

## Energy competition working for customers - the state of competition in domestic gas and electricity supply

### Protecting customers

**Ofgem believes that the best way to protect customers' interests is to promote competition between suppliers. Ofgem monitors the energy markets very closely to ensure all customers are benefiting from effective competition.**

**As part of this work, Ofgem has reviewed the state of retail competition in the energy markets. This factsheet sets out the key results from this review.**

#### Key highlights:

- around 50 per cent of customers have now switched supplier. This breaks down as around **10 million** gas (47 per cent) and **13 million** electricity customers (51 per cent)
- customers who have not switched could save around **£75** on average for a dual fuel deal, providing they shop around for the best offer
- rates of switching are still high, with an average of **about 150,000** customers changing supplier each week between October and December 2003
- 60 per cent of these customers are switching for the first time
- all customers are switching supplier at similar rates, whatever their income, age or social class
- however, while progress has been rapid since the markets opened there are still signs that the domestic energy markets are not fully mature.

## Competition is benefiting customers

### Market overview

- **Around 50 per cent** of customers have switched either their gas or electricity supplier. Some customers move back to their old suppliers, so most former monopoly suppliers have retained about **60 per cent** of their customers.
- Energy competition compares well with other similar markets. BT still retains **70 per cent** of the fixed line telephone market, **20 years** after the market was opened to competition.
- Former monopolies are still losing customers, with **60 per cent** of all switchers moving away from their old monopoly supplier for the first time
- In 2003, **3.1 million** gas customers and **4.2 million** electricity customers changed suppliers.
- Research shows that suppliers lose customers when they increase their prices. This shows competition is working.
- Customer satisfaction levels are high with the majority finding switching easy.

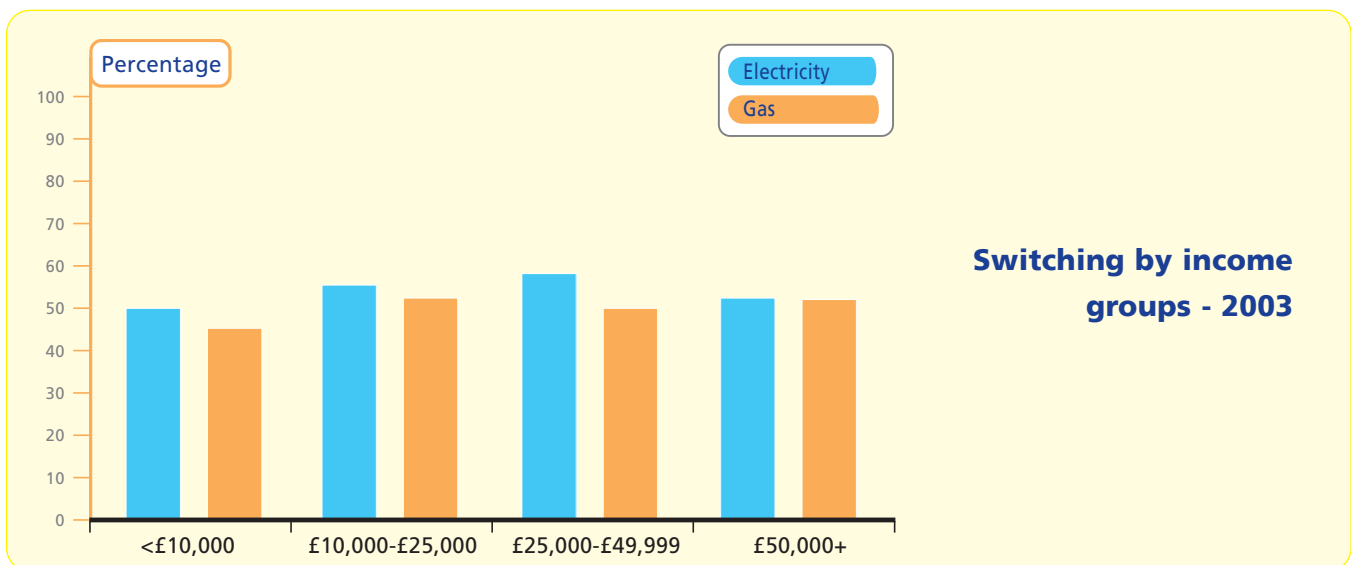
### Is consolidation reducing competition?

The energy market has consolidated since it opened. There are now six major competitors. Ofgem's survey has found evidence that there is still plenty of competitive pressure in the market. Most customers paying by Direct Debit or Standard Credit have at least four to five better offers.

### Why do people switch?

- Price is the most important factor - most customers say they compare the prices of their current supplier with alternatives when deciding to switch, although they may not shop around enough to make the most savings.
- Non-price factors, like brand and marketing methods are increasing in importance. Ofgem will be commissioning further work to see if these have been competitively acquired or are inherited from monopoly status.
- When customers do not switch, it is because they do not wish to, rather than because they are wary of or unaware of the opportunities competition offers.

## Who is switching?



- Switching rates show that competition is benefiting vulnerable customers as well as the better off.
- Levels of awareness also show no significant difference between social groups.
- Pensioners, a group who have previously lagged behind in switching rates are changing suppliers at similar rates to other age groups. However, it is important to continue to monitor carefully this age group, as many older customers suffer from fuel poverty.
- Prepayment meter customers are not switching at the same rates as other customers.
- The savings available for changing supplier are less for prepayment customers.

## Signs that the market is not yet mature

### Prepayment customers

Ofgem is working to tackle the problem of low switching rates for prepayment customers by:

- reviewing how competition in metering can help drive down the costs of using prepayment meters and encourage greater innovation,
- tackling debt as a barrier to switching - Ofgem has changed the rules to allow customers to change supplier even if they are up to £100 in debt,
- continuing to look at ways of helping people in debt to switch supplier, and
- encouraging suppliers to be more imaginative in helping vulnerable customers. For example this year energy suppliers have agreed to implement debt prevention strategies to stop people getting into debt.

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## Scotland

Competition in Scotland is hampered by the absence of a competitive wholesale market. Ofgem and the Department of Trade and Industry are working to extend the current competitive wholesale market in England and Wales to Scotland by April 2005.

## Customer information

While most customers say price is the main reason why they switch, and they may make a saving, many do not switch to the cheapest supplier. Ofgem will be working with the consumer body, energywatch, to ensure that customers get the right information they need to make the market work for them.

## Marketing to customers

Complaints about how companies sell energy to customers have fallen 60 per cent since November 2002, when Ofgem imposed a **£2 million** penalty against London Electricity (now EDF Energy). This fall is largely the result of a new industry code governing misselling.

Ofgem's review shows that companies still use doorstep sales as the main way to attract new customers, although more and more customers are getting price information on the Internet.

Ofgem remains vigilant and is continuing to work with energywatch to ensure that complaints against misselling continue to fall.

## Working towards market maturity

Ofgem is working to ensure the market becomes as competitive as possible, and is focusing on the following projects this year:

- empowering customers by looking at how information on price and energy consumption on customers bills can be improved
- tackling barriers to effective competition, like prepayment infrastructure, tele-switched meters and improving the process used by the industry to transfer customers from one supplier to another, and
- ensuring entry to the energy market is as easy as possible for new competitors, including reviewing the Ofgem licensing regime.

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