

July 2001

**Domestic gas and electricity supply
market survey 2001**

Executive summary

This document sets out how Ofgem intends to conduct its survey of the development of competition in the domestic gas and electricity markets since April 2000. The results of the survey will be used to inform Ofgem's review of the development of competition in domestic gas and electricity supply, to be published in November 2001. The review will, among other things, inform Ofgem's review of the price controls presently applying to the PESs and BGT.

Ofgem has developed a number of key indicators for the assessment of the development of competition. These are :

- customers' experiences of the competitive market;
- entry and exit of suppliers;
- market shares;
- customer switching behaviour;
- prices and related offers; and
- barriers to entry.

The survey will take the form of requesting all domestic gas and electricity suppliers to provide data and information to inform these key indicators. It comprises two main parts; a quantitative survey, and a qualitative survey. Chapter 3 of this document sets out details on the quantitative survey, which seeks data on for example customer numbers and volumes supplied in the gas, electricity and 'dual fuel' markets. The quantitative survey also seeks data on customers in debt. Chapter 4 sets out details on the qualitative part of the survey. This seeks views on any issues concerning the development of competition and any impediments to its efficacy or development.

Suppliers are asked to make their returns by 24 August 2001.

Ofgem would welcome comments on the issues raised in this document, particularly in Chapter 4 on the qualitative survey, by 24 August 2001. The process for responding is set out in Chapter 1.

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1. Introduction

Purpose of this document

- 1.1 This survey forms part of the Office of Gas and Electricity Markets' (Ofgem's) review of the development of competition in the domestic¹ gas and electricity markets. There are two parts to the review, the quantitative survey, which should be completed by all licensed domestic gas and electricity suppliers, and the qualitative survey. Ofgem would welcome any views from interested parties on matters raised in this document, particularly in Chapter 4 on the qualitative survey.
- 1.2 The review began with a public workshop in May, attended by suppliers, customer representatives and regulators, to discuss the factors that Ofgem should consider when assessing the development of competition in the domestic gas and electricity markets.
- 1.3 Under the Utilities Act 2000, Ofgem is required to produce an annual report to the Secretary of State, in which Ofgem has to report on the development of competition in the supply markets. This survey also serves to:
 - ◆ Inform Ofgem's review of British Gas Trading's (BGT) and the Public Electricity Suppliers' (PES) supply price controls, in particular on the scope of any price controls from 1 April 2002;
 - ◆ Highlight any potential problems in the development of competition in the gas and electricity supply markets; and
 - ◆ Monitor the behaviour of BGT and the PESs in the gas and electricity supply markets.

Background

- 1.4 In December 2000 Ofgem published its conclusions to the review of the development of competition in the domestic gas and electricity supply markets

¹ Domestic customers defined in paragraph 3.5

between September 1999 –June 2000². The review concluded that competition was continuing to develop well in both supply markets. A range of factors were considered which supported this view, including:

- ◆ almost all customers were aware that competition in domestic gas and electricity supply existed, with 89% of switchers finding it easy to change supplier;
- ◆ the number of competing suppliers in both supply markets was sufficient to promote rivalry;
- ◆ the level of customer switching in the gas supply market averaged 57,300 per week over the year to October 2000, up from an average of 52,500 per week over the previous year. Electricity switching levels were higher than gas, averaging 140,000 per week in the last year;
- ◆ BGT's market share fell over the previous year to 71% of domestic gas customers, while the PESs' in area market share varied between 78% and 89%. The number of customers supplied on 'dual fuel' deals increased over the year from approximately 5 million to approximately 7.5 million;
- ◆ most customers were able to obtain a range of competitive offers, with available discounts of up to 20% compared to BGT's tariffs in gas supply, and up to 18% in electricity supply in comparison to the local PES tariffs; and
- ◆ barriers to entry in both gas and electricity supply were relatively low, with Ofgem taking action to address many of the remaining issues, including the introduction of New Electricity Trading Arrangements and the separation of PES supply and distribution businesses. However, Ofgem remained concerned that customers in debt were unable to benefit from the choice available in the competitive market because suppliers had the right to object to the transfer of customers in debt.

1.5 In February 2001 Ofgem published final proposals for BGT's price regulation from 1 April 2001. As well as setting out the licence modification to put into

² A review of the development of competition in domestic gas and electricity supply, Ofgem, December

effect Ofgem's proposals, the document also set out the proposed timetable for reviewing BGT's and the PESs' price controls.

- 1.6 On 11 May Ofgem held a public workshop to discuss the proposed approach for assessing the development of competition in the domestic gas and electricity supply markets over 1999 -2001, and in particular, the factors which Ofgem would consider in assessing the development of competition. The workshop also sought views on Ofgem's approach to the review of supply price controls applying to the PESs and BGT.

Structure of document

- 1.7 Ofgem has consulted on the proposed approach for Ofgem's review of the development of competition in the domestic gas and electricity supply markets at the public workshop, held on 11 May, and again in May through issuing the survey for consultation. Chapter 2 discusses Ofgem's proposed approach and summarises the views expressed by those who attended the public workshop and by respondents to the consultation on the draft survey.
- 1.8 As in last year's survey, we have split the survey into two parts, the quantitative survey and the qualitative survey. Chapter 3 sets out the quantitative information that is requested for the survey, which contains the gas, electricity, dual fuel and customers in debt pro-formas. Chapter 4 contains the qualitative survey. This survey requests views on a number of issues which Ofgem considers may be affecting the development of competition in the domestic supply markets.
- 1.9 Chapter 5 sets out the timetable for this year's competitive market review and the review of BGT's and the PESs' price controls. This chapter also sets out the opportunities for interested parties to comment on Ofgem's conclusions to these reviews.
- 1.10 Appendix 1 lists the organisations that attended the public workshop and the suppliers that responded to the initial survey consultation.

Process for submitting responses

- 1.11 Ofgem is requesting all domestic electricity and gas suppliers to complete both the quantitative and qualitative parts of the survey. Ofgem has therefore written separately to suppliers requesting this. Ofgem would appreciate full and timely responses to this survey from suppliers. Ofgem considers the survey to have been significantly reduced in scope from last year. Responses are requested to both parts of the survey by 24 August 2001, allowing 7 weeks for its completion. Given the extent of time to respond and the reduced scope of the survey compared with last year's review, Ofgem would greatly appreciate responses to the survey by the deadline.
- 1.12 Ofgem would also welcome views from other interested parties, particularly concerning the issues raised in Chapter 4, in the qualitative survey.
- 1.13 It is open to respondents to mark all or part of their responses as confidential. Indeed, Ofgem would expect responses to the quantitative part of the survey to be marked as such. However, it would be preferred, 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.
- 1.14 We would be grateful if responses to the quantitative part of the survey are returned in electronic format, either on floppy disk to Kemi Olafare at the address below, or by email to olakemi.olafare@ofgem.gov.uk.
- 1.15 Responses by post should be sent to: -
- Kemi Olafare
Competition Analyst
Office of Gas and Electricity Markets
9 Millbank
London, SW1P 3GE
- 1.16 Kemi Olafare (telephone 020 – 7901 – 7270) will be pleased to answer any questions concerning this survey.

2. Approach

- 2.1 On 11 May 2001, Ofgem held a public workshop for interested parties to discuss Ofgem's proposed approach for assessing the development of competition in domestic gas and electricity markets, and the draft quantitative survey and guidance notes. This workshop also discussed the process and approach of Ofgem's review of BGT's and the PESs' price controls. Representatives from 22 organisations attended the workshop, including suppliers, customer representatives and other regulators. A full list of all those organisations that attended the workshop is given in Appendix 1.
- 2.2 On 17 May 2001, Ofgem issued the draft quantitative survey and guidance notes to suppliers that would be completing the quantitative survey for formal consultation. There were 11 responses. A list is given in Appendix 1.

Proposed approach

- 2.3 At the public workshop Ofgem set out:
- ◆ its proposed approach to the review of the development of competition in the domestic gas and electricity markets;
 - ◆ the rationale behind Ofgem's approach; and
 - ◆ the draft quantitative survey and guidance notes.

Ofgem's approach to competition assessment

- 2.4 Ofgem propose to use the following competition indicators for this year's assessment of the development of competition in the domestic gas and electricity supply markets. These are the same indicators as used for last year's review:
- ◆ customers' experiences of the domestic market;
 - ◆ entry and exit of suppliers;
 - ◆ market shares;

- ◆ customer switching behaviour;
 - ◆ prices and related offers; and
 - ◆ barriers to entry
- 2.5 This information will, in the main, be obtained from the quantitative and qualitative surveys given in this document.
- 2.6 Customers' experiences of the domestic market will be gauged from a separate customer survey. Ofgem has commissioned market research consultants to carry out during August and September 2001 a sample survey of around 2000 domestic electricity and gas customers, in order to obtain directly customers' views about their experiences of the market. Ofgem commissioned similar research in 2000 and published the results in January 2001³.
- 2.7 At the workshop Ofgem explained that the assessment of these competition indicators would inform Ofgem's decision as to the future price regulation for BGT and the PES from 1 April 2002.

Approach rationale

- 2.8 Ofgem has included a broad range of competition indicators for its assessment of the development of competition in the gas and electricity supply markets. These indicators had been developed over previous years and have enabled Ofgem to gain an understanding of the development of competition in the supply markets over these years. Ofgem has consulted on the approach used for its assessment of competition at several points in time over the previous few years. In general respondents have agreed with Ofgem that the indicators considered are the main indicators of competition. Ofgem recognises that while other indicators could also be used along with those outlined above, Ofgem does not consider that they would add substantially to the overall picture of the market obtained from using the indicators given above.

³ Experience of the competitive domestic electricity and gas markets Research study conducted for Ofgem by MORI January 2001 08/01

Draft quantitative survey

- 2.9 Respondents to last year's survey noted that completing the survey required considerable resources and time. Ofgem has acknowledged respondents' views and has sought ways in which Ofgem can obtain information in order to reduce this burden without compromising the functionality of the market review. Consequently, Ofgem has greatly reduced in scope the quantitative survey from the previous year. Ofgem has not requested any tariff information from suppliers and has sourced this information from Ofgem's pricing fact sheets. Small business customers have also been excluded from the electricity survey in recognition that these customers are no longer price regulated. Ofgem has also excluded the supply cost information from the survey, as this information can be obtained from BGT's and the PES's forthcoming price control reviews.
- 2.10 Respondents to last year's review also commented that Ofgem did not provide sufficient time for the completion of the survey, requesting responses approximately six weeks after issuing the survey. Ofgem has acknowledged that that some suppliers found it difficult to provide the information requested for last year's review in the time limit provided. In view of this, and the reduced scope of the data request, Ofgem has provided seven weeks for the completion of the survey.

Workshop Consultation

- 2.11 At the workshop Ofgem issued the draft quantitative survey and guidance notes for discussion. Suppliers made comments on the quantitative survey and general comments. These questions and Ofgem's response are set out below.

Views expressed on the quantitative draft of the survey

- 2.12 One supplier questioned why Ofgem were requesting data on volumes supplied split by payment method. It was suggested that, given customer churn, this would not reveal anything useful. Another supplier also made the point that not all suppliers offer tariffs that have discounts for early or prompt payment.

- 2.13 One supplier stated that it was difficult to obtain historic data on the number of customers in debt. This was the consensus from all suppliers. In addition, a supplier said that when customers change supplier, they also sometimes change payment method. Therefore this supplier inquired about how Ofgem might take account of this in the survey.

Ofgem's view

- 2.14 The information on volumes supplied may provide an idea of customers' relative average consumption over time, by payment method, and provide a cross check to customer numbers. In light of suppliers' responses regarding the debt information request, the survey has been amended to ask for information at 1 July 2001.
- 2.15 Some suppliers do offer some type of early pay tariff, although it is our intention that suppliers use their own definitions. Ofgem intends to collect data on these types of tariffs using each supplier's own criteria for paying 'early' or 'promptly', where this is relevant.
- 2.16 From the quantitative survey, it is almost impossible to recover data on the extent to which customers switch payment method at the same time as supplier. This is because it relies on matching particular customers to a payment method before and after their transfer of supplier, and agreeing how this will be done with both the old and the new supplier. Ofgem intends therefore instead to collect some indicative data on payment methods before and after switching, from its customer survey.

General comments

- 2.17 A supplier inquired as to whether Ofgem would be conducting any 'headroom' analysis for this year's review. That is, whether Ofgem would be reviewing the extent to which there is still a profitable margin to be made in either the gas or electricity markets that would encourage new entry. Another supplier made the point that the survey will implicitly include data on some small business gas customers if the pre Utilities Act definition of gas domestic customer is used. This supplier further noted that, although using the definition of a domestic customer, as set out in the Utilities Act, would provide an assessment based on

the new definition, it would not allow a consistent longer term trend comparison with previous years for gas.

Ofgem's view

- 2.18 Ofgem is not making a specific request for data to conduct any headroom analysis. However, Ofgem may consider a headroom analysis with other data that is available to us. A supplier has offered to help with this and Ofgem would welcome any such information provided by other suppliers. In view of the comments made at the workshop, Ofgem will be using the same definitions of domestic customers as in last year's review.

Draft pro-forma consultation

- 2.19 On 17 May Ofgem issued a draft pro-forma and guidance notes to the quantitative survey for consultation. Suppliers were asked to comment on the draft, in particular:
- ◆ whether suppliers are clear as to the information that they should provide and the format in which it should be provided;
 - ◆ the ability of suppliers to complete all parts of the pro-forma; and
 - ◆ the ease in which suppliers can provide the requested information.
- 2.20 In addition, Ofgem sought views on the qualitative section, in particular, issues that should be raised in order to identify and assess any barriers to entry in the domestic gas and electricity markets and on the development of competition in these markets.
- 2.21 Suppliers commented on all the tables in the quantitative section of the survey and the customer survey. Ofgem has set out below the issues raised by suppliers and Ofgem's response.

Tables 1 and 2: Domestic gas and electricity suppliers' surveys

- 2.22 One supplier felt that the volume data request should be removed, or at least restricted to incumbents in their supply area. There was concern at the level of time and effort it would take to compile this data. In addition, it was felt that Ofgem had made minimal use of the volume data requested in last year's survey.
- 2.23 A supplier also suggested that Ofgem should adjust its payment classifications. This supplier suggested that the electricity tables should request data by the profile class only, while 'Regular payment arrangements' should be included as a separate category, because these customers have less ability to change supplier.

Ofgem's view

- 2.24 Ofgem has reduced the level of information requested for this year's review. Ofgem believes that restricting the volume data would not produce sufficient data for our analysis. It should also be recognised that Ofgem's ability to use all data provided depends on the overall quality of all suppliers' responses.
- 2.25 Ofgem recognises the level of work required to complete the survey, and so has reduced the volume of information requested and increased the time taken to complete the survey.
- 2.26 Regarding payment method, Ofgem has sought to strike a balance between reviewing the experiences of customers disaggregated by payment method, and restricting the level of detail sought. Ofgem considers that its breakdown of payment methods will broadly capture the diversity of customers' experiences.

Table 3: Dual Fuel Survey

- 2.27 Some suppliers suggested that they may have difficulty in providing the total number of gas customers by PES area. Three suppliers also said that they would encounter difficulty in providing the numbers of dual fuel customers as the data for gas and electricity is held on separate systems.

Ofgem's view

- 2.28 In order to assess the development of competition, Ofgem would like data on the number of dual fuel customers. Ofgem recognises that some billing systems do not readily support the extraction of this data. However, Ofgem would like suppliers to complete these tables as far as they are able to, and if necessary, to provide an estimate of these figures, stating any assumptions made.

Table 4: Domestic customers in debt survey

- 2.29 A supplier expressed concern about the type of debt information that was being requested by Ofgem. This supplier suggested that this information would be of little use as a means to assessing the development of a competitive market. Instead, they suggested that we should request information on the age of the debt on a per customer basis.

Ofgem's view

- 2.30 Ofgem is keen to gain an indication of the number of customers who cannot change supplier due to debt with their existing supplier and the level of this debt. Therefore, Ofgem is seeking information on debt in the form originally set out.

The customer survey

- 2.31 Some suppliers made a number of suggestions on the questions and issues that they would like to see addressed in the customer survey. These are listed below:
- ◆ reasons for switching;
 - ◆ what informs the choice of supplier;
 - ◆ the reasons why some customers have returned to their original supplier;
 - ◆ the reasons customers give to salespeople for not switching supplier; and
 - ◆ the number of customers that were previously 'debt blocked' at a point in time, who have since changed supplier.

2.36 Ofgem welcomes the comments made by suppliers and will consider these for inclusion in the customer survey.

3. Quantitative survey

- 3.1 This chapter sets out the quantitative information that Ofgem is requesting of all domestic electricity and gas suppliers. The request is divided into four tables.
- 3.2 Table 1 is the Gas survey. It requests data on numbers of domestic gas customers and volumes supplied, by payment method. Table 2 is the Electricity survey. It requests data on numbers of domestic electricity customers and volumes supplied, by payment method and PES region.
- 3.3 Table 3 is the Dual Fuel survey. It requests data on the number of customers that are taking both gas and electricity from the same supplier, by PES area.
- 3.4 Table 4 requests data on the number of customers that are in debt as at 1 July 2001.

Definition of domestic customer

- 3.5 For each part of the quantitative survey, information is requested for domestic customers only. For the purpose of this survey, a domestic customer is defined for gas and electricity as follows:

- ◆ Gas - a customer consuming at, or below 73,000 kWh per annum;
- ◆ Electricity – a customer with a domestic load profile

Both definitions are consistent with last year's review.

Table 1 - Gas survey

Guidance notes to table 1

- 3.6 All domestic gas suppliers should complete all parts of table 1.
- 3.7 Each supplier should complete the name of the licensee, the group owner of the licensee and, for each brand marketed under each licence, the number of domestic customers and total volumes supplied to domestic customers, at or between each given time period, on each payment method.

3.8 Ofgem has grouped methods of payment into five categories, Direct Debit, Standard Credit, Standard Credit - Early Pay, Prepayment and Other. Suppliers should enter information on customer numbers and volumes supplied by each of these payment methods. The payment methods that comprise each category are given below:

- ◆ Direct Debit – Monthly direct debit only;
- ◆ Standard Credit – Quarterly payment by cash or cheque only;
- ◆ Standard Credit - Early Pay – Quarterly payment by cash or cheque where customers receive a discount for payment within a specified time period (e.g. 'Prompt payment') or where customers would otherwise pay an additional amount for payment after a specified time period;
- ◆ PrePayment – Payment through any form of prepayment meter; and
- ◆ Other – All other payment methods.

3.9 If you are unsure about a method of payment's category, please contact Ofgem for guidance.

Table 1 Domestic gas suppliers' survey

Domestic gas customer numbers by payment method

Licencee	Group owner	Brand marketed	Payment method	Numbers of customers supplied at:				Total volumes (MW/hs) supplied between:		
				1 April 00	1 Oct 00	1 April 01	1 July 01	1 Oct 99 - 31 March 00	1 April 00 - 30 Sept 00	1 Oct 00 - 31 March 01
			Direct Debit							
			Standard Credit							
			Standard Credit - Early Pay							
			PrePayment							
			Other (please specify)							

Table 2 - Electricity survey

Guidance notes for table 2

- 3.10 All domestic electricity suppliers should complete all parts of table 2.
- 3.11 For each PES area, each supplier should complete the name of the licensee, the group owner of the licensee and for each brand marketed under each licence, the number of domestic customers and total volumes supplied to domestic customers. This data is at or between each given time period, on each tariff type and payment method.
- 3.12 Ofgem has grouped tariff types into four categories, principal standard domestic tariff, principal domestic economy 7 tariff, all other domestic unrestricted profile tariffs and all other domestic restricted profile tariffs. Suppliers should enter information on customer numbers and volume supplied by each of these tariff types only. The tariff types that comprise each category are given below:
- ◆ principal standard domestic tariff – the supplier’s standard domestic single rate tariff which has the highest number of customers over the whole time period (i.e. 1 October 1999 to 1 July 2001) and PES area for which the information is being completed;
 - ◆ principal domestic economy 7 tariff – the supplier’s standard domestic economy 7 tariff (or two rate tariff) which has the highest number of customers over the whole time period and PES area for which the information is being completed;
 - ◆ all other unrestricted tariffs (profile 1) – includes all other tariffs offered by the supplier that fall into settlement profile 1; and
 - ◆ all other restricted tariffs (profile 2) – includes all other tariffs offered by the supplier that fall into settlement profile 2.
- 3.13 If you are unsure about a tariff’s category, please contact Ofgem for guidance.
- 3.14 Suppliers should enter information on customer numbers and volumes supplied for each of these tariff types by payment method. Ofgem has grouped methods of payment into five categories, Direct Debit, Standard Credit, Standard Credit -

Early Pay, Prepayment, and Other, consistent with the gas survey. The methods of payment that comprise each category payment method are given in paragraph 3.8.

Table 2 Domestic electricity suppliers' survey

Domestic electricity customer numbers and volumes by PES area, tariff type and payment method.

PES area	Licencee	Group owner of licencee	Brand	Tariff type	Payment method	Numbers of customers supplied at:				Total volumes (MWhs) supplied between:			
						1 April 00	1 Oct 00	1 April 01	1 July 01	1 Oct 99 - 31 March 00	1 April 00 - 30 Sept 00	1 Oct 00 - 31 March 01	
				Principal standard domestic tariff	Direct Debit								
					Standard Credit								
					Standard Credit - Early Pay								
					PrePayment								
					Other (please specify)								
				Principal standard domestic E7 tariff	Direct Debit								
					Standard Credit								
					Standard Credit - Early Pay								
					PrePayment								
					Other (please specify)								
				All other domestic unrestricted tariffs (settlement profile 1)	Direct Debit								
					Standard Credit								
					Standard Credit - Early Pay								
					PrePayment								
					Other (please specify)								
				All other domestic restricted tariffs (settlement profile 2)	Direct Debit								
					Standard Credit								
					Standard Credit - Early Pay								
					PrePayment								
					Other (please specify)								

Table 3 - Dual fuel survey

Guidance notes for table 3

- 3.15 All domestic suppliers supplying gas and electricity to domestic customers should complete all parts of table 3.

- 3.16 For each licensee, suppliers should provide the total number of gas customers and the total number of customers taking both gas and electricity supply from that supplier, by PES area at each given time period. If suppliers are unable to provide information by PES area, information should be provided for other defined geographical areas. If this is not possible the total number of customers should be provided. Where estimates are made, please state the main assumptions used.

Table 3 Dual Fuel Survey

Domestic gas customers and dual fuel customers by licensee and PES area.

PES Area	1 October 2000						1 July 2001					
	Total number of domestic gas customers			Total number of domestic customers taking gas and electricity			Total number of domestic gas customers			Total number of domestic customers taking gas and electricity		
	Licensee			Licensee			Licensee			Licensee		
East Midlands												
Eastern												
London												
Manweb												
Midlands												
Northern												
Norweb												
Scottish Hydro												
Scottish Power												
Seeboard												
Southern												
Swalec												
Sweb												
Yorkshire												
Total												

Table 4 - Customer in debt survey

Guidance notes for table 4

- 3.17 All domestic suppliers should complete all part of table 4.
- 3.18 For each fuel supplied, suppliers should provide the total number of customers in debt, the average level of debt and the total number of customers in debt by payment method (as defined in paragraph 3.8) within each given debt level threshold at the given time. If suppliers are unable to provide this information by payment method, suppliers should provide the total number of customers in debt by each debt threshold.
- 3.19 For the purpose of this survey 'debt' is defined as a debt that has remained unpaid for 28 days or more after a written demand has been made by the supplier in respect of amounts owing, in accordance with the Standard Condition 7 (4) of the gas suppliers' licence or clause 16.1.2 of the MRA.

Table 4 Domestic customers in debt

Domestic customers in debt by level of debt and payment method

Fuel Type	At 1 July 2001		Number of customers in debt by level of debt and payment method at 1 July 2001															
	Total number of customers in debt	Average level of domestic customer debt	< £50 of debt				£50 -£100 of debt				£100 - £200 of debt				> £200 of debt			
			Total	Direct Debit	Credit	PrePayment	Total	Direct Debit	Credit	PrePayment	Total	Direct Debit	Credit	PrePayment	Total	Direct Debit	Credit	PrePayment
Gas																		
Electricity																		

4. Qualitative survey

- 4.1 The development of the competitive market will tend to be facilitated where suppliers are able to enter and exit the market with relative ease, and where customers have relatively straightforward access to the market. Impediments to access to the market may include, for suppliers, barriers to entry and for customers, difficulties in changing supplier.
- 4.2 In this chapter, Ofgem has identified a number of issues that may impede either suppliers or customers from accessing the market. Views on these, or other relevant issues, form the qualitative part of the survey. Ofgem seeks views on the extent to which these issues are a serious impediment to the development of the competitive market, and what might be done to remedy them. Ofgem also seeks views on any other issues, perhaps not raised here, that may hinder the development of the competitive market.
- 4.3 In its December 2000 review of competition in domestic gas and electricity supply, Ofgem set out a number of issues raised in relation to barriers to entry. In May 2001, Ofgem formally issued a draft survey for consultation, as part of which respondents' views were requested on the issues that should be identified in the qualitative survey. This included barriers to entry to the competitive market. Ofgem has reflected views resulting from the December 2000 document and the May 2001 consultation in highlighting the issues raised in this part of the survey.
- 4.4 Ofgem 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 rather than being marked as confidential.
- 4.5 Issues raised fall under the following broad headings :
- ◆ BGT and the PESs market position and behaviour;
 - ◆ domestic electricity supply competition in Scotland;
 - ◆ debt blocking;
 - ◆ competition for customers on IPGT networks; and

- ◆ other issues.

BGT and the PESs market position and behaviour

BGT

- 4.6 Concern continues to be 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 in gas. A number of respondents reiterated these concerns in response to the consultation on the draft pro-forma, emphasising that the dominant position of BGT in the domestic gas supply market allowed it to accrue advantages in other respects.
- 4.7 One respondent argued that BGT gained a consequent advantage in the electricity supply market and the dual fuel market from its dominance in gas supply. It argued that, particularly in relation to the development of a brand and the marketing of its electricity and dual fuel supply services, BGT enjoyed undue leverage from its position as the dominant gas supplier.
- 4.8 Another supplier focused on BGT's dominant position in the gas supply market. The respondent suggested that BGT possessed advantages pertaining to upstream activities in the gas industry that allowed the abuse of its dominant position in the domestic supply market. The respondent stated that, if such a situation were proven to exist, it would threaten the sustainability of competition in domestic gas supply, and therefore, that suppliers' views should be sought on the issue.
- 4.9 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 about the effect of BGT's market position, on the development of competition.

Dual fuel

- 4.10 Ofgem's December review of competition in the gas and electricity supply markets included a discussion of dual fuel offers. This year's quantitative survey requests information from suppliers on this market sector.
- 4.11 A distinction may be made between customers that switch supplier for one or other fuel type and therefore are supplied by the same company, and those customers that take up offers that explicitly combine the supply of gas and electricity in a single deal. Ofgem believes such offers are increasing in number and that this trend is likely to continue.
- 4.12 A respondent to the draft pro-forma consultation suggested that the qualitative survey should seek views on the definition of the markets for gas and electricity. The respondent suggested that the survey should pose the question of whether a single market for 'energy' was evolving, and if so, whether there were any implications for the future regulation of the domestic supply markets.
- 4.13 Ofgem would welcome any views on the development of the domestic gas and electricity markets in this context.

General views on the development of competition

- 4.14 Three respondents to the consultation on the draft survey suggested that the qualitative questionnaire should ask suppliers about the development of competition in electricity and gas supply. One argued that suppliers could contribute useful opinions on issues such as customer awareness of the competitive market, or for example, on the development of suppliers' products and marketing initiatives. Another respondent made a closely-related point and suggested that suppliers might like to comment on the relative progress of domestic competition in different PES areas. Another respondent suggested that suppliers could usefully summarise the feedback their salesmen received from customers that chose to switch, and equally from those customers that chose not to switch supplier.
- 4.15 Ofgem would welcome views.

Domestic electricity supply competition in Scotland

- 4.16 At present the arrangements for suppliers in the electricity market are not the same throughout Great Britain. Ofgem is aware of a number of issues specific to Scottish electricity supply that may be affecting the development of competition.
- 4.17 In England & Wales there is a primary market in which suppliers purchase short to medium term energy contracts from generation businesses. There is also a daily secondary market in which participants trade any imbalances between purchased contracts and forecast demand. Market arrangements in Scotland differ in a number of ways; the key differences include the following:
- ◆ in Scotland, suppliers' choice of purchase contracts is limited by the number of participants in generation and the presence of a number of restructuring contracts, whereby 98% of generation capacity is either owned or contracted to ScottishPower or Scottish & Southern Energy;
 - ◆ prices for demand and supply imbalances are administered in Scotland and thus there is no secondary balancing market to reveal the market value of any imbalance; and
 - ◆ the present access arrangements for the Scottish interconnection provide limited scope for suppliers to trade energy flow or imbalances over the interconnector between Scotland and England.
- 4.18 In August 2000, Ofgem published a consultation document setting out its vision for the development of the Scottish market and its role within a GB-wide market. This document proposed the introduction of British Electricity Trading and Transmission Arrangements ('BETTA'). Part of the GB-wide vision is the establishment of a British market for balancing trades. Important elements of this vision are a British System Operator, British New Electricity Trading Arrangements ('NETA') and GB-wide access and charging arrangements.
- 4.19 Regarding supply competition, the BETTA project has identified factors that differ between Scotland and England & Wales and which may cause supplier strategies to differ between the two. These factors include:
- ◆ the absence of primary markets in Scotland for purchasing contracts;

- ◆ the absence of a balancing mechanism in Scotland to manage energy imbalances;
- ◆ the access and pricing arrangements for trade and energy imbalances over the Scottish interconnection; and
- ◆ other institutional arrangements to include but not limited to :
 - (a) specific to parts of Scotland (e.g. competition for customers with shared unmetered supplies)
 - (b) more prevalent in Scotland than in England & Wales (e.g. competition for customers with dynamic teleswitches).

4.20 Respondents to the consultation on the draft pro-forma expressed views on several of these aspects of the electricity market in Scotland. In particular, one stated that until the implementation of BETTA, Ofgem should seek proposals on interim measures that would alleviate the barriers to entry to the Scottish supply market that presently exist. Ofgem would therefore welcome views on:

- ◆ whether the factors outlined above, or other factors, have led suppliers to adopt a different supply strategy for domestic customers in Scotland relative to that in England & Wales; and
- ◆ whether these factors or any other factors have affected suppliers' participation and competitiveness in Scotland relative to those in England & Wales.

Debt blocking

4.21 Presently, domestic gas and electricity suppliers may object to the transfer of one of their customers to another supplier if the customer has an outstanding debt. Such objection would impede the ability of customers in debt to take advantage of competitive market offers.

4.22 Ofgem invites views concerning this debt blocking issue.

Competition on gas transportation networks operated by companies other than Transco⁴

4.23 Ofgem is concerned that domestic customers on gas transportation networks operated by companies other than Transco are not benefiting from competition in the gas supply market to the same extent as domestic customers supplied on Transco's network. Ofgem would welcome views on the factors which may be constraining suppliers from making, and these customers receiving, potentially competitive offers. In particular Ofgem would welcome views on the following potential factors:

- ◆ GTs' transportation charges and charging methodologies;
- ◆ the costs of, and processes for, acquiring customers supplied on these networks; and
- ◆ the administrative costs and difficulties faced by suppliers when incorporating within their billing systems different tariffs for each GTs' network.

Other issues for discussion

4.24 Two other, specifically electricity-supply related issues, were highlighted by respondents to the consultation on the draft survey. In brief, these were:

- ◆ whether the distribution business operators of the former PESs in their role as network operators were dealing with all electricity suppliers equally. A respondent expressed particular concern that inquiries about meters and meter-technical information often incurred unduly long response times.
- ◆ each PES supply business operates the prepayment meter infrastructure in its area, which allows all suppliers to collect payments from their prepayment customers. At present there is no competition to the PES in the offering of this service, and Ofgem has received complaints in the past that some PESs were operating this service in a discriminatory

⁴ Prior to the Utilities Act these Gas Transporters (GTs) were referred to as Independent Public Gas Transporters (IPGTs).

manner. Certain respondents suggested that this issue should continue to be open to comment in the qualitative survey.

- 4.25 Ofgem would welcome suppliers' views on any problems they have experienced with the operation of electricity supply and distribution infrastructure and any action that might be taken to address those issues.
- 4.26 **Ofgem seeks views as to the importance of these issues to the development of competition and what, if, any action should be taken to address them. Ofgem would also welcome views on any other issues that may be affecting the development of competition in supply.**

5. Timetable

5.1 As explained in Chapter 2, the assessment of the development of competition in the domestic electricity and gas supply markets, and the review of price controls applying to the PESs and to BGT, began with a workshop on 11 May 2001. The process and timetable that Ofgem will follow to complete the review, including opportunities for interested parties to comment, are set out below :

- ◆ August 2001 – Suppliers return completed pro-formas and any views on the qualitative indicators. Other interested parties return any views on matters raised and / or the qualitative indicators.
- ◆ November 2001 – Ofgem publishes results and conclusions of competition assessment. Ofgem publishes initial proposals for revision of supply price controls applying to the PESs and to BGT. Comments invited on initial proposals.
- ◆ December 2001 – Public workshop to discuss Ofgem initial proposals.
- ◆ February 2002 – Ofgem publishes final proposals for revision of supply price controls applying to the PESs and to BGT.

Appendix 1 – A list of the organisations that attended the public workshop and responded to the draft pro-forma consultation

1.1 The following organisations attended the public workshop, held by Ofgem on 11 May 2001, to discuss Ofgem’s proposed approach to assessing the development of competition in the gas and electricity markets.

- ◆ Amerada
- ◆ Atlantic Electric & Gas
- ◆ BGT
- ◆ British Energy
- ◆ DTI
- ◆ Electricity Association
- ◆ Energywatch
- ◆ Enron Direct
- ◆ London Electricity
- ◆ North Wales Energy
- ◆ Northern Electric
- ◆ Npower
- ◆ Ofwat
- ◆ ORR
- ◆ Oxera
- ◆ Powergen

- ◆ Scottish Power
- ◆ Seeboard
- ◆ SSE
- ◆ TXU
- ◆ Virgin Energy
- ◆ Yorkshire

1.2 The following suppliers responded to the Ofgem consultation on the draft quantitative survey that was issued in May:

- ◆ Atlantic Electric and Gas
- ◆ BGT
- ◆ London Electricity
- ◆ npower
- ◆ Northern Electric
- ◆ Powergen
- ◆ ScottishPower
- ◆ SSE
- ◆ Seeboard
- ◆ TXU