

Britain's competitive energy market

Factsheet 69

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Britain has a competitive market in domestic energy supply.

But how effective is competition in this market?

We have used the following key measures to assess the energy market's competitiveness:

- competition on price
- innovation to win customers
- competition on service
- movements in suppliers' market share
- switching of customers from one product to another.

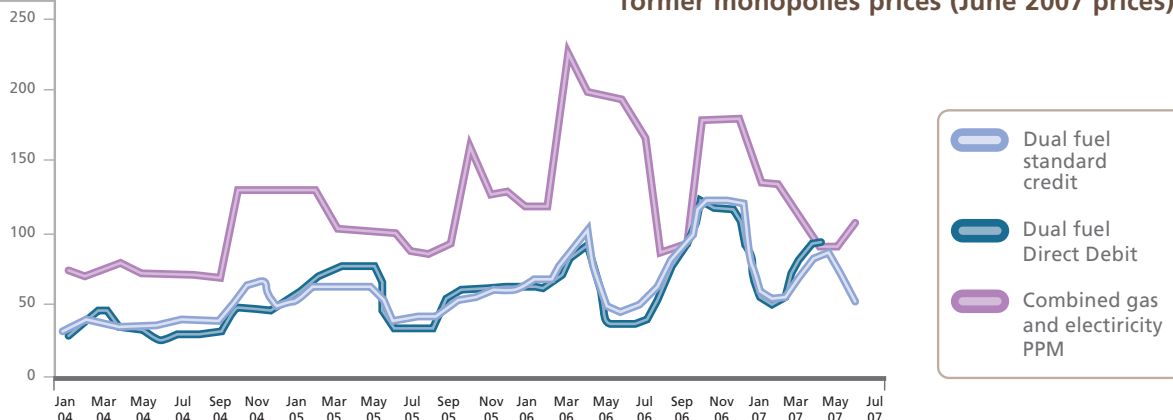
► Competition on price

Ofgem's analysis over the past four years shows that there has been vigorous competition on price by energy suppliers. All energy customers, regardless of payment method, have been able to make significant savings as the diagram below illustrates.

This year all six energy suppliers have cut their prices in response to falling wholesale prices and for the first time British Gas is not the most expensive supplier for gas.

Savings based on June 2007 prices (£)

Average best savings per household compared to former monopolies prices (June 2007 prices)



► Innovation to win customers

Suppliers all use the same pipes and wires to deliver the same physical product (gas and electricity) so they compete on price, service and innovation. Innovation has proved popular with customers with around 4.2 million households choosing new ways to buy their energy which range from online, fixed - and capped - rate products, to green energy and low-priced deals for fuel poor customers.

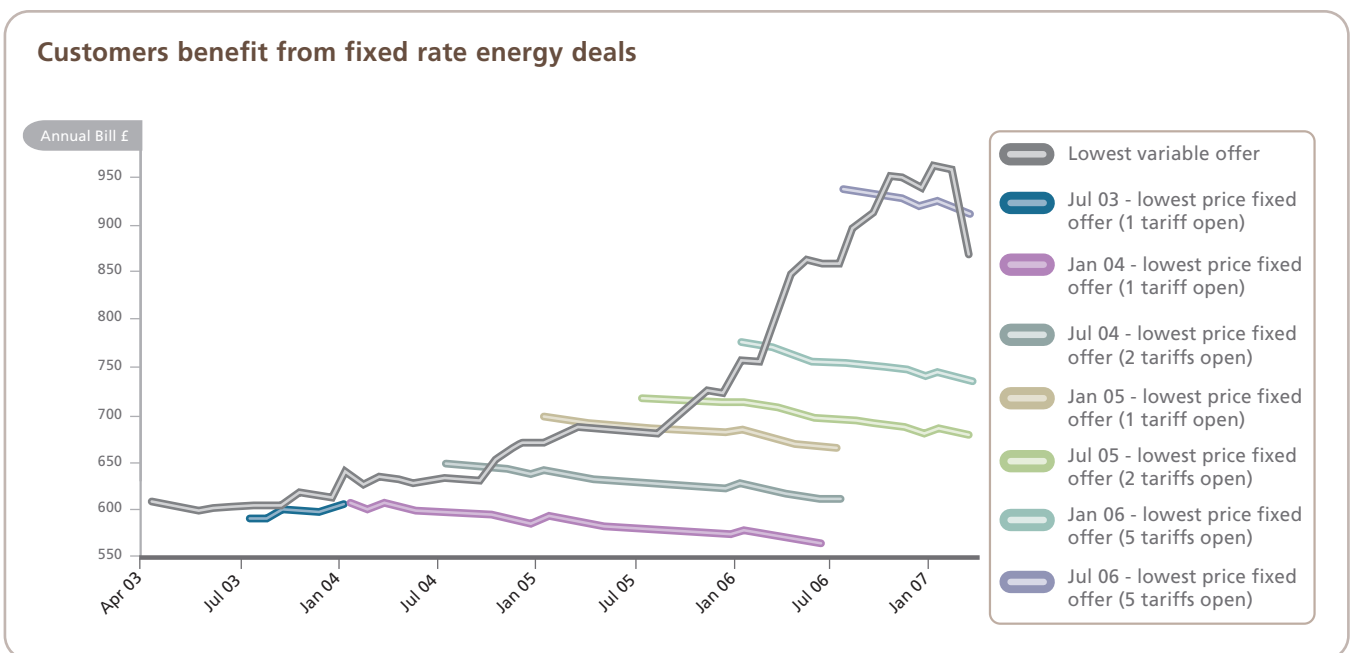
Signing up to new fixed-price deals over the past three years enabled over 3 million households to avoid the full impact of recent steep increases in energy bills.

More suppliers are coming forward with green tariffs for customers who want to cut carbon emissions and some suppliers are starting to offer to reward reductions in energy consumption. Nearly 350,000 customers have chosen a green tariff. Ofgem has recently published proposals for a star-rated

scheme to give customers more confidence and allow them to compare the environmental benefits of different tariffs.

Online tariffs have taken off in popularity and now offer the lowest prices. More than 1.2 million households currently have an online deal for their energy, which can typically save on average £55 a year compared to a Direct Debit account. And in doing away with paper bills, online payment brings environmental benefits.

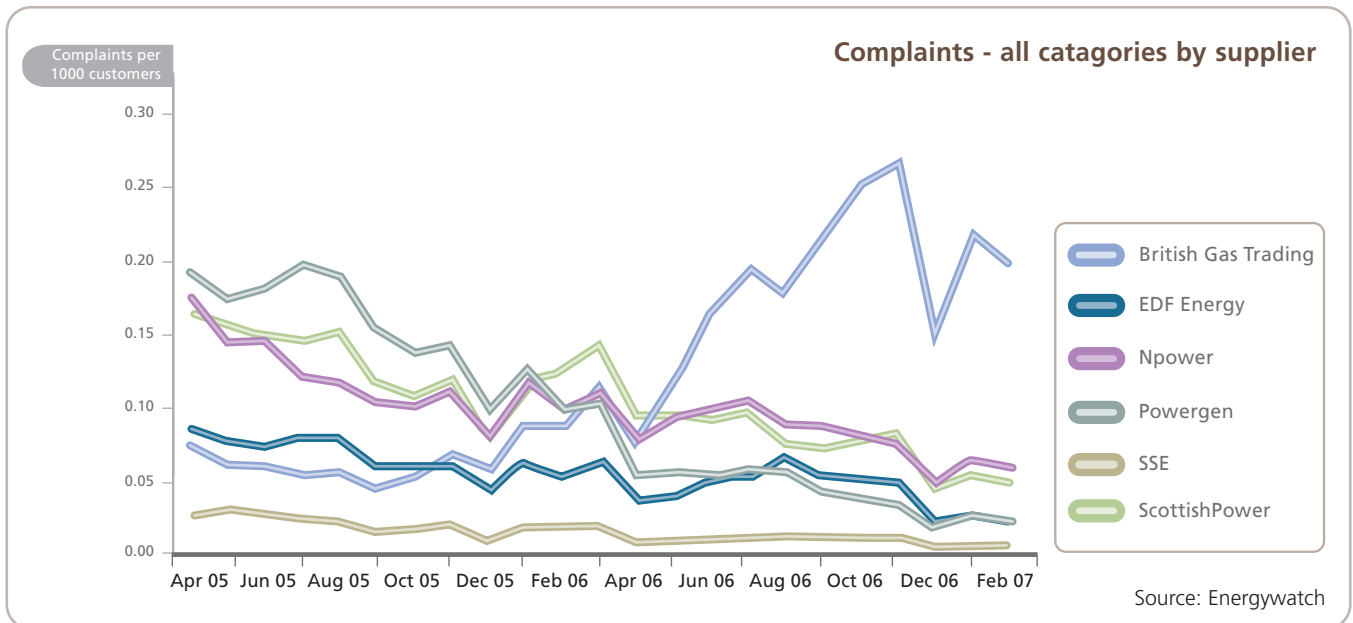
Over 9 million gas and electricity customer accounts are on innovative products, 6 million are on fixed-rate and 2.5 million are on online tariffs. However, in order to make this more relevant as 20 million out of the 26 million households in the UK take both gas and electricity we have halved the figures to relate it to the uptake per household.



► Competition in service

Over the past four years the number of complaints for five of the six largest energy suppliers has fallen. The exception to this is British Gas which has seen complaints against it rise steeply due to problems with its new IT systems. British Gas's high level of complaints, and the fact that the company was, until this year, the most expensive supplier of gas, has been accompanied by a drop in the firm's share in the gas market from 60 per cent in 2004 to 47 per cent in March 2007 – its share of the electricity market has also stalled.

However, when mistakes do happen they can cause hardship to customers, especially the vulnerable. This is why Ofgem made the industry set up the independent Energy Supply Ombudsman, which has the power to award customers up to £5,000 in cases where companies have made mistakes with billing.



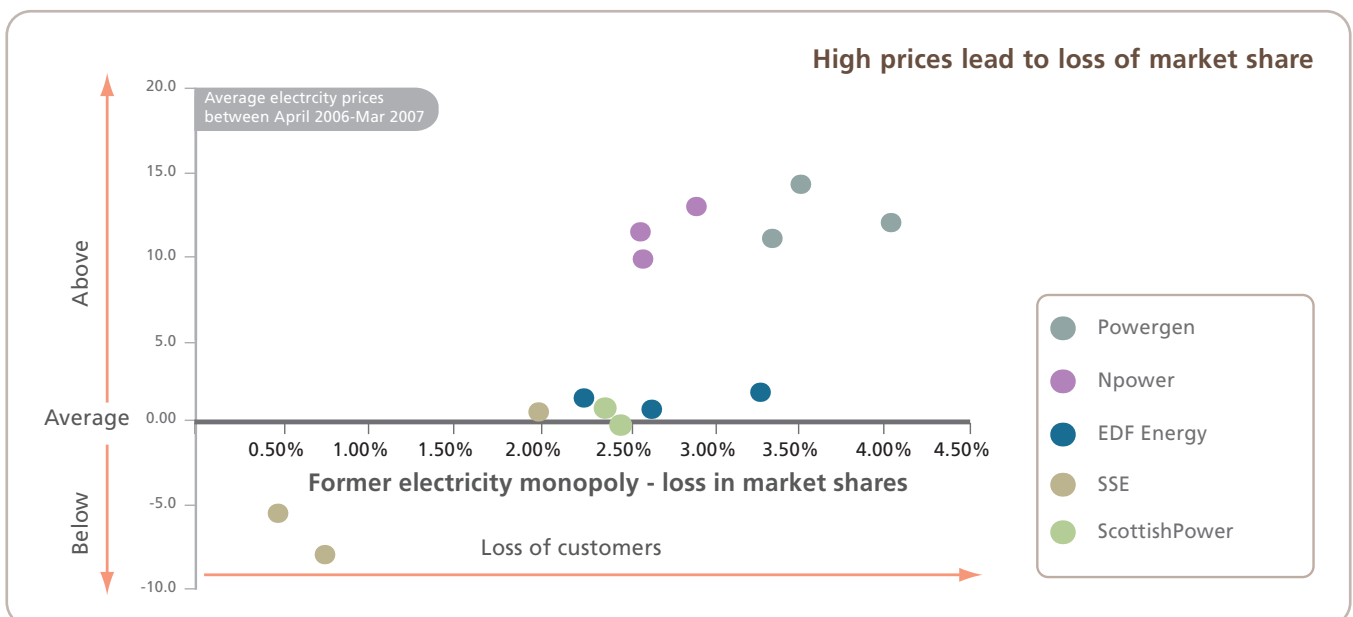
► Market share

Customers have punished firms offering high prices and poor service by switching supplier. This has meant some firms have lost market share to their competitors.

British Gas now has 47 per cent of the gas market down from 100 per cent at privatisation. And half of the 14 former supply businesses have lost more than half of their share of the market in the regions where they once had a monopoly.

This means that around half of all energy customers have changed supplier, which compares favourably with other countries which have opened their markets to competition.

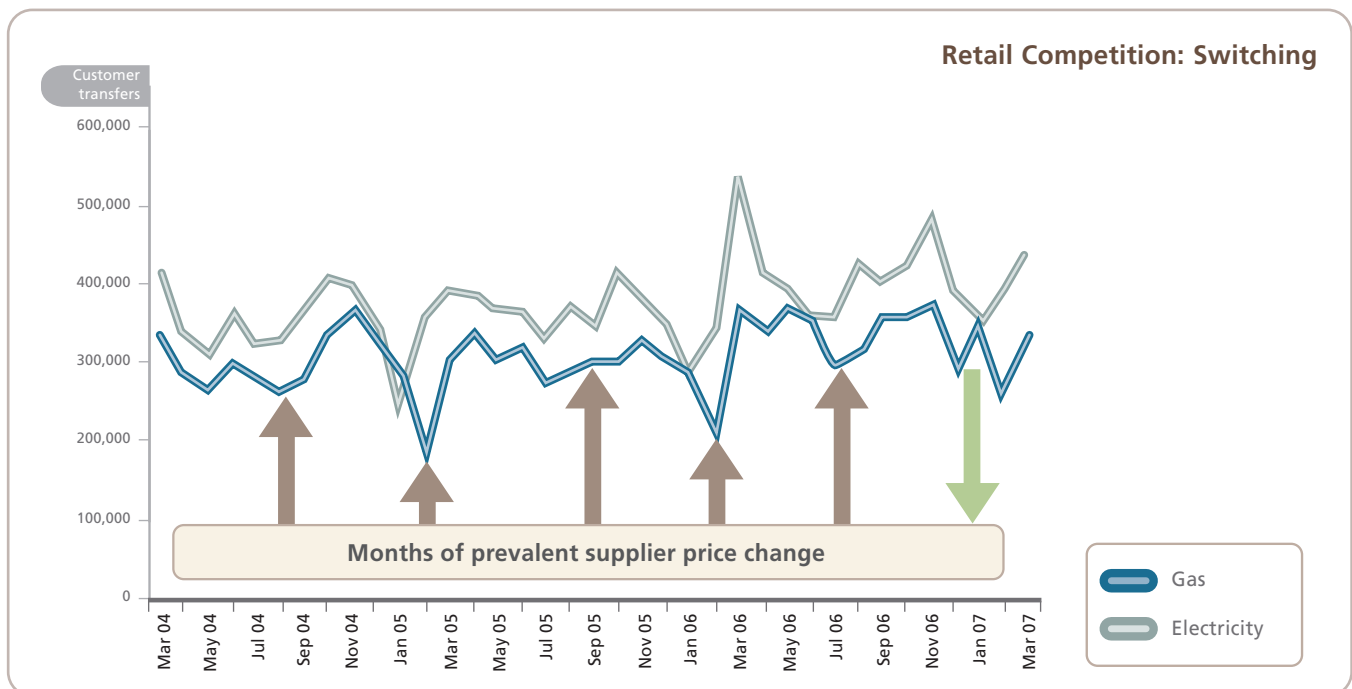
Ofgem’s analysis shows a strong link between companies that charge high prices and declining market share. The graph below shows how the most expensive electricity suppliers have lost customers to their competitors.



► Switching

In 2006 over four million households switched energy supplier and so far this year customers seem to be just as keen to shop around for their energy. But this doesn't reveal the full extent of activity in the market because it does not include

customers who have stayed with their supplier but switched to a fixed-price or online deal.



► Ofgem's role in a competitive market

While all indicators point to Britain's energy market being highly competitive there is still a role for Ofgem.

Keeping customers informed about the competitive market is a vital part for Ofgem to play. For example, earlier this year research by Ofgem showed that prepayment meter customers felt they did not have enough information about the competitive market. Ofgem has since run a regional campaign spelling out the significant price differences between suppliers' prepayment deals to encourage prepayment customers to consider switching.

Ofgem is currently studying ways to target market information more effectively to the fuel poor – those who spend 10 per cent or more of their income on energy. And each year Ofgem publishes a Social Action Strategy outlining its programme to tackle fuel poverty and help vulnerable customers.

Ofgem monitors the domestic and wholesale markets for any sign of anti-competitive behaviour and works to reduce barriers to new firms who seek to enter the market.

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