

## **Competition and Markets Authority Energy Market Investigation - Profitability of Retail Energy Supply: Profit Margin Analysis**

This short submission is made by Energy Action Scotland in response to the CMA's consultative working paper of 16 March 2015 as part of its investigation into the profitability of retail energy supply.



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### **Introduction**

Energy Action Scotland (EAS) is the Scottish charity with the remit of ending fuel poverty. EAS has been working with this remit since its inception in 1983 and has campaigned on the issue of fuel poverty and delivered many practical and research projects to tackle the problems of cold, damp homes. EAS works with both the Scottish and the UK Governments on energy efficiency programme design and implementation.

EAS welcomes the opportunity to respond to the CMA as part of its Energy Market Investigation.

### **EAS response**

For the lay person, the energy market continues to be a difficult market to understand. This is in spite of greater transparency in the retail market and a reduced number of tariffs provided by suppliers. As the bills for gas and electricity are made up of a number of constituent parts, ie generation, distribution, metering, environmental levies or taxes as well as the cost of billing and of course the company's profit, it is still difficult to navigate through the market to get the best price for the energy used in the home.

What customers do see and understand is that energy suppliers continue to make substantial profits while household income continues to be placed under a great deal of pressure, ie no or low rises in wages, benefit sanctions against those who rely on benefits as their main source of income and an ever-increasing cost of essential goods, including energy.

This CMA working paper clearly shows that overall demand is reducing, ie 731 TWh in 2007 down to 636 TWh in 2013 meaning a reduction of 13% while overall company revenue has risen from £33.4 billion to £45.9 billion over the same period ie a rise of 28%. This clearly demonstrates that companies remain in a far more profitable position than those they provide goods and services to when wages for the majority of public sector workers have risen in either small 1% increments or, in some years, not at all.

EAS is not against energy companies making profits; they should operate to make profit in order to ensure security of supply, to maintain an energy network that delivers power to homes on demand safely and securely, and to provide a desirable level of customer service. However, EAS believes that these profits must reflect the ability of society to pay for such goods and services. This is particularly important when the goods and service in question are in fact basic necessities required

to maintain a healthy living home environment. With fuel poverty figures now sitting above 39% of all homes in Scotland and with excess winter deaths being recorded regularly above 2,500 individuals, then energy - both gas and electricity - must become more affordable to the ordinary consumer. EAS believes that the time is right for further regulation of the retail market, just as the distribution market is regulated. This regulation should have some form of price control that allows companies to operate profitably but makes fuel affordable for consumers and helps to tackle both fuel poverty and excess winter deaths.