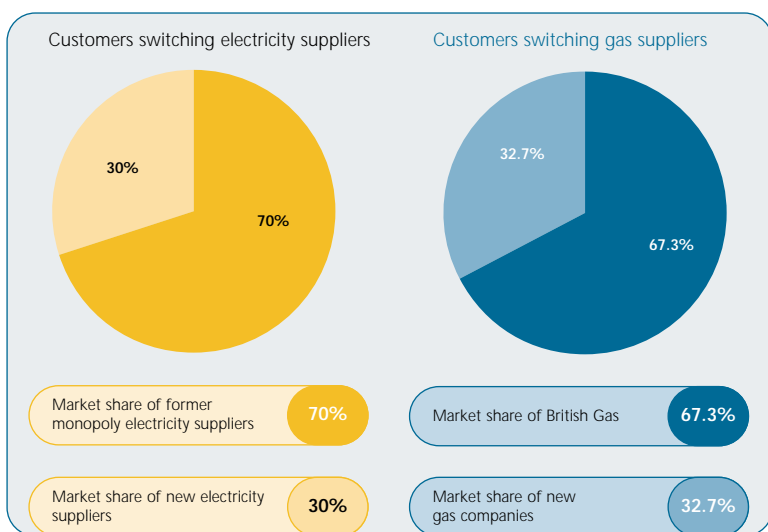


Competition in gas and electricity supply – separating fact from fiction

In a bid to make customers aware of the true state of competition in the gas and electricity markets, energy regulator Ofgem has sought to separate the facts from the myths about gas and electricity supply.

Myths and Facts

Figure 1 How the market is changing

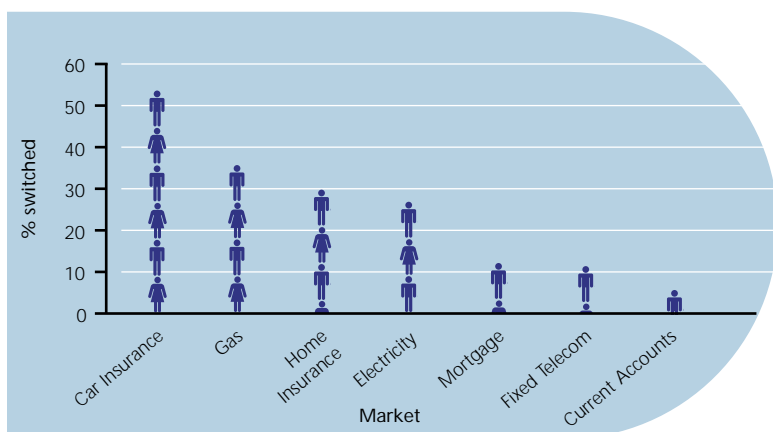


1. Myth: competition in the energy supply market is not working effectively.

Fact:

- Everyone has benefited from competition, not just those who have switched. Since competition began four years ago, the average annual domestic electricity bill has fallen from £268 to £238 (11 per cent) and the average annual domestic gas bill has fallen from £375 to £308 (18 per cent).
- Since competition first opened, market share of the former monopolies in the supply market has been reduced.
- This compares favourably with fixed telecoms where despite 17 years of competition, BT still hold 86 per cent of the market in line rentals.
- 15 million people have switched their gas and electricity suppliers, with almost a million customers now switching each month.
- The current rate of switching (38 per cent in electricity and 37 per cent in gas) is higher than in any other comparable industry, including six per cent for current bank accounts, 11 per cent for fixed-line telephones and 12 per cent for mortgages. It is second only to car insurance.
- In electricity, it is higher than anywhere else in the world and no other country has such developed competition in gas.
- Today, over 70 per cent of all gas customers and half of all electricity customers are on tariffs which are not price-controlled.

Figure 2 Number of customers who have switched suppliers in different markets



Source: DTI Research on switching suppliers report, July 2000

Protecting customers' interests in the future

The focus of Ofgem's work to protect customers going forward will be on:

- monitoring competition and, where necessary, using powers under the Competition Act 1998 to tackle market abuse
- pursuing a range of measures under the Social Action Plan to help vulnerable and low income customers who suffer fuel poverty, and
- continuing work with energywatch and others to make it easier for customers to choose and change supplier and enforcing licence requirements where these apply.

2. Myth: price controls mean that gas prices will not rise.

Fact:

- Wholesale gas prices have doubled in the last two years and this would have to be reflected in any price control that Ofgem sets on British Gas, allowing them to pass on justifiable costs.
- Wholesale gas prices increased after gas was exported to continental Europe where prices are higher because a) there is little competition and b) they are linked to high oil prices.
- Because Britain is part of a wider European energy market, it will continue to risk being exposed to non-competitive European prices until the rest of European energy markets are liberalised. Ofgem is working with the DTI and other European regulators to encourage the development of liberalisation.
- It must be remembered, however, that since privatisation gas prices have fallen by 37 per cent and electricity prices have fallen 28 per cent.

3. Myth: removing price controls leaves customers without protection.

Fact:

- Competition is now the most effective 'regulator' of prices which is why Ofgem has proposed lifting price controls. If a company is seen to be abusing the market and harming customers, Ofgem has powers under competition law to tackle the problem. This includes the ability to fine up to 10 per cent of company turnover.
- Other regulations will still play a big role in protecting customers. There are four Acts of Parliament, 27 licence conditions as well as general consumer law to protect customers.
- Ofgem will also have powers to fine suppliers under the Utilities Act 2000. However, Ofgem does not have these powers because the Department of Trade and Industry (DTI) has yet to implement this part of the Utilities Act 2000.
- If suppliers breach their licence conditions, Ofgem can take strong enforcement action against them.
- Ofgem still regulates the monopoly businesses which run the pipes and wires, bringing gas and electricity to homes and businesses. This activity results in savings to customers of £1.3 billion a year.

4. Myth: switching supplier is difficult and complex.

Fact:

- An independent MORI survey found that almost 90 per cent of people who have switched their gas and electricity supplier have found it easy. 66 per cent of all electricity switchers and 58 per cent of all gas switchers found it very easy.
- There are many different ways to find out how to switch supplier. There are easy-to-use websites, some of which have telephone services, which will calculate the best deal for customers. They are:

www.buy.co.uk
www.saveonyourbills.co.uk
www.uswitch.com
www.unravelit.com
www.ukpower.co.uk

These sites have to conform to a code of practice developed by Ofgem, and policed by energywatch.

- Also, price comparison information is available from energywatch on their

freephone helpline 0800 88 77 77.

5. Myth: pre-payment customers and vulnerable customers such as those on low incomes will lose out from removing price controls.

Fact:

- The MORI survey found that pre-payment customers are switching at the same rate as customers on standard credit tariffs. There is strong evidence that companies are increasingly targeting this customer group, with many suppliers offering discounts if PPM customers switch.
- MORI also found that 43 per cent of electricity customers on very low incomes have switched, as opposed to the average of 38 per cent for all customers. And 38 per cent of gas customers on very low incomes have switched, compared with 37 per cent for all customers.

6. Myth: pre-payment customers are not happy with their payment method.

Fact:

- MORI found that PPM customers were so satisfied with their meters, only three in 10 would change their method of payment, even if it meant a reduction in price.
- An Electricity Association report says that 85 per cent of PPM customers prefer this method of payment despite being able to get their electricity cheaper on another tariff.
- Findings from research published recently by Scottish and Southern Energy showed that, of the prepayment customers in the north of Scotland area, 69 per cent said that they used their PPM for budgeting and convenience while only seven per cent had a PPM for the purposes of clearing debt.

7. Myth: price controls should not be removed because there are so many cases of customers being exposed to high pressure selling techniques.

Fact:

- Fewer than one in every thousand transfers results in a complaint about direct selling, either on the doorstep, by telephone or in a public place.
- Strong marketing conditions are in company supply licences and serious breaches of these conditions will result in firm action by Ofgem, such as that taken against London Electricity in 1999 and npower in 2001. Ofgem plans to extend these conditions for a further two years from March 2002.

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