of the development of competition and the review of BGT's supply price control. In particular, it explains the opportunities that will be available for interested parties to comment on Ofgem's conclusions following this review and its proposals for the future regulation of BGT's domestic prices.

- 1.13 Appendix 1 lists the organisations that attended the public workshop and those that responded to the BGT licence modification document.

Process for submitting responses

- 1.14 We would appreciate gas and electricity suppliers, gas shippers and customer representatives making every effort to participate in this survey as fully as possible. We have allowed respondents until 15 September 2000 to respond to both the qualitative and quantitative parts of the survey.
- 1.15 It is open to respondents to mark all or part of their responses as confidential. Indeed, we would expect responses to the quantitative part of the survey to be marked in this way. However, we would prefer, as far as possible, that responses to the qualitative part of the survey are provided in a form that can be placed in Ofgem's library.
- 1.16 Responses should be sent by post to: -

Nick Fincham
Director, Competition
Office of Gas and Electricity Markets
Stockley House
130 Wilton Road
London SW1V 1LQ
Fax: 020-7828-3154

- 1.17 We would be grateful if responses to the quantitative part of the survey are returned in electronic format, either on floppy disk to the address above, or by e-mail to Giles Stevens at the following e-mail address: giles.stevens@ofgem.gov.uk or Andrew Pester at the following e-mail address: andrew.pester@ofgem.gov.uk .
- 1.18 If you require an electronic version of the tables or have any queries concerning this survey, Giles Stevens on 020-7932-1682 or e-mail: giles.stevens@ofgem.gov.uk or Andrew Pester on 020-7932-6317 or e-mail: andrew.pester@ofgem.gov.uk would be pleased to help.

2. Approach

- 2.1 On 20 June 2000, Ofgem held a workshop for shippers, suppliers, customer representatives, other regulators and government to discuss Ofgem's proposed approach to assessing the development of competition in the domestic gas and electricity supply markets and the small business electricity supply market. The workshop also discussed how this assessment would inform Ofgem's decision on the price regulation for BGT's domestic gas customers from April 2001. 17 organisations were represented at the workshop. These are listed in Appendix 1. Ofgem received positive feedback about the workshop and will hold another workshop in December to discuss the conclusions of this competition assessment and Ofgem's initial proposals for the regulation of BGT's domestic gas tariffs from April 2001.
- 2.2 In addition to the workshop, interested parties had an opportunity to submit written comments on Ofgem's proposed approach to this competition assessment and the review of BGT's supply price control. The 6 organisations that responded to this document are listed in Appendix 1.

Proposed approach

- 2.3 At the public workshop, Ofgem explained:
- ◆ the approach used to review domestic gas supply competition last year and the conclusions of that review,⁴ with information updated to take account of recent developments in the gas and electricity supply markets;
 - ◆ the current price control that applies to BGT's PromptPay, Standard and Prepayment customers and the mechanism under Special Condition 3 of BGT's gas suppliers' licence for the price control to be disapplied;
 - ◆ Ofgem's timetable for this competition assessment and the review of BGT's supply price control; and

⁴ "A Review of the Development of Competition in the Domestic Gas Market", Ofgem, December 1999.

- ◆ that its intention is to adopt a similar approach to this year's competition assessment to the approach adopted for last year's domestic gas supply competitive market review. In particular, we would consider evidence about:
 - ◆ customer awareness;
 - ◆ entry/ exit of shippers/ suppliers from the market;
 - ◆ market share;
 - ◆ customer switching behaviour;
 - ◆ price and related offers; and
 - ◆ barriers to entry.

2.4 We also explained that the competition assessment would be the main factor we would consider when deciding the regulation of BGT's domestic gas tariffs from April 2001. We have summarised below the main issues raised at the workshop and in response to the BGT licence modification document, and then, taking account of these comments, explained the approach Ofgem intends to take to carry out this competition assessment.

Views expressed at the workshop and in response to the licence modification document

2.5 There was agreement that the competition assessment should be the primary factor used to decide whether to remove BGT's supply price control from April 2001. There was also a broad consensus that the factors Ofgem proposed to consider in the competition assessment, were the main indicators of competition. At the workshop and in the responses to the licence modification document, comments focused on:

- ◆ additional factors that should be considered in the competition assessment;
- ◆ alternative ways to assess the factors Ofgem had suggested that it would consider in the competition assessment;
- ◆ BGT and the PESs price controls; and
- ◆ the timetable and process for the competition assessment and the review of BGT's price control.

- 2.6 We have set out below the views expressed and Ofgem's response to the views expressed.

Additional factors that should be considered in the competition assessment

Service Standards

Respondents' views

- 2.7 Customer representatives and some suppliers suggested that Ofgem should consider service standards in the competition assessment. A customer representative believed that a high level of complaints could adversely affect customers' confidence in switching supplier. A supplier said that focusing on complaints would be a poor measure of standards of service. A number of respondents suggested that a good measure of standards of service was the number of innovations, e.g. new tariffs and complementary products, brought to market. Another respondent suggested that Ofgem should attempt to assess how quickly suppliers respond to each others new initiatives.

Ofgem's views

- 2.8 In previous competition assessments, Ofgem has analysed the information supplied under Standard Conditions 15 to 19 of the gas suppliers' licence, which monitor suppliers' performance of their social obligations. In this assessment, Ofgem will endeavour to include further information about service standards, including an assessment of the number and range of innovations brought to market. This will be informed by responses to the quantitative part of the survey, which asks for a comprehensive list of suppliers' tariffs and complementary products.

Profitability

Respondents' views

- 2.9 A regulator asked why Ofgem had not used profitability as a measure of the development of competition. It suggested that lower profit margins were evidence of a more competitive market, and asked why Ofgem had suggested in its 1999 domestic gas competitive market review that more available 'headroom' for competitors was good for competition. A customer representative did not think it was possible to easily make comparisons between different suppliers' profitability and that Ofgem should consider suppliers' stock market performances.

Ofgem's views

- 2.10 Profits can be used as a measure of competition in a market. If an incumbent's profits are higher than those of its competitors this could mean there are barriers to entry, affecting the development of competition. In previous competition assessments, Ofgem has sought information about suppliers' costs, but the information provided has been of variable quality and often difficult to compare between suppliers. Ofgem is seeking similar information in this survey and has amended the cost information requested to try and ensure that different suppliers' information can be compared. Ofgem hopes that shippers and suppliers will make every effort to provide comprehensive information. Bearing in mind that a lot of suppliers carry out other activities or are part of larger companies, Ofgem does not believe it would be possible to make a meaningful comparative assessment of stock market performance for gas and electricity suppliers.
- 2.11 Calculating available headroom was a test applied to BGT's present price caps before implementation. The purpose was to check that the proposed price caps did not prevent efficient suppliers from entering the market.

Alternative ways to assess the factors Ofgem had suggested that it would consider in the competition assessment

Assessing the development of competition for different customer groups

Respondents' views

- 2.12 One supplier suggested that Ofgem should consider the geographical trends in the development of competition, e.g. by obtaining data split by PES area or Local Distribution Zone (LDZ). Another respondent was keen that Ofgem assessed the development of competition for customers with Economy 7 meters.

Ofgem's views

- 2.13 Information has been sought by PES area in the quantitative surveys. Ofgem believes that PES areas is the most appropriate geographical split as this represents the main geographical basis on which suppliers are pricing and marketing. The quantitative survey seeks information by tariff type, which will allow Ofgem to assess competition for customers with Economy 7 meters.

Customer awareness

Respondents' views

2.14 One supplier urged Ofgem to bear in mind that the results of Ofgem's customer surveys often differed significantly from its own surveys. Customer representatives wanted Ofgem to focus on customers' awareness of competing offers and their perceptions of the ease of switching supplier rather than measures of customers' overall awareness of competition. In particular, it was suggested that Ofgem should seek to assess:

- ◆ how often customers are exposed to switching propositions, e.g. advertising or doorstep selling, and the quality of the information provided;
- ◆ customers' awareness of a range of competing tariff offers;
- ◆ customers' perceptions of switching costs; and
- ◆ whether it is the same group of customers switching all the time or whether new customers are taking advantage of the opportunity to switch supplier.

Ofgem's views

2.15 Ofgem has taken account of these suggestions when developing the questions for its customer survey for this year. Ofgem would be happy to consider the results of suppliers' own customer surveys in the competition assessment.

Entry/ exit of shippers/ suppliers in the market

Respondents' views

2.16 Two respondents suggested that as the market develops it is important to consider the development of new marketing channels, e.g. Virgin's internet offer, and not just changes in the number of gas and electricity suppliers. A customer representative believed that it was important to assess how many customers could benefit from new initiatives like the internet.

Ofgem's views

- 2.17 In the quantitative part of this survey, we have asked suppliers for information about the brands suppliers sell under and the marketing channels used. Ofgem will assess the extent to which new initiatives are available to different groups of customers.

Market share

Respondents' views

- 2.18 One customer representative believed that Ofgem should not ignore structural approaches to assessing the development of competition, such as market share, while recognising that market share only gives a picture of suppliers' relative positions at a particular point in time. It was suggested that concentration ratios might be a more relevant use of market share information. It was also noted that market shares should be calculated by both customer numbers and volumes supplied.

Ofgem's views

- 2.19 Ofgem recognises that market share information is only one factor to be considered when assessing competition. Ofgem will consider the use of concentration ratios in this competition assessment. Ofgem's quantitative survey seeks information on shippers' and suppliers' customer numbers and volumes supplied.

Customer behaviour

Respondents' views

- 2.20 Bearing in mind the current level of wholesale gas prices, one supplier urged Ofgem to exercise caution when interpreting current trends in switching as these may not be representative of the development of competition. A customer representative suggested that Ofgem should consider switching rates along with the duration of customers staying with their new suppliers and the errors in the switching process.

Ofgem's views

- 2.21 In the assessment of competition, Ofgem will interpret information against the background of market developments, including the level of wholesale gas prices. Ofgem will assess customer churn, which will provide some indication of how long

customers are remaining with suppliers. Ofgem is currently reviewing the customer transfer process and will endeavour to improve the process to reduce errors in the transfer process.

Barriers to entry

BGT's market position and behaviour

Respondents' views

- 2.22 A number of suppliers expressed concern that BGT's size and structure created a barrier to entry. In particular, suppliers were concerned about the cost of establishing a national brand similar to the 'British Gas' brand, the economies of scale available to BGT, and the effect of BGT's upstream market position and behaviour on downstream competition. However, suppliers did not believe that these concerns should be a reason for Ofgem not to remove BGT's price control from April 2001 as these issues could be addressed by the Competition Act 1998 or under the Gas Act 1986 (as amended 1995 and 2000).
- 2.23 Two suppliers sought more information about Ofgem's regulatory powers to address BGT and PESs dominance and further clarification as to what behaviour would breach sector specific and competition law legislation.

Ofgem's views

- 2.24 Ofgem continues to monitor the behaviour of BGT and the PESs in the gas and electricity supply markets and will investigate any evidence of anti-competitive behaviour in these markets. The concerns about BGT and the PESs market position and behaviour are discussed in Chapter 5.
- 2.25 Ofgem has recently published a consultation proposing the removal of the current non-discrimination licence conditions from the gas and electricity supply licences.⁵ There has also recently been a consultation on Ofgem's guideline explaining how it will interpret the Competition Act 1998 powers in the gas and electricity sectors.⁶

⁵ "Gas and electricity supply licences, Proposals for standard non-discrimination licence conditions", Ofgem, July 2000.

⁶ "Competition Act 1998 – Application to the Energy Sectors, Formal Consultation", Ofgem, May 2000.

Debt blocking

Respondents' views

- 2.26 Suppliers did not believe that Ofgem's proposals to reduce the right of suppliers to object to customers in debt transferring supplier would allow significantly more customers to benefit from competition. There was also concern that Ofgem's proposals would increase the use of security deposits and prepayment meters, and increase tariffs for some customers, many of whom may be in fuel poverty. Suppliers did not believe that the resolution of this issue should affect Ofgem's decision as to whether to remove BGT's price control.

Ofgem's views

- 2.27 Ofgem is currently considering respondents' views on its proposals to reduce the right of suppliers to object to customers in debt transferring supplier and will publish its final proposals shortly. Ofgem believes that it is important that all customers can participate in, and benefit from, the competitive market, and will consider the effect on customers of suppliers' rights to object to customers in debt transferring supplier when deciding whether to remove BGT's price control.

The general operation of the market

Respondents' views

- 2.28 A supplier expressed concern that for historical reasons Transco's information systems are more closely aligned with BGT's information systems than other suppliers' and that this may be assisting BGT in winning back domestic gas customers. A PES expressed concern that Transco's gas transportation charging structure was overly complex in comparison to the National Grid Company's (NGC's) electricity transmission charges. A supplier also expressed concern that customers on Independent Public Gas Transporters' (IPGT) networks should be able to benefit from competition.

Ofgem's views

- 2.29 Ofgem would be happy to consider any evidence that Transco's information systems are adversely affecting the development of competition. Whilst Ofgem recognise that Transco's gas charging structure appears more complex, this is due to the different charges for the use of the National Transmission System (NTS) and LDZs. Ofgem

continues to look at the elements of Transco's charging and recently reviewed Transco's LDZ charges. Transco is required under its licence to ensure that its method of charging meets its specific charging objectives. These include cost reflectivity, facilitation of competition in shipping and supply, and taking account of developments in the transportation business. Therefore, Transco would be obliged to change its charging structure if it did not meet their objectives. The concerns about competition for customers on IPGT networks are discussed in Chapter 5.

Barriers to entry in related markets

Respondents' views

- 2.30 A PES accepted Ofgem's concerns about barriers to entry in related markets, such as the effect of barriers to entry in electricity on the gas market, bearing in mind the increasing importance of 'dual fuel' offers in the gas and electricity supply markets. The PES believed that the (then) Utilities Bill would address concerns about the lack of a competitive wholesale electricity market through the New Electricity Trading Arrangements and the separation of PES supply and distribution businesses would address concerns about possible discrimination by PES distribution businesses. The PES also expressed its support for competition in metering and meter reading services.

Ofgem's views

- 2.31 As explained in the December 1999 domestic gas competitive market review conclusions document, Ofgem is concerned about the effect of barriers to entry in the electricity supply market on the gas supply market, and vice versa, because of the increasing importance of 'dual fuel' offers and the 'headroom' analysis in last year's domestic gas competitive market review, which showed that, under certain circumstances, suppliers needed to be able to offer both gas and electricity to undercut incumbent suppliers. The concerns about barriers to entry in the gas and electricity supply markets are discussed in Chapter 5.

BGT and the PESs price controls

Respondents' views

- 2.32 One supplier asked whether Ofgem's approach to the competition assessment and its review of BGT's price control should be seen as a precedent for next year's review of

the PESs supply price controls. A supplier asked whether Ofgem would regard PESs pricing up to their allowed cap as evidence that competition was not 'established' in the electricity supply market even when customers could obtain significant discounts from other suppliers.

- 2.33 A PES expressed concern that the current high level of wholesale gas prices was squeezing margins for competitors in the gas supply market relative to BGT's price control caps. It urged Ofgem to consider removing the price control as soon as possible to ensure that the price control did not distort the development of competition by consolidating BGT's position.
- 2.34 A customer representative did not believe that competition had developed sufficiently to remove price controls for prepayment customers due to the low level of customer understanding of competition, only 10% of prepayment customers have switched supplier and very few suppliers offer lower prepayment tariffs than BGT.

Ofgem's views

- 2.35 Ofgem expects to adopt a similar approach to the review of PES supply price controls as it is taking to this competition assessment and the review of BGT's price control. In respect of the PESs, Ofgem explained that PESs pricing at their cap could be interpreted in a number of ways and each case would need to be considered on its own merits.
- 2.36 Ofgem is currently monitoring wholesale gas prices and recognises the concern that if prices persist at a relatively high level, margins for competitors to BGT may be squeezed. Ofgem will use its sector specific and competition law powers to address any anti-competitive behaviour in the wholesale markets that is causing the increased prices.
- 2.37 Ofgem notes the concern about the development of competition for prepayment customers. Ofgem is currently examining whether to remove debt blocking provisions which may be reducing incentives for suppliers to compete for these customers by increasing suppliers' costs of acquiring these customers.

Timetable and process

- 2.38 A supplier asked Ofgem to bring forward the timetable for its competition assessment and review of BGT's price control so that a decision as to whether a price control will be in place from April 2001 is made by November 2000.

2.39 The timetable Ofgem is following for the competition assessment and the review of BGT's price control allows Ofgem to gather as much up to date information as possible on which to base its conclusions, while also giving interested parties a number of opportunities to comment on Ofgem's proposals. A shorter timetable would not allow Ofgem to consider as much up to date information and would reduce the opportunities for interested parties to comment. Ofgem will be publishing its initial proposals for BGT's price regulation in November 2000.

Ofgem's approach to the competition assessment

2.40 Under the Utilities Act 2000, Ofgem's statutory duties under the Gas Act 1986 (as amended 1995 and 2000) and the Electricity Act 1989 (as amended 2000) have been replaced with a primary duty to, "protect consumers' interests, where possible by promoting effective competition". The action needed to promote effective competition in the gas and electricity supply markets and to protect consumers' interests in respect of price and service depends on the extent to which competition can be relied on to protect customers' interests in terms of price and the quality and variety of service on offer.

2.41 Although customers have been able to choose a gas supplier other than BGT since the market opened in phases between April 1996 and May 1998, and to choose an electricity supplier other than the host PES since the market opened in phases between September 1998 and May 1999, the removal of BGT's and the PESs statutory monopolies do not in themselves necessarily provide sufficient protection for customers. Ofgem believes that customers' interests will generally be best protected by effective competition, which is characterised by more than just the absence of a statutory monopoly.

2.42 There are a number of important conditions for effective competition, including that:

- ◆ all customers in the market can attract and are aware of a range of competitive offers, whatever their status, location and level of consumption;
- ◆ the abuse of market power is prevented; and
- ◆ the operation of competition is actually promoting innovation in the market and improved economic efficiency.

- 2.43 These conditions are inter-related, and underlying them is the fundamental requirement that a competitor should seek to offer better value to a customer than its rivals. Abuse of market power may be one of the factors that prevent this happening. Hence, it is important that such abuse is prevented. If there is effective competition, over time, competition can be expected to lead to innovation – since successful innovation will be properly rewarded – and to improved economic efficiency.
- 2.44 Where competition is sufficiently developed the enforcement of general competition law provisions should provide sufficient safeguards for customers in the gas and electricity supply market, thereby removing the need for specific regulation under the Gas Act 1986 (as amended 1995 and 2000) and the Electricity Act 1989 (as amended 2000) of BGT and the PESs prices and level of service.
- 2.45 As the development of competition is a dynamic process, characterised by constantly changing structures, behaviour and performance, the development of competition cannot be clearly measured against a simple set of indicators, e.g. market shares. It is important to consider the functioning of the domestic gas and electricity supply market in its entirety. The functioning of the market depends upon the combined effects of the actions of the incumbent, competitors and customers, as well as upon the structural conditions in which they all operate.
- 2.46 It is understandable that an incumbent will seek to defend its market position by responding to competition in a number of ways. Even when the incumbent is dominant, some responses will be in line with the general cut and thrust of everyday business (under competition law, dominant firms are not prohibited from competing). However, some responses may amount to the abuse of market power, since they may have the effect of pre-empting or forestalling the development of competition. To the extent that the incumbent maintains substantial market power, regulatory controls may be required to limit the range of moves open to the incumbent when responding to the development of competition, although whether such controls should extend beyond those associated with standard competition law will depend upon the extent and the nature of the market power concerned, as well as the prevailing market conditions.⁷

⁷ As competition is developing well in the gas and electricity supply markets, Ofgem has recently proposed to remove the non-discrimination licence conditions from the gas and electricity supply licences and use competition law to address anti-competitive behaviour in the gas and electricity supply markets.

- 2.47 Competitors will seek to attack an incumbent's market position in a range of ways, which may reveal important evidence about the development of competition. For example, in the industrial and commercial gas supply market, the extent to which customers, in aggregate, are attracted to a new supplier appears to reduce as consumption and billing levels get smaller,⁸ indicating that competitors appear more able to target price cuts and service levels to meet the individual needs of customers with larger bills. However, whether this is due to factors that impede the development of competition for smaller accounts, or to prices being closer to competitive levels of costs for smaller customers, is a matter for determination in the relevant circumstances.
- 2.48 In the domestic gas and electricity supply markets, a range of customer acquisition techniques have been tried, including the offering of lower prices and the offering of complementary products through a variety of selling methods including general advertising, mail shots and doorstep selling. Taken together, these are the means by which customers are stimulated to consider competing offers in the context of their present bills. However, there may be a group of customers who are not receiving or are unreceptive to such marketing techniques or who are receptive to the retention techniques used by the incumbent, who will remain as customers of the incumbent supplier. If the incumbent is able to identify and segment such customers, they may be vulnerable to adverse incumbent behaviour, such as creeping relative price rises, inconspicuous in themselves, but cumulatively important. As competitors continue to refine their marketing tactics it may be expected that more of the customers currently protected by price controls will respond to competitive offers.
- 2.49 Bearing in mind the dynamic nature of competition and the comments at the public workshop and in response to the BGT licence modification document, Ofgem will consider the following indicators of the development of competition in this assessment:
- ◆ customers' awareness of the opportunity to choose an alternative supplier and the range of competing offers;
 - ◆ shippers' and suppliers' behaviour, including entry and exit in the market, and the number of different marketing channels used by suppliers;

⁸ "1997 Competitive Market Review, Part 1: Above 2,500 therms a year", Ofgas, May 1998.

- ◆ suppliers' performance, in particular suppliers' market shares by customer numbers and volumes supplied;
- ◆ customers' behaviour, including switching suppliers and tariffs/ payment methods;
- ◆ the range of price and related offers available from new entrants, including 'dual fuel' offers;
- ◆ the profitability of suppliers and the 'headroom' available for new suppliers in the market; and
- ◆ potential barriers to the development of competition, including BGT and the PESs behaviour, and the general operation of the market.

2.50 Information to assess these indicators will be obtained through a combination of this survey, information from Transco and PES distribution businesses, and the results of Ofgem's customer survey.

2.51 To better inform Ofgem as to whether, and for which groups of customers, price regulation on BGT may remain relevant, this review will pay attention to whether competition is developing at different speeds for different groups of customers. There is a wide range of possible groupings of customers that could be considered. However, the actions of suppliers and customers provides some indication of how customers could most appropriately be grouped for this purpose.

2.52 In this survey, Ofgem has asked for information to allow customers to be categorised in a number of ways, based on suppliers' and customers' activities. These categories take account of how the scope of price control regulation could in practice be reduced.⁹ The information requested should allow Ofgem to classify customers using the following characteristics:

- ◆ tariffs and payment methods;
- ◆ volumes consumed;

⁹ Price control regulation can only be removed from or retained for a group or groups of customers that can be readily identified and distinguished from other customers.

- ◆ where they live, e.g. PES areas;
- ◆ whether they are supplied gas and electricity by the same supplier ('dual fuel');
and
- ◆ whether they have a debt with their supplier which would allow the supplier to block their transfer to another supplier using the provisions of Standard Condition 7(4) of the gas suppliers' licence.

3. Quantitative Gas Survey

3.1 The quantitative gas survey requests suppliers and shippers to provide information in 3 tables:

- ◆ shipper/ supplier name, ownership structure, licences held, brand names, marketing channels and the name of their gas supplier(s)/ gas shipper(s) (table 1);
- ◆ information on tariffs, related incentives, customer numbers, volumes shipped/ supplied and customers in debt, for each PES or other area, for the four quarters ending 30 September 1999, 31 December 1999, 31 March 2000 and 30 June 2000 (table 2); and
- ◆ information on shippers' and suppliers' expenditure in the year to 30 June 2000 (table 3).

3.2 Guidance notes explaining how to fill in the tables are provided above each table.

Guidance notes to table 1

3.3 Unless it is stated otherwise, both shippers and suppliers should complete all the parts of this table. Companies that are both shippers and suppliers should only complete the table once.

3.4 Shipper/ supplier name - the full name of your company.

3.5 Ownership structure - explain the ownership structure of your company, including the name of any organisation that owns more than 10% of your company and the size of their ownership interest.

3.6 Licences held - list all the gas shipping and gas supply licences that your company holds and the name in which the licence is held.

3.7 Brand names (suppliers only) - list all the brand names under which your company supplies gas in Great Britain.

3.8 Marketing channels (suppliers only) – list all the channels other than the brand names listed above, through which your company sells its gas supply products, e.g. introductory offers and joint ventures.

3.9 Name of gas suppliers(s)/ shipper(s) – Gas shippers only - list the company(ies) for whom you ship gas. Gas suppliers only – list the company(ies) who ship gas for you. Please state if your company undertakes both shipping and supply activities.

Table 1 – Shipper/ supplier name, ownership structure, licences held, brand names, marketing channels and the name of their gas supplier(s)/ gas shippers(s)

Shipper/ supplier name:	
Ownership structure:	
Licences held:	
Brand names (suppliers only):	
Marketing channels (suppliers only):	
Name of gas suppliers(s)/ shipper(s):	

Guidance notes to table 2

- 3.10 Suppliers should complete all parts of the table. We would be grateful if gas shippers could make every endeavour to complete as much of the table as possible, but we recognise that some of the information requested may not be available to shippers. Gas companies that are both shippers and suppliers should only complete the table once.
- 3.11 Data for each of the quarters ending 30 September 1999, 31 December 1999, 31 March 2000 and 30 June 2000 is requested. The number of tables that each shipper/ supplier needs to complete depends on the spread of your customers geographically and over time. For example, if you had customers in the year up to 30 June 2000, in all PES areas, then you will need to complete 14 tables for each quarter, making a total of 56 tables. We would like shippers/ suppliers to provide information by PES area, but where this is not possible other geographical areas should be defined and adopted.
- 3.12 Tariff name – state the name of each tariff offered on the last day of each quarter.
- 3.13 Description of payment methods - describe all available methods of payment on each tariff, e.g. monthly direct debit, quarterly cash, prepayment, etc.
- 3.14 Tariff price – state the pence per day standing charge that was payable, exclusive of VAT, for each tariff. State the pence per kWh unit charge(s) that was payable, exclusive of VAT, but temperature and pressure corrected for each tariff. Where a tariff has more than one unit charge state the consumption levels at which each unit charge was payable.
- 3.15 Related Incentives - state all related incentives that were available to a customer for each tariff. For example, this could include introductory discounts, loyalty discounts, 'dual fuel' tariffs (including standing and unit charges) and related products. You should attach marketing literature to show how these incentives were offered and applied.
- 3.16 Number of customers supplied – state the total number of customers you supplied on each tariff in the consumption bands shown on the last day of each quarter.
- 3.17 Total volume supplied – state the total volume (in kWh) of gas you supplied to customers on each tariff for the whole of the quarter, in each volume band.

- 3.18 Number of customers in debt – state the total number of customers on each tariff who had a level of debt at which you could invoke the objection to transfer facility in Standard Condition 7(4) of the gas suppliers' licence at the end of each quarter.
- 3.19 Average level of debt – state the average level of unpaid debt (£) for your customers that had a level of debt at which you could have invoked the objection to transfer facility in Standard Condition 7(4) of the gas suppliers' licence at the end of each quarter.
- 3.20 Number of customers taking electricity – state the total number of customers on each tariff who also took electricity from you, regardless of whether or not the customer takes electricity as part of a 'dual fuel offer', at the end of each quarter.
- 3.21 **The information provided will be treated in the strictest confidence.**

Table 2 - Information on tariffs, related incentives, customer numbers, volumes shipped/ supplied and customers in debt, for each PES or other area, for the four quarters ending 30 September 1999, 31 December 1999, 31 March 2000 and 30 June 2000.

Quarter ending:				Number of customers supplied			Total volume supplied (kWh)			Number of customers in debt	Average level of debt (£)	Number of customers taking electricity
PES area (or area other than PES area):				< 14654 (kWh) ¹⁰	14655 – 29307 (kWh) ¹¹	29336 – 73267 (kWh) ¹²	< 14654 (kWh) ¹³	14655 – 29307 (kWh) ¹⁴	29336 – 73267 (kWh) ¹⁵			
Tariff Name	Description of payment methods	Tariff price, including standing charge (pence per day) and unit rates (pence per kWh)	Related incentives, e.g. discounts, other products									

¹⁰ This is equivalent to 500 therms or less.
¹¹ This is equivalent to 501 to 1000 therms.
¹² This is equivalent to 1001 to 2500 therms.
¹³ This is equivalent to 500 therms or less.
¹⁴ This is equivalent to 501 to 1000 therms.
¹⁵ This is equivalent to 1001 to 2500 therms.

Guidance notes to table 3

- 3.22 Both shippers and suppliers should complete as much of this table as possible. However, shippers are not expected to complete the supply and acquisition cost sections. Companies that are both shippers and suppliers should only complete the table once.
- 3.23 State the actual total expenditure (£) and expenditure per customer (£) for the quarters ending 30 September 1999, 31 December 1999, 31 March 2000 and 30 June 2000. Expenditure per customer should be the cost per customer, assuming that a customer consuming 19,050 kWh per quarter remained with the shipper/ supplier for the whole of the quarter.
- 3.24 Gas purchase – state the amount paid under all gas purchase contracts, including the price paid for gas produced by your own company or related companies. It would be helpful if shippers and suppliers stated the amount paid to meet the swing requirements of domestic customers.
- 3.25 Credit metering – state the amount paid for the provision of metering services for customers supplied through credit meters, which includes the provision, installation and maintenance of a credit meter. Meter reading expenditure should not be included.
- 3.26 Prepayment metering – state the amount paid for the provision of metering services for customers supplied through prepayment meters, which includes the provision, installation and maintenance of a prepayment meter. Meter reading expenditure should not be included.
- 3.27 Transportation – state the amount paid for transportation services, including NTS charges, LDZ charges, NTS capacity auction payments and IPGT charges.
- 3.28 Storage – state the amount paid for storage services, including ‘virtual’ storage services.
- 3.29 Supply (credit meter customers) – state the expenditure for supplying customers supplied through a credit meter, including customer contact, billing and meter reading costs.
- 3.30 Supply (prepayment meter customers) – state the expenditure for supplying customers supplied through a prepayment meter, including customer contact, billing, meter reading and prepayment infrastructure costs.

- 3.31 Acquisition (credit meter customers) – provide an estimate of the costs of acquiring customers supplied through a credit meter, including the marketing expenditure, expressed in £ per customer acquired.
- 3.32 Acquisition (prepayment meter customers) – provide an estimate of the costs of acquiring customers supplied through a prepayment meter, including the marketing expenditure, expressed in £ per customer acquired.
- 3.33 It would be helpful if respondents could explain how they have allocated costs to domestic customers, which may be shared with other activities. For example, suppliers may supply domestic, and industrial commercial gas customers from gas obtained under the same contract.
- 3.34 The information provided will be treated in the strictest confidence.**

Table 3 – Shippers’ and suppliers’ expenditure

Expenditure category	Expenditure for quarter ending 30 September 1999 (£)		Expenditure for quarter ending 31 December 1999 (£)		Expenditure for quarter ending 31 March 2000 (£)		Expenditure for quarter ending 30 June 2000 (£)	
	Total	Per customer	Total	Per customer	Total	Per customer	Total	Per customer
Gas Purchase								
Credit metering								
Prepayment metering								
Transportation								
Storage								
Supply (credit meter customers)								
Supply (prepayment meter customers)								
Acquisition (credit meter customers) – per customer acquired								
Acquisition (prepayment meter customers) – per customer acquired								

4. Quantitative Electricity Survey

4.1 The quantitative electricity survey requires suppliers to provide information in 3 tables:

- ◆ supplier name, ownership structure, licences held, brand names and marketing channels (table 4);
- ◆ information on tariffs, related incentives, customer numbers, volumes supplied and customers in debt, for each PES area, for the four quarters ending 30 September 1999, 31 December 1999, 31 March 2000 and 30 June 2000. A separate table is requested for domestic and small business customers (tables 5a and b); and
- ◆ information on suppliers' expenditure in the year to 30 June 2000. A separate table is requested for domestic and small business customers (tables 6a and b).

4.2 Guidance notes explaining how to fill in the tables are provided above each table.

Guidance notes to table 4

4.3 Supplier name - the full name of your company.

4.4 Ownership structure - explain the ownership structure of your company, including the name of any organisation that owns more than 10% of your company and the size of their ownership interest.

4.5 Licences held - list all the electricity supply licences that your company holds and the name in which the licence is held.

4.6 Brand names - list all the brand names under which your company supplies electricity in Great Britain.

4.7 Marketing channels – list all the channels other than the brand names listed above, through which your company sells its electricity supply products, e.g. introductory offers and joint ventures.

Table 4 – Supplier name, ownership structure, licences held, brand names and marketing channels

Supplier name:	
Ownership structure:	
Licences held:	
Brand names:	
Marketing channels:	

Guidance notes to tables 5a and b

- 4.8 Suppliers should provide information on domestic customers in table 5a and on small business customers in table 5b.¹⁶
- 4.9 Data for each of the quarters ending 30 September 1999, 31 December 1999, 31 March 2000 and 30 June 2000 is requested. The number of tables that each supplier needs to complete depends on the spread of your customers geographically and over time. For example, if you had only domestic customers in the year up to 30 June 2000, in all PES areas, then you will need to complete 14 tables for each quarter, making a total of 56 tables.
- 4.10 Tariff name – state the name of each tariff offered on the last day of each quarter.
- 4.11 Description of payment methods - describe all available methods of payment on each tariff, e.g. monthly direct debit, quarterly cash, prepayment, etc.
- 4.12 Tariff price – state the pence per day standing charge that was payable, exclusive of VAT, for each tariff. State the pence per kWh unit charge(s) that was payable, exclusive of VAT for each tariff. For any tariff with more than one unit charge state the consumption levels and/ or times of day at which each unit charge was payable.
- 4.13 Related Incentives - state all related incentives that were available to a customer for each tariff. For example, this could include introductory discounts, loyalty discounts, 'dual fuel' tariffs (including standing and unit charges) and related products. You should attach marketing literature to show how these incentives were offered and applied.
- 4.14 Number of customers supplied – state the total number of customers you supplied on each tariff in the consumption bands shown, up until the last day of each quarter. The consumption bands are shown in kWh.
- 4.15 Total volume supplied – state the total volume (in kWh) of electricity you supplied to customers on each tariff for the whole of the quarter, in each volume band.

¹⁶ Domestic customers have an MPAN number beginning with a 1 or 2, while small business customers have MPAN numbers beginning with a 3 or 4. Customers are allocated an MPAN number depending on the load profile of the customer.

- 4.16 Number of customers in debt – state the total number of customers on each tariff who had a level of debt at which you could invoke the objection to transfer facility at the end of each quarter.
- 4.17 Average level of debt – state the average level of unpaid debt (£) for your customers that had a level of debt at which you could have invoked the objection to transfer facility at the end of each quarter.
- 4.18 Number of customers taking gas – state the total number of customers on each tariff who also took gas from you, regardless of whether or not the customer takes gas as part of a ‘dual fuel offer’, at the end of each quarter.
- 4.19 The information provided will be treated in the strictest confidence.**

Guidance notes to tables 6a and b

- 4.20 Suppliers should provide information on domestic customers in table 6a and on small business customers in table 6b.¹⁷
- 4.21 State the actual total expenditure (£) and expenditure per customer (£) for the quarters ending 30 September 1999, 31 December 1999, 31 March 2000 and 30 June 2000. Expenditure per customer should be the cost per customer, assuming that a customer consuming 3300 kWh per quarter remained with the shipper/ supplier for the whole of the quarter.
- 4.22 Generation purchase costs – state the amount paid for generation purchases, including payments to ‘the pool’, any hedging contracts you have signed and the price paid for electricity generated by your own company or related companies. Please state the amount paid to meet the load factor requirements of domestic customers.
- 4.23 Credit metering – state the amount paid for the provision of metering services for customers supplied through credit meters, which includes the provision, installation and maintenance of the meter. Meter reading expenditure should not be included.
- 4.24 Prepayment metering – state the amount paid for the provision of metering services for customers supplied through prepayment meters, which includes the provision, installation and maintenance of the meter. Meter reading expenditure should not be included.
- 4.25 Transmission – state the amount paid for transmission services obtained from the National Grid Company.
- 4.26 Distribution – state the amount paid for distribution services obtained from the PES distribution businesses.
- 4.27 Supply (credit meter customers) – state the expenditure for supplying customers supplied through a credit meter, including customer contact, billing and meter reading costs.

¹⁷ Domestic customers have an MPAN number beginning with a 1 or 2, while small business customers have MPAN numbers beginning with a 3 or 4. Customers are allocated an MPAN number depending on the load profile of the customer.

- 4.28 Supply (prepayment meter customers) – state the expenditure for supplying customers supplied through a prepayment meter, including customer contact, billing and meter reading and prepayment infrastructure costs.
- 4.29 Acquisition (credit meter customers) – state the costs of acquiring customers supplied through a credit meter, including the marketing expenditure, expressed in £ per customer acquired.
- 4.30 Acquisition (prepayment meter customers) – state the costs of acquiring customers supplied through a prepayment meter, including the marketing expenditure, expressed in £ per customer acquired.
- 4.31 It would be helpful if respondents could explain how they have allocated costs to domestic and small business customers, which may be shared with other activities. For example, suppliers may supply domestic, small business, and industrial and commercial electricity customers from gas obtained under the same contract.
- 4.32 The information provided will be treated in the strictest confidence.**

Table 6a – Suppliers’ expenditure for the year to 30 June 2000 (Domestic)

Expenditure category	Expenditure for quarter ending 30 September 1999 (£)		Expenditure for quarter ending 31 December 1999 (£)		Expenditure for quarter ending 31 March 2000 (£)		Expenditure for quarter ending 30 June 2000 (£)	
	Total	Per customer	Total	Per customer	Total	Per customer	Total	Per customer
Generation purchase costs								
Credit metering								
Prepayment metering								
Transmission								
Distribution								
Supply (credit meter customers)								
Supply (prepayment meter customers)								
Acquisition (credit meter customers) – per customer acquired								
Acquisition (prepayment meter customers) – per customer acquired								

Table 6b - Suppliers' expenditure for the year to 30 June 2000 (Small business)

Expenditure category	Expenditure for quarter ending 30 September 1999 (£)		Expenditure for quarter ending 31 December 1999 (£)		Expenditure for quarter ending 31 March 2000 (£)		Expenditure for quarter ending 30 June 2000 (£)	
	Total	Per customer	Total	Per customer	Total	Per customer	Total	Per customer
Generation purchase costs								
Credit metering								
Prepayment metering								
Transmission								
Distribution								
Supply (credit meter customers)								
Supply (prepayment meter customers)								
Acquisition (credit meter customers) – per customer acquired								
Acquisition (prepayment meter customers) – per customer acquired								

5. Qualitative Survey

- 5.1 Potential entrants to the gas and electricity supply markets and shippers/suppliers within these markets will consider the return they expect to make in these markets as compared with deploying their resources in other markets. The extent of any real or perceived barriers to entry and their associated costs will be a factor that potential entrants and existing suppliers bear in mind when making their decision as to how to deploy their resources to maximise their return.
- 5.2 In this chapter, we have identified some issues in the gas and electricity supply markets, which may be preventing suppliers from making, and customers obtaining, potentially competitive offers in the gas and electricity supply markets. We are seeking respondents' views as to the importance of these issues to the development of competition and what, if, any action should be taken to address these issues. We are also seeking views on any other issues that are affecting suppliers' ability to make, and customers' ability to obtain, potentially competitive offers.

Issues raised in the 1999 domestic gas competitive market review

- 5.3 In the December 1999 document setting out the conclusions of Ofgem's review of the development of competition in the domestic gas supply market, Ofgem raised a number of issues that were affecting the development of competition in the gas and electricity supply markets. In the gas market, the issues raised were:
- ◆ pre-emptive behaviour by BGT, including, BGT's 'dual fuel' offer, BGT's complementary products, Centrica's acquisition of the Automobile Association, BGT's advertising and BGT's role in the transfer process;
 - ◆ the position of customers on IPGT networks;
 - ◆ debt blocking; and
 - ◆ uncertainty about the level of Transco's prepayment meter charges.
- 5.4 Ofgem continues to monitor BGT's market position and behaviour, and we have set out below the particular issues on which we would like comments. Ofgem has been working to increase choice for customers on IPGT networks and we

have set out below the current position on this issue and invited comments. Ofgem has set out proposals to address the debt blocking issue and is currently considering comments on these proposals before bringing forward final proposals. We have not discussed this issue below as it will be the subject of a separate consultation. Ofgem has recently accepted changes to Transco's metering charges, including prepayment meter charges, which it believes now better reflect its costs.¹⁸ These charges should provide more certainty for suppliers about the future level of Transco's prepayment meter charges and facilitate competition in the provision of prepayment metering services. This issue is not discussed below as it has been the subject of a separate consultation.

5.5 In the electricity market, the following issues were raised:

- ◆ the lack of a competitive wholesale electricity market;
- ◆ the lack of separation of PES electricity supply and distribution functions;
- ◆ the lack of competition in electricity meter reading services;
- ◆ the transmission charging regime operated by NGC, Scottish Power and Scottish Hydro-Electric; and
- ◆ PESs market position and behaviour.

5.6 The first two issues are being addressed by the Utilities Act 2000, which will allow the introduction of New Electricity Trading Arrangements and will require the legal separation of PES supply and distribution functions. Ofgem remains concerned about the lack of competition in electricity metering and meter reading.¹⁹ The concerns about the effect on supply competition of transmission charges has been addressed by changes to the transmission charges of the 3 transmission businesses.²⁰ Ofgem is currently undertaking a project 'Improving Customer Transfers' which is considering the complexities which face new

¹⁸ Ofgem's decisions under Standard Condition 4 of Transco's Public Gas Transporters licence on Transco's pricing consultation papers PC54 (Disaggregated metering charges) and PC57 (Interim metering charges from 1 July 2000) were published by Transco, along with its report on the conclusions of the consultations, in mid-July.

¹⁹ Ofgem expects to publish its strategic metering review later this year.

²⁰ "Decision on NGC's 2000/01 Transmission Network Use of System Demand Charges", Ofgem, February 2000.

entrants in using the new industry systems and processes required to facilitate a customers' transfer. As these issues are or have been considered in other consultations, Ofgem is not seeking specific views on these issues. Ofgem continues to monitor the market position and behaviour of the PESs and this issue is discussed below.

Issues for comment

5.7 We have set out below the issues on which we would welcome comments. In particular, we would like comments on the significance of the issues raised for the development of competition and what, if any action can be taken to address the issues raised. The issues on which we would like comments are:

- ◆ BGT and the PESs market position and behaviour;
- ◆ PESs operation of the prepayment meter infrastructure; and
- ◆ competition for customers on IPGT networks.

BGT and the PESs market position and behaviour

5.8 It is understandable that BGT and the PESs will seek to circumscribe competitors' success before competition is effective. The question is whether these moves are contrary to the relevant provisions of the sector specific legislation and competition law. Such moves may be pre-emptive, or directed at ongoing competition.

5.9 In defending an established dominant position, a large range of moves are open to an incumbent. A pre-emptive move is one made ahead of the opening of a market, which is intended to inhibit or delay the entry of a competitor or competitors. When competitors are present, similar moves taken together may also have the object or effect of restricting, distorting or preventing the development of competition in the domestic energy supply market. BGT and the PESs have deployed several such moves, aimed at defending their market position. In deciding whether and how to use its powers under sector specific legislation or competition law to curb such practices, Ofgem has to distinguish moves which might be expected in the normal cut and thrust of business from those which stem from market power and constitute an abuse of market power.

Such judgements can only be made by considering the specific circumstances of BGT and the PESs behaviour. At the present stage of competitive development any move must be considered in the light of its possible bearing on pre-emption.

- 5.10 Over the last year BGT and the PESs have brought a number of new offers to market, including:
- ◆ offering tariffs without a standing charge;
 - ◆ developing joint ventures with companies outside the energy industry, e.g. Virgin and London Electricity; and
 - ◆ selling gas and electricity supply over the internet.
- 5.11 In addition, concerns have been raised about the process of customer retention, such as the nature of the literature sent to customers who are considering or in the process of switching supplier.
- 5.12 Ofgem has investigated a number of complaints against BGT and the PESs during the last year, but has generally found that the offers brought to market by BGT and the PESs have been pro-competitive and increased customer choice. However, Ofgem continues to monitor BGT and the PESs market position to ensure that there is no abuse of a dominant position.
- 5.13 Concerns have been raised with Ofgem that BGT's market position may be acting as a barrier to entry in the gas and electricity supply markets. In particular, concern has been expressed about the cost to other suppliers of developing a strong national brand like 'British Gas', the economies of scale available to BGT and the effect on downstream competition of BGT's upstream market position. Ofgem has generally focused on dominant suppliers' behaviour rather than their market position, but we would welcome any information, particularly about the additional costs other suppliers believe they face and on the effect of BGT's market position on the development of competition.
- 5.14 We would welcome respondents' views on the effect of BGT and the PESs market position and behaviour on the development of gas and electricity supply competition.**

PESs operation of the prepayment meter infrastructure

- 5.15 Each PES supply business operates the prepayment meter infrastructure in its area, which allows all suppliers in a PES area to collect payments from their prepayment customers. At present there is no competition to the PES in the offering of this service. Ofgem has received complaints that some PESs are operating this service in a discriminatory manner. In particular, that the charges levied by PESs for this service do not reflect the costs of providing the service and that PESs are developing enhanced services for the exclusive use of their own supply business.
- 5.16 Ofgem believes that with the lack of competition in the provision of these services, PESs should ensure that there is no undue discrimination in the services offered, including enhanced services, in accordance with PES licences.²¹ It is also important that PESs do not distort the development of supply competition through the level of charges levied for these services or the operation of these services.
- 5.17 Ofgem would welcome respondents' views on any problems they have experienced with the operation of electricity prepayment meter infrastructure services and any action that can be taken to address those issues.**

Competition for customers on IPGT networks

- 5.18 Ofgem is concerned that some customers on IPGT networks may not have as much choice of gas supplier as customers on Transco's PGT network. This is because not all shippers have signed the network codes of non-Transco PGTs. Ofgem is continuing to work with shippers and suppliers to understand whether any obstacles exist that may be preventing shippers from signing IPGT network codes.
- 5.19 Ofgem would welcome views on this issue and any other problems customers on IPGT networks are experiencing in benefiting from competition.**

²¹ This is Condition 11C in most PES licences. As a result of the separation of the supply and distribution businesses by a number of PESs the number of this licence condition is different in some supply licences.

5.20 In addition to the issues discussed above, Ofgem would welcome comments on any other issues that respondents believe are preventing suppliers making, and customers obtaining, potentially competitive offers.

6. Timetable for the competition assessment and the review of BGT's supply price control

6.1 As explained in Chapter 2, this assessment of the development of competition in the domestic gas and electricity supply markets and the small business electricity supply market, and the review of BGT's supply price control began with a public workshop in June. The process and timetable that Ofgem will follow to complete the review, including the opportunities for interested parties to comment on Ofgem's conclusions and proposals, are set out below:

- ◆ November 2000 - Ofgem publishes the conclusions of the competition assessment and its initial proposals for the regulation of BGT's domestic gas tariffs from April 2001. Interested parties will have at least four weeks to comment on these documents.
- ◆ 14 December 2000 – Ofgem will hold a public workshop to explain the conclusions of its competition assessment and its initial proposals for the regulation of BGT's domestic gas tariffs from April 2001. A formal invitation to the workshop will be issued in November 2000.
- ◆ February 2001 – Taking account of the responses to the competition assessment and the initial proposals for the regulation of BGT's domestic gas tariffs from April 2001, Ofgem will publish its final proposals for the regulation of BGT's domestic gas tariffs from April 2001, including a proposed licence modification, if necessary. Interested parties will have until late March to comment.
- ◆ April 2001 – Taking account of responses to the final proposals, Ofgem will publish any necessary licence modification to regulate BGT's domestic gas tariffs from April 2001.

Appendix 1 - A list of the organisations that attended the public workshop and organisations that responded to the BGT licence modification document

1.1 The following organisations attended the public workshop on 20 June 2000 to discuss Ofgem's proposed approach to assessing competition in the gas and electricity supply markets and the decision about the future price regulation of BGT's domestic gas tariffs:

- ◆ Aquila;
- ◆ British Gas Trading;
- ◆ Civil Aviation Authority;
- ◆ Department of Trade and Industry;
- ◆ Eastern Energy;
- ◆ Gas Consumers' Council;
- ◆ London Electricity;
- ◆ Northern Electric;
- ◆ npower;
- ◆ Powergen;
- ◆ Ofreg;
- ◆ Oftel;
- ◆ Ofwat;
- ◆ Scottish and Southern Energy;
- ◆ Scottish Power;

- ◆ Seeboard; and

- ◆ Swalec.

1.2 The following organisations responded to Ofgem's document setting out the licence modification to enforce BGT's supply price control:

- ◆ Gas Consumers' Council;

- ◆ Consumers' Association;

- ◆ Eastern Energy;

- ◆ npower;

- ◆ Scottish Power; and

- ◆ Yorkshire Electricity.