

## Overview – 10<sup>th</sup> July 2013

We designed the Supply Market Indicators (SMI) to provide a snapshot of the energy supply market, and how it changes over time. Our aim is to increase the transparency of the market, and help consumers to understand it. The SMI is an indicator; it shows the trend in average wholesale, retail and other costs across the market. It does not seek to provide estimates of companies' profits, either collectively or individually.

Detailed information on individual companies' revenues, costs and profits in both their generation and supply arms is available on a backward-looking basis in their [Consolidated Segmental Statements](#). Ofgem requires the large vertically integrated companies to produce these annually based on audited figures.

The SMI shows an up-to-date estimate of:

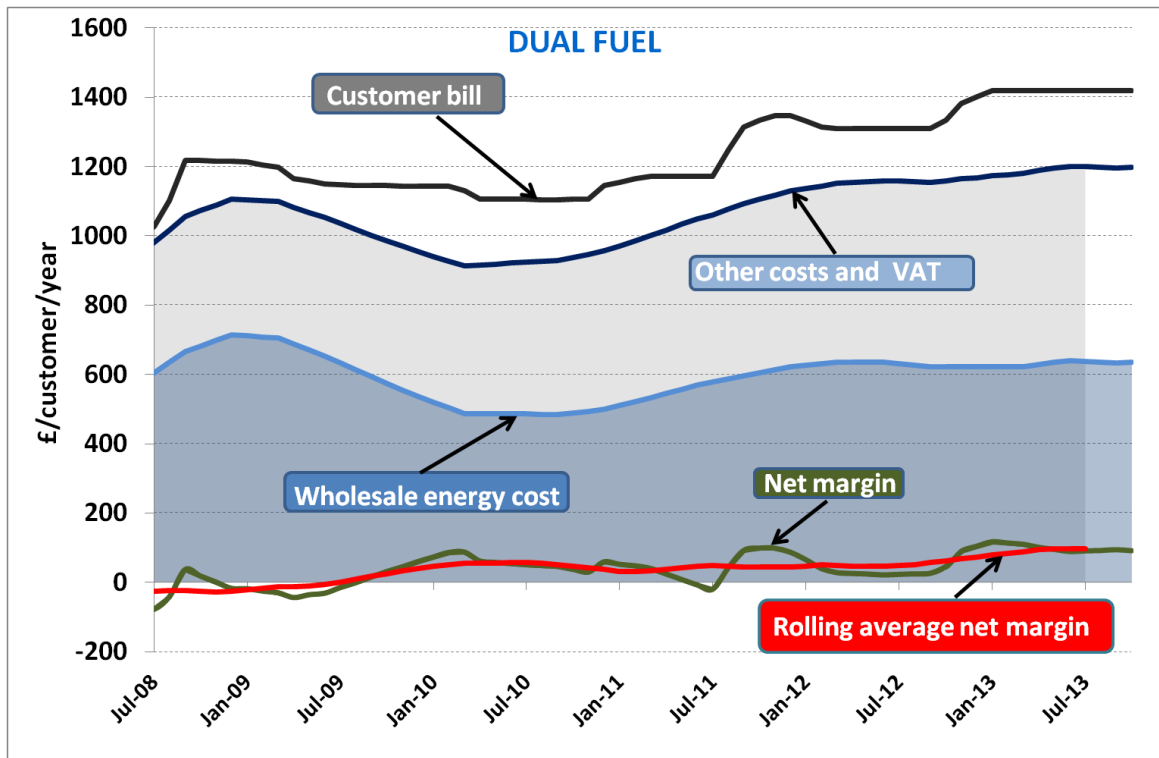
- the annual bill for an average dual fuel customer on a standard tariff, and
- the annual costs per customer a representative supplier incurs for delivering the electricity and gas

The SMI also provides an indicative annual net margin, which is the difference between the customers' retail bill and the suppliers' costs. This is presented as a 'snapshot' margin for the year ahead and as a rolling average that smoothes fluctuations in the 'snapshot' margin. The latter approach better illustrates trends over time. The current values are:

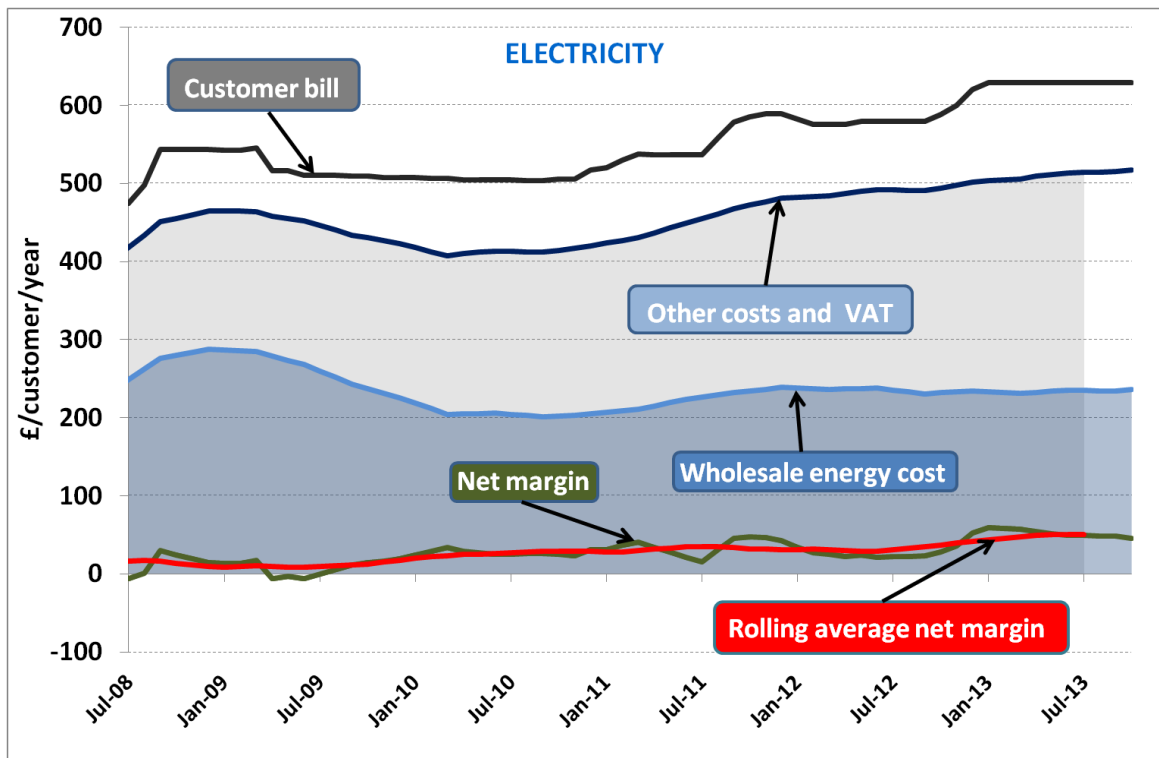
- Snapshot net margin: £90
- Rolling average net margin: £95

The SMI estimates are based on publically available information and verifiable data, where possible. We make proportionate and periodic adjustments to the data when the available evidence warrants it. We will consider including in the SMI any robust evidence stakeholders send us (SMI@ofgem.gov.uk). For more detail, please see the [SMI methodology](#).

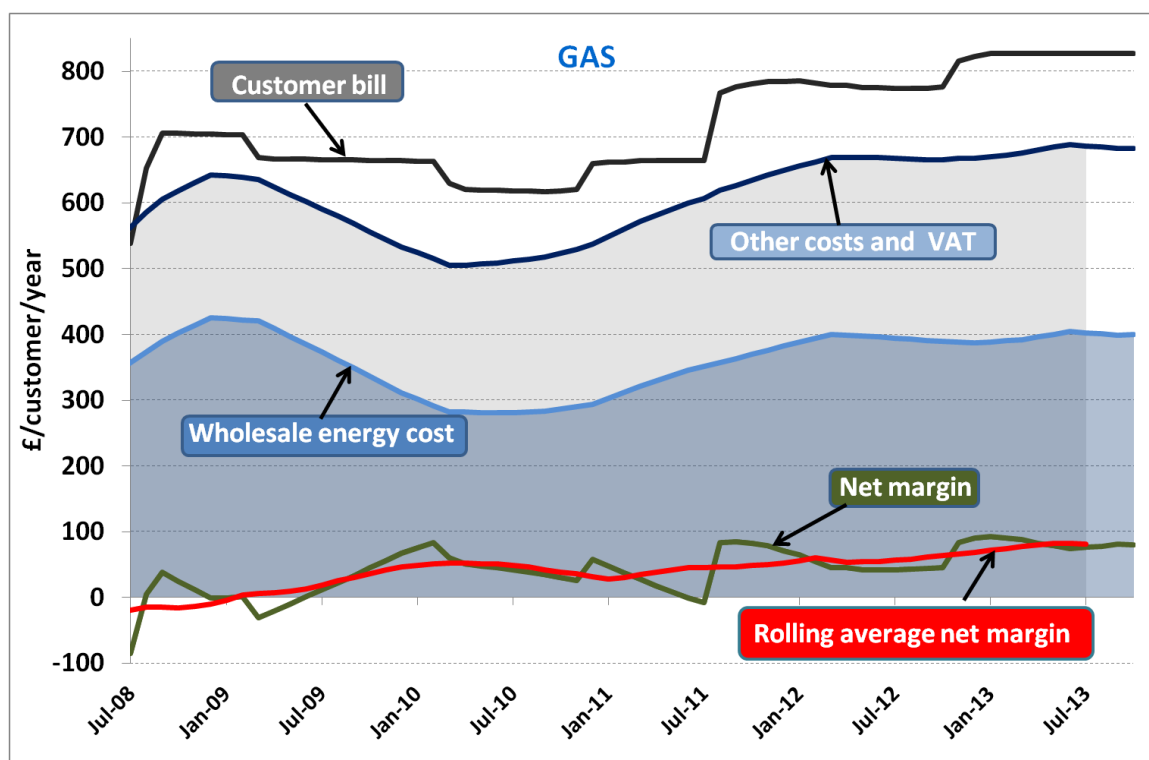
**Typical dual fuel customer bill, costs and total indicative net margin for the next 12 months**



**Typical electricity customer bill, costs and total indicative net margin for the next 12 months**



## Typical gas customer bill, costs and total indicative net margin for the next 12 months



## Changes in retail bills, costs and total indicative net margin – July 2013

| Dual Fuel                 | Year      |            |            |            |            |
|---------------------------|-----------|------------|------------|------------|------------|
|                           | Jul-09    | Jul-10     | Jul-11     | Jul-12     | Jul-13     |
| Customer bill             | £1,150    | £1,105     | £1,170     | £1,310     | £1,420     |
| Wholesale costs           | £635      | £485       | £580       | £630       | £640       |
| VAT and other costs       | £405      | £440       | £485       | £525       | £560       |
| Gross margin              | £115      | £180       | £110       | £155       | £220       |
| Operating costs           | £130      | £130       | £130       | £130       | £130       |
| Snapshot net margin       | £-15      | £50        | £-20       | £25        | £90        |
| <b>Rolling net margin</b> | <b>£0</b> | <b>£55</b> | <b>£50</b> | <b>£50</b> | <b>£95</b> |

Notes: 1) Customer bill is for standard tariffs, weighted by payment method and market share. Average figures assume electricity consumption of 4MWh/yr, gas consumption of 16.9MWh/yr. Figures rounded to nearest £5 and may not sum due to rounding. Gas and electricity bill values may not equal the dual fuel bill partly reflecting different market shares for dual fuel and single fuel customers.

2) The indicative net margin for a dual fuel customer may not equal the sum of the gas and electricity indicative net margins, partly reflecting different market shares for dual fuel and single fuel customers.

| Electricity               | Year       |            |            |            |            |
|---------------------------|------------|------------|------------|------------|------------|
|                           | Jul-09     | Jul-10     | Jul-11     | Jul-12     | Jul-13     |
| Customer bill             | £510       | £505       | £535       | £580       | £630       |
| Wholesale costs           | £260       | £205       | £225       | £235       | £235       |
| VAT and other costs       | £185       | £210       | £230       | £255       | £280       |
| Gross margin              | £65        | £90        | £80        | £90        | £115       |
| Operating costs           | £65        | £65        | £65        | £65        | £65        |
| Snapshot net margin       | £0         | £25        | £15        | £20        | £50        |
| <b>Rolling net margin</b> | <b>£10</b> | <b>£25</b> | <b>£35</b> | <b>£30</b> | <b>£50</b> |

*Notes: Customer bill is for standard tariffs, weighted by payment method and market share. Average figures assume electricity consumption of 4MWh/yr. Figures rounded to nearest £5 and may not sum due to rounding.*

| Gas                       | Year       |            |            |            |            |
|---------------------------|------------|------------|------------|------------|------------|
|                           | Jul-09     | Jul-10     | Jul-11     | Jul-12     | Jul-13     |
| Customer bill             | £665       | £620       | £665       | £775       | £830       |
| Wholesale costs           | £375       | £280       | £350       | £395       | £405       |
| VAT and other costs       | £220       | £230       | £255       | £275       | £285       |
| Gross margin              | £75        | £105       | £55        | £105       | £140       |
| Operating costs           | £65        | £65        | £65        | £65        | £65        |
| Snapshot net margin       | £10        | £40        | -£10       | £45        | £75        |
| <b>Rolling net margin</b> | <b>£20</b> | <b>£50</b> | <b>£45</b> | <b>£55</b> | <b>£80</b> |

*Notes: Customer bill is for standard tariffs, weighted by payment method and market share. Average figures assume gas consumption of 16.9MWh/yr. Figures rounded to nearest £5 and may not sum due to rounding.*

## Methodology

In March 2012, we moved from publishing our supply market indicators on a quarterly to a weekly basis. Our methodology has not changed from that used in the quarterly reports. The only difference was the addition of a rolling average net margin figure. We introduced this indicator to increase transparency about net margin levels. As the net margin figure can vary significantly in a year, in reaction to falling or rising costs, another measure is to consider the average margin over an extended period of time. This then smoothes out fluctuations in volatile net margin figures. You can find a link to our methodology here<sup>1</sup>.

Notwithstanding the introduction of a rolling average net margin figure to the supply market indicators, it is important to remember that it is a forward-looking estimate of the net margin on supplying a typical, standard tariff, dual fuel customer. It is therefore likely to change over time as more information on costs and prices becomes

<sup>1</sup> [http://www.ofgem.gov.uk/Markets/RetMkts/rmr/smr/Documents1/SMR\\_METHODOLOGY.pdf](http://www.ofgem.gov.uk/Markets/RetMkts/rmr/smr/Documents1/SMR_METHODOLOGY.pdf)

available. It also does not capture all the discounted deals that may be available to consumers, including those available online.

More comprehensive information on individual energy companies' revenues, costs and profits in both their generation and supply arms is available on a backward-looking basis through their Consolidated Segmental Statements. These are produced annually by energy companies and are available on the Ofgem website. The requirement to produce these accounts was introduced by Ofgem following our [Energy Supply Probe in 2008](#).

### **Updating our assumptions**

Our estimate of net margin is based on numerous assumptions. These include assumptions about typical household energy consumption and estimates of suppliers' costs. We will periodically review these components in due course and will look to update our assumptions as they change, including for example, updating our consumption information. We may also utilise requests for information where this is the most appropriate route to gather data. In the meantime, if suppliers wish to provide us with updated information, we will be happy to consider utilising it in the report.

Where we update our data, we will keep a log of when a change takes effect and a short description, as below.

### **Updates to assumptions used**

27 June 2013 - update to gas network charges in 'other costs'

23 May 2013 - updated supplier's market shares

29 April 2013 - update to electricity network charges in 'other costs'

20 February 2013 - update to Renewable Obligation costs

13 February 2013 - update to electricity network charges in 'other costs'

06 February 2013 - updated assumptions for future Feed in Tariff costs

21 January 2013 - updated retail bill reflecting a price change announcement

16 January 2013 - updated supplier's market shares

10 January 2013 - update to our assumptions for the Energy Company Obligation

12 December 2012 - updated retail bill reflecting a price change announcement

05 December 2012 - updated retail bill reflecting a price change announcement

28 November 2012 - updated retail bill reflecting a price change announcement

21 November 2012

- updated retail bill reflecting a price change announcement
- update to our retail bill data based on information provided by suppliers

31 October 2012 – updated retail bill reflecting a price change announcement

24 October 2012:

- updated payment method shares (direct debit, standard credit and prepayment);
- updated retail bill reflecting price change announcements;
- updated assumption to forward network charges and balancing charges;
- update to cost of Feed in Tariffs;
- update to Renewable Obligation costs, accounting for higher obligation.

19 September 2012 – updated suppliers' market shares.

17 July 2012 - updated suppliers' market shares.

2 July 2012 – updated suppliers' market shares and updated payment method shares (Direct Debit, standard credit and prepayment).

20 June 2012 – update to other costs including the inclusion of ECO in the model.

21 May 2012 – updated suppliers' market shares.