

Making markets work for customers - the state of competition in domestic gas and electricity supply

Introduction

Ofgem has published an overview of the development of competition in domestic gas and electricity supply markets. It found:

- competition in gas and electricity remains vigorous - over 19 million customers have switched supplier in the last four years
- competition is benefiting vulnerable customers as well as the well-off
- gas and electricity markets are competitive - but not mature
- Ofgem scrutinises these markets constantly and takes decisive action against any threats to competition, eg misselling and problems with customer transfer processes.

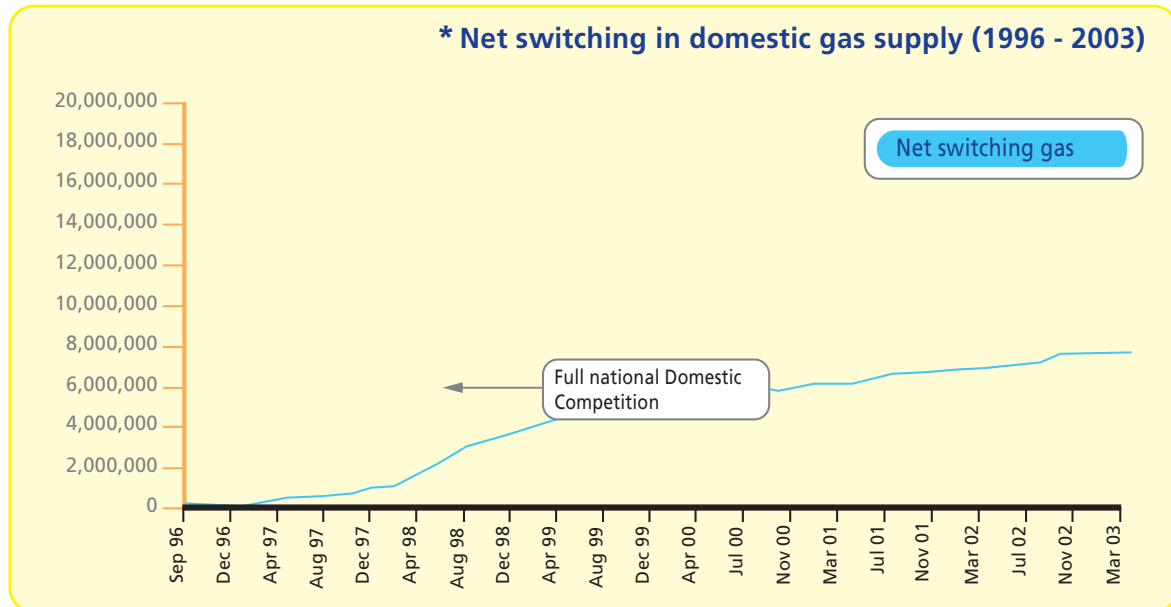
Background

The overview is based on the latest available market data on:

- customers' experience
- market share
- switching behaviour, and
- price and non-price offers in the market.

It sets out Ofgem's current thoughts on the state of domestic competition. Another domestic competitive market review will follow in early 2004.

* Net switching in domestic gas supply (1996 - 2003)



A competitive market ...

The review finds that competition continues to develop well

1. Virtually all customers who have not switched supplier can make good savings.

- Every customer can save from their first switch, by up to 23 per cent in gas or 20 per cent in electricity.

2. Customers in vulnerable groups are switching at similar rates to the average for all customers (on some definitions of vulnerable, the rate is below average, on others it is above).

- In gas, 39 per cent of single parents switched compared with the average of 38 per cent. In electricity, 45 per cent switched compared with the average of 39 per cent.

3. Market shares for former monopolies continue to fall, although the fall in British Gas' share of domestic gas customers has slowed.

- In gas, British Gas' market share has fallen by a fifth since 1999. In electricity, the average in-area incumbent share has fallen by a quarter since September 1999.

4. Gross switching in electricity has increased from 38 per cent to 43 per cent between March 2002 and March 2003.

5. The majority of customers, both non-switchers and switchers, said they were very satisfied with the service they receive from their supplier.

- Switchers who were very satisfied increased from 73 per cent to 80 per cent in gas, 65 per cent to 73 per cent in electricity over 2001 levels.

6. More than a third of customers said they had received information enabling them to make a comparison of prices between suppliers.

- 35 per cent in gas, 33 per cent in electricity.

7. Prepayment gas customers are the most likely to switch suppliers over the next 12 months, with 16 per cent of prepayment gas customers indicating they intend to switch.

- The incumbent's share fell faster among gas pre-payment meter customers than among gas credit customers between December 2001 and September 2002.

... but not a mature market

1. Customers who remain with their traditional suppliers pay more for their gas and electricity than those who switch.

- Levelling up prices at a time when price is the key driver of competition would remove the main driver of consumer choice.

2. Half of customers said they don't know how easy it is to compare prices between suppliers.

- Easy access to price information is vital to help customers make informed choices. This is a key service provided by energywatch, the consumer representative body.

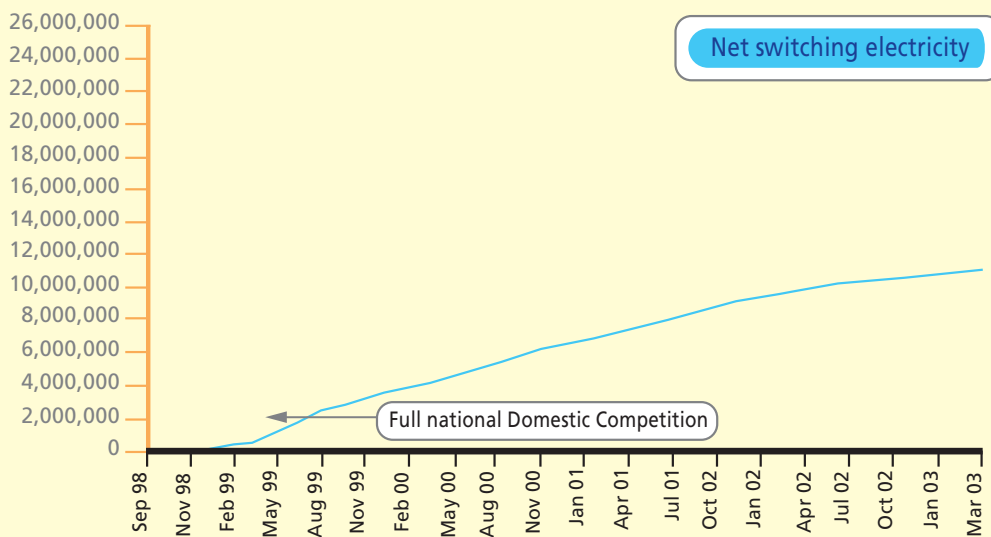
3. In gas, 78 per cent found the switching process easy, or very easy. In electricity, 85 per cent of customers found the process very easy.

- Making switching easier for customers is Ofgem's top priority in the supply market for 2003/04. Ofgem has challenged the industry to simplify the switching process to improve customer experience.

4. Some commentators have expressed concerns about current market structure (six large, vertically integrated supply groups).

- Ofgem has said it will scrutinise any further proposals for supply mergers very closely.

*Net switching in domestic electricity supply (Sept 1998 - March 2003)



* Net switching is the number of customers who have switched away from their old monopoly supplier. Gross switching gives an indication of the amount of market activity as it records all the switches which have taken place, including people who have changed supplier more than once.

What is Ofgem doing?

Ofgem believes the supply markets are **competitive** but they are not mature.

The best way to continue to protect customers' interests is to attack the **remaining barriers** to competition and to **monitor** market developments closely.

Ofgem gives a high priority to monitoring the retail market and has a **dedicated team** to scrutinising developments.

Ofgem is keen not to prevent competition maturing, for example by "**one price for all**" regulation. This would bring competition to a dead stop, and increase prices paid by those who have switched.

Ofgem's key priorities in the supply market 2003/04:

- challenging industry to simplify the transfer process to give customers the confidence to switch
 - at an Ofgem/energywatch summit in June 2003, the industry signed up to an action plan and it is hoped reforms will be implemented starting in late 2004
- continuing to tackle misselling so that customers are not scared away from switching by fears of being misled by sales agents
 - Ofgem has imposed a financial penalty of £2 million on London Electricity for misselling and has welcomed industry moves for better self-regulation
- energywatch's statistics for 2002/2003 show that misselling complaints have fallen by 75 per cent
- reforming the rules allowing suppliers to object to a customer transfer, giving more power to consumers
 - we are also enforcing existing rules and in April 2003 proposed a £200,000 penalty on British Gas for incorrectly objecting to customer transfers
- responding to any allegations of anti-competitive behaviour and taking action where necessary. Ofgem has tough new powers under the Utilities and Competition Acts to fine companies up to 10 per cent of UK turnover if companies breach either act.

Data sources:

JD Power Domestic Gas and Electricity Customer Studies for 2001 and 2002

Electricity Association Customer Survey

Meter Point Administration Service (MPAS)

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