# Press Release

ofgem

Promoting choice and value for all gas and electricity customers

**WEDNESDAY 16 JANUARY 2008**

## MARKET IS SOUND – OFGEM ASSURES CHANCELLOR

- **Ofgem assures Chancellor it has no evidence that the recent energy price rises are a result of industry collusion**
- **Regulator outlined effect on bills of rising global energy prices, policies to tackle climate change investment in networks**
- **Progress on EU Third Package by European Commissioner and action against anti-competitive activities on the EU mainland is essential**
- **Ofgem has again identified a package of measures to tackle fuel poverty**

In their meeting today (Tuesday) with the Chancellor, Alistair Darling, Ofgem Chairman Sir John Mogg and Chief Executive Alistair Buchanan confirmed that Britain's competitive market in energy is working. However, bills are being driven up by rising global energy costs (oil, coal and gas), the cost of curbing climate change, increased investment in the energy networks to ensure safe and reliable energy supplies for customers and a lack of market liberalisation in the rest of Europe.

Mr Buchanan said: "Ofgem wants to reassure customers that we constantly monitor the competitive market and regularly publish our analysis. Obviously, we look even more closely during periods when prices are rising, but we have no evidence of any anti-competitive behaviour. We see companies gaining and losing significant market share, record switching levels and innovative deals."

Ofgem impressed how slow progress to an open energy market in the rest of the EU was adding to price pressures in Britain. "We are feeling the effect of an opaque, non-liberalised market in the rest of the EU," said Mr Buchanan.

In view of these pressures on prices the regulator has identified a windfall to the electricity industry arising from the free allocation of tradeable emission permits. This could be used to fund aid for fuel-poor households: those who spend more than 10 per cent of their income on energy.

"The energy industry will benefit from a windfall worth £9 billion of tradeable permits under the European Emissions Trading Scheme. This windfall is nothing to do with collusion or anti-competitive behaviour, but stems from the free emission permits given to companies. That is why Ofgem is renewing its proposal that this windfall could be used to help customers in fuel poverty, who have been hardest hit by the recent energy price rises.

"The UK would not be alone in looking at this windfall – Spain has recently done so."

Following recent allegations in the press of collusion between energy suppliers, Ofgem has demanded sight of evidence of any anti-competitive activity. The regulator has powers to investigate and can impose penalties of up to 10 per cent of a firm's global turnover if collusion is proven.

"Ofgem has a proven track record of using its competition powers. We have conducted an exhaustive investigation into gas prices which looked at the onshore and offshore gas markets. Ofgem will act on any evidence of market rigging."

***The £9 billion windfall is calculated at today's market prices and covers the period from 2008-2012.**

- ends –

**Notes to Editors**

1. **EU ETS**

   Under the European Union Emissions Trading Scheme (EU ETS), electricity generating companies are granted, free of charge – a proportion of the tradeable emissions permits they need to meet their obligations under the scheme. These permits have a market value and this is reflected in the wholesale price of power. Along with high gas and coal prices, the cost of carbon emission allowances is one of the factors leading to higher wholesale prices and, ultimately, higher prices for customers.

   Ofgem has long argued that these permits should be auctioned to energy companies rather than given free of charge and is pleased to see that seven per cent will be auctioned from 2008 and hopefully that all permits will be auctioned from 2012.

   In its response to the Government's Energy Review in **2006** Ofgem highlighted the value of the allowances and the additional profits that could accrue to energy companies over the eight years of the two phases of EU ETS. Ofgem also highlighted that by reducing the free allocation of allowances to generators to the maximum extent possible will mitigate this effect and will provide for measures to alleviate **fuel poverty**.

   A number of EU Member States are considering the issues of the EU ETS windfall. In particular, the **Spanish government** has recently passed a new law which industry estimates suggest could claw back up to £1 billion.

2. **Household Bills Explained**

   A factsheet explaining household energy prices has been published today and is available on Ofgem's website at www.ofgem.gov.uk

3. **Network investment**

   Investment is needed in the gas distribution network to fund the replacement programme which is replacing old cast iron pipes. Investment is needed in the electricity network to replace infrastructure which is approaching the end of its operational life and to connect new renewable generation. Throughout its network price controls Ofgem has set challenging efficiency targets for the companies.

4. The **package of fuel poverty measures** includes a proposal by Ofgem to host an energy summit, to promote ongoing switching among vulnerable customers, and a new initiative to run a pilot project in partnership with Citizens Advice to promote greater awareness of the different energy choices for customers on low incomes and in fuel poverty.

5. Ofgem is the Office of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority, the regulator of the gas and electricity industries in Great Britain. Ofgem's aim is to bring choice and value to all gas and electricity customers by promoting competition and regulating monopolies. The Authority's powers are provided for under the Gas Act 1986, the Electricity Act 1989 and the Utilities Act 2000. In this

information note, the functions of the Authority under the relevant Acts are, for simplicity, described as the functions of Ofgem.

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