CMA ENERGY MARKET INVESTIGATION

SCOTTISHPOWER'S RESPONSE TO THE CONSULTATION ON THE PREPAYMENT PRICE CAP ORDER

1. INTRODUCTION

1.1 The CMA issued an initial consultation on the proposed Prepayment Charge Restriction (the **price cap**) remedy on 15 August 2016, following publication of its final report on 24 June 2016. It then issued a formal consultation on 11 October. The consultation documents comprise draft additions to the Electricity and Gas supply licences, a draft order (the **order**), a draft explanatory note and 3 worked models.

1.2 We note that the CMA has made a number of changes since the initial consultation, including bringing forward by a week the deadline for Ofgem to notify the level of the price cap and extending the deadlines for compliance reporting to Ofgem. We welcome these and other changes, and our response to the formal consultation focuses on the following remaining issues:

    (a)   Absolute level of price cap (section 2);

    (b)   Indexation of electricity policy costs (section3);

    (c)   Indexation of gas policy costs (section 4);

    (d)   Restricted meters and assumed consumption splits (section 5);

    (e)   Compliance reporting (section 6);

    (f)   Detailed drafting comments (section 7).

2. ABSOLUTE LEVEL OF PRICE CAP

2.1 In our response to the PDR we raised a number of concerns about the approach to setting the value of the price cap at the June 2015 base date, which we believed was significantly too low. We remain concerned that the price cap is too low, and in particular does not include sufficient headroom to allow meaningful competition beneath the cap. In the absence of meaningful competition (and gains from switching), prepayment customers will get out of the habit of switching and it will be difficult to rekindle competition when the price cap is eventually lifted.

2.2 We recognise that the CMA responded to a number of our concerns in the Final Report, but we believe that the base date value of the cap remains too low as a result of being based on a benchmark that is unreliable and unrealistic. In particular, our response to the PDR argued that the benchmark chosen by the CMA was based on tariffs of companies that had very low or negative profitability, and that bringing these tariffs up to a level that is consistent with a reasonable profit margin would result in the benchmark annual dual fuel bill increasing by £34.[1] In its Final Report, the CMA made new

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[1] See Table 7.2 of Oxera (2016), 'Critique of CMA direct benchmarking analysis: A note for ScottishPower based on a non-confidential submission to the CMA', 12 April

adjustments to the customer acquisition and other overhead costs of the benchmark firms that are potentially larger than the profitability adjustment we put forward and act to reduce the benchmark dual fuel bill. These adjustments, the basis for which is not fully disclosed, appear to rely on assumptions that are likely to bias the results or on a methodology that may yield unreliable results.

2.3   With regard to its adjustment for customer acquisition costs, the CMA assumed that the average customer life for Ovo Energy and First Utility is 6 years on the basis that it is the average for the industry as a whole.[2] Given that Ovo Energy and First Utility have rapidly grown their market share by pricing aggressively, partly supported by the exemption from certain social and environmental obligations for smaller suppliers, it is likely that they have acquired the most mobile customers who, given the intermittent nature of most customer acquisition campaigns, are unlikely to remain with their existing supplier for as long as the average energy customer. Assuming a shorter customer life would increase the adjusted costs of the benchmark firms in the reference period and increase the benchmark prices needed to maintain the CMA's target level of profitability.

2.4   With regard to overhead costs excluding customer acquisition costs, the methodology used by the CMA in effect employs First Utility as the only benchmark for the overhead costs of the SLEFs. Given the natural variation in overhead costs between different companies, if one company's data is employed as a benchmark, it is likely that the results will be largely driven by the choice of the benchmark, rather than a more objective assessment of the efficient level of overhead costs of the SLEFs.

2.5   The potential impacts of more realistic assumptions on customer acquisition costs, as well as the potential effect of using the cost data of one company as a benchmark for the industry as a whole are illustrated in Annex 1. Given the significant doubts about the latest adjustments to CMA's analysis, ScottishPower believes that the benchmark dual fuel bill calculated by the CMA is still too low and does not represent a realistic basis for calculating the starting level of the prepayment price cap.

3.   INDEXATION OF ELECTRICITY POLICY COSTS

3.1   The CMA appears to have significantly over-estimated the contribution of policy costs in the bill for customers with zero electricity consumption. As explained below, this will materially reduce suppliers' revenues in later years below the level that would be achieved if the policy costs had been allocated correctly. We therefore request that the CMA amend this aspect of the price cap. We explain our reasoning below.

3.2   The CMA's assumed breakdown of the price cap at nil and medium consumption (for single fuel electricity, East Anglia region) is shown in Table 1.

Table 1 Price cap for single fuel electricity at base date (East Anglia region)

	Price cap	
	Nil consumption	**Medium consumption**
Wholesale energy		£189
Network		£118
Policy	£26	£67
Other	£29	£75
PPM uplift	£24	£24
Headroom	£3	£15
Price cap (medium)	£82	£488

[2]   Appendix 10.1, para. 30.

3.3   Table 2 shows the breakdown of policy costs for ScottishPower's domestic electricity supply segment in 2015 taken from the consolidated segmental statements (CSS). For costs which scale according to the number of customers, the table shows the per customer cost; and for costs which scale according to the energy supplied, it shows the cost for a customer with medium consumption of 3,200 kWh.[3]

Table 2 ScottishPower policy costs for domestic electricity segment in 2015 (from CSS)

	SP CSS for 2015 (£m)	Cost for typical customer		
		per customer	per 3,200 kWh	Total
Renewables Obligation Certificates (ROCs)	155.6		£40	
Feed in Tariffs (FITs)	46.2		£12	
Energy Companies Obligation (ECO)	26.1		£7	
Warm Home Discount (WHD) (inc admin)	20.0	£6		
Assistance for Areas with High Electricity Distribution	2.7		£1	
Administering the Government Electricity Rebate (GER)	0.5		£0	
Total environmental and social obligations	251.1	£6	£59	£65

3.4   The policy cost at medium consumption of £65 is close to the CMA's assumed value of £67, but the policy cost at nil consumption (equivalent to the per-customer cost) is £6 compared to the CMA's £26, suggesting that the CMA figure is approximately £20 too high. Furthermore, the £6 corresponds to WHD costs which the OBR projects to remain constant. As such, it is not appropriate to apply the electricity policy cost index to policy costs for customers with nil consumption.

3.5   Whilst the policy component of the price cap at nil consumption appears too high, the 'other' component (£29) appears too low. The majority of 'other' costs will scale with customer numbers, so one would expect the value at nil consumption to be close to the value at medium consumption (£75). The main elements expected to scale with consumption are bad debt costs, working capital costs and profit, all of which are likely to be relatively small. We therefore suggest that the accuracy of the price cap calculations could be substantially improved by:

(a)   reducing the policy cost at nil consumption by £20 and increasing the 'other' cost by the same amount, keeping the total cap at nil consumption unchanged;

(b)   assuming a flat indexation of policy costs at nil consumption (consistent with approach to gas policy costs, which also relate to WHD).

3.6   The impact of these corrections is illustrated in Figure 1 (for 2020/21) and in Table 3 which shows the impact of policy indexation on the price cap in each year of the price control, assuming all other elements remain unchanged. The impact is shown for nil consumption, medium consumption and mean consumption (for which we have used ScottishPower's mean consumption for standard meters of [✂]). This demonstrates that there will be significant distributional effects as a result of failing to index policy costs correctly, with the nil consumption cap being £30 too high towards the end of the period and the mean consumption cap £4 too low. Given that suppliers' overall revenues will be determined by mean consumption, the CMA's proposed approach to policy indexation would result in an additional constraint on suppliers' revenues towards the end of the period, equivalent to a ~25% reduction in the headroom allowance.

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[33] These are derived using the average number of customers (3.09 million) and total energy supplied (12.5TWh) also taken from the CSS.

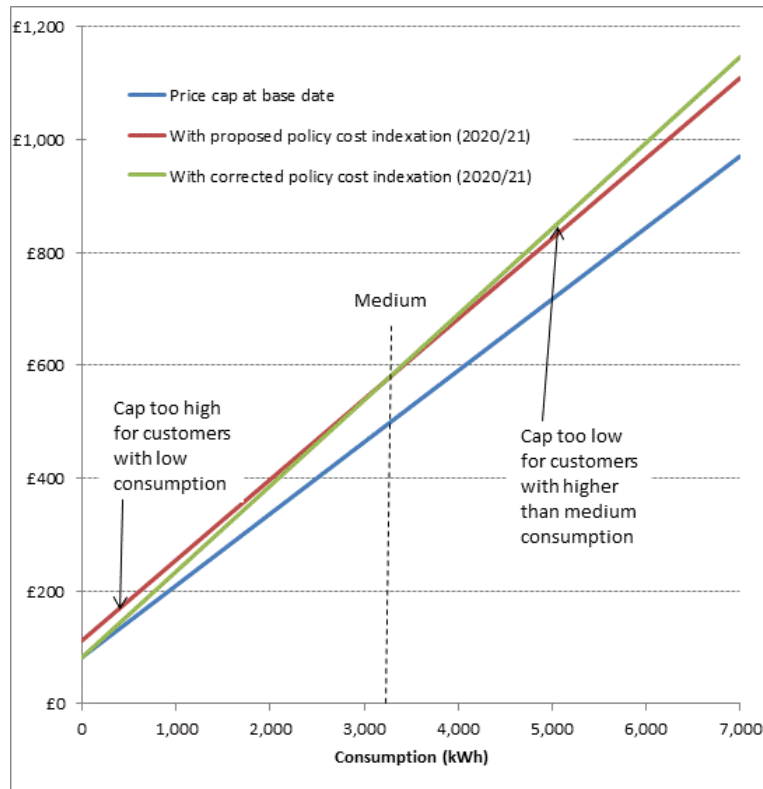**Figure 1: Impact of corrected policy cost indexation on price cap**

Table 3: Impact of corrected policy cost indexation on price cap

	Base date	2016-17	2017-18	2018-19	2019-20	2020-21
Electricity policy index (£bn)	5.6	6.6	8.0	9.9	11.4	12.3
Impact of policy cost indexation on price cap						
Nil consumption	£82	£87	£93	£102	£109	£113
Medium (3,200 kWh)	£488	£500	£517	£540	£558	£568
SP mean ([✂] kWh)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Impact of policy cost indexation on price cap (corrected)						
Nil consumption	£82	£82	£82	£82	£82	£82
Medium (3,200 kWh)	£488	£500	£517	£540	£558	£568
SP mean ([✂] kWh)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Change in price cap						
Nil consumption			-£11	-£20	-£27	-£31
SP mean ([✂] kWh)			£2	£3	£4	£4

4. INDEXATION OF GAS POLICY COSTS

4.1 The CMA is proposing that gas policy costs will be indexed to CPI only, on the basis that the two policy costs that currently apply (WHD and ECO) are expected to remain constant in real terms over the period of the price cap.

4.2 This provides very little flexibility to adjust the price cap in response to unforeseen policy changes which could load additional costs onto gas. We suggest that the Order and gas supply licence conditions are amended to give Ofgem the power, following consultation, to identify an appropriate data source and methodology for indexing gas policy costs. The explanatory note could then explain that Ofgem would be expected to use this power in the event that the Government were to impose material new policy costs on gas.

5. RESTRICTED METERS AND ASSUMED CONSUMPTION SPLITS

Consumption split for E7 meters

5.1 SLC28.27 gives Ofgem the ability to direct an alternative consumption split for Economy 7. Any changes to the Economy 7 split could have a material financial impact on suppliers, given the significant number of Economy 7 customers compared to restricted meters, and we believe that there should be appropriate governance arrangements around any such changes.

5.2 We welcome the amendment which makes the obligation subject to Ofgem first seeking representations from licensees (and having regard to them) but we do not think this goes far enough. Given the potential financial impact, we think suppliers should be able to appeal or refer a decision on an alternative consumption split to the CMA for final determination. This could be achieved simply by writing the 32:68 split into the licence condition, so that any change to the split would need to be implemented by means of a licence amendment (which would be subject to appeal to the CMA).

Rebates in respect of Economy 7 meter consumption splits

5.3 Para 60 of the explanatory note says (emphasis added):

"**Where projections have been made by a supplier**, and there is a material discrepancy between forecast and actual consumption taking place in the peak period such that Relevant Customers on a given tariff have incurred charges materially in excess of the Relevant Maximum Charge, GEMA may direct the supplier to pay a rebate to such Relevant Customers. We expect GEMA will only give such a direction when the discrepancy (and the detriment per customer arising from it) is substantial. For the avoidance of doubt:

(a) the potential for payment of rebates exists **for both Economy 7 Tariffs as well as other Multi-Register Prepayment Tariffs**"

5.4 We are unclear under what circumstances the CMA envisages that a rebate might be payable for Economy 7 tariffs (E7). Para 56 of the explanatory note says that Ofgem will direct the split for E7, so there would be no reason for suppliers to be making a projection in respect of E7. (Indeed if suppliers disagree with the split directed by Ofgem, para 56 implies that they would need to submit evidence to Ofgem with a view to Ofgem giving a new direction, rather than using their own split.)

5.5 Furthermore, draft SLC28A.28 says (emphasis added):

"The licensee must comply with any direction which the Authority may issue, after consultation with the licensee, to pay a rebate to Relevant Customers if, due to a material discrepancy between the forecast and actual average consumption splits **referred to in paragraph 28A.26(b)**, Relevant Customers incurred Charges for Supply Activities in excess of the Relevant Maximum Charge."

Paragraph 28A.26(b) excludes E7, which means that there is no provision in the licence conditions for rebates to be payable in respect of E7.

5.6 Hence it appears to us that sub-paragraph 60(a) of the explanatory note is incorrect and should be deleted.

Criterion for payment of rebates in respect of assumed consumption splits

5.7 There is a discrepancy between para 60 of the explanatory note and SLEC28A.28. Para 60 refers to charges *materially* in excess of the Relevant Maximum Charge whereas SLC28A.28 simply refers to charges in excess of the Relevant Maximum Charge. Given the difficulty in accurately projecting

splits from one year to the next (the energy consumption for electric heating will vary widely between warm and cold winters) it is essential that suppliers are allowed a reasonable tolerance to accommodate such variations.

5.8   We think SLC28A.28 should be amended to ' ...Charges for Supply Activities materially in excess of the Relevant Maximum Charge' and the explanatory note should be amended to acknowledge that suppliers would not normally be expected to pay rebates where a higher than forecast proportion of peak consumption is a consequence of an unusually warm winter.

6.   COMPLIANCE REPORTING

6.1   Article 5.1 requires suppliers to submit a compliance statement to the CMA no more than 30 days after the end of each charge restriction period. We are concerned that this may present us with challenges, particularly for the first charge restriction periods, when we are doing it for the first time and in respect of any charge restriction period where there is a requirement to calculate and pay rebates. We request that the CMA consider extending the deadline to 60 days.

7.   DETAILED DRAFTING COMMENTS

Definition of Single-Register Metering Arrangement

7.1   The definition of 'Single-Register Metering Arrangement' is potentially confusing and we suggest it could be made clearer if amended along the following lines (proposed amendments in red text).

> **'Single-Register Metering Arrangement'** means any Metering Arrangement which is not a Multi-Register Metering Arrangement, and includes a Single-Rate Metering Arrangement which is not a Multi-Register Metering Arrangement (regardless of the metering equipment employed) and a Multi-Tier Metering Arrangement in which the Unit Rate does not vary according to the time of use);

7.2   Without the proposed amendment, the definition could be read to imply that *any* Single-Rate Metering Arrangement (regardless of the metering equipment employed) would fall within the definition of 'Single-Register Metering Arrangement'. This is clearly not the case, since a Single-Rate Metering Arrangement[4] with (say) three registers[5] would count as a Multi-Register Metering Arrangement[6] and not a Single-Register Metering Arrangement. The proposed amendment would avoid this ambiguity.

Basis for rebates

7.3   SLC 28A.28 of the electricity licence condition (and the related text in para 60 of the explanatory note) are potentially misleading and we suggest they should be amended as follows:

> 28A.28 The licensee must comply with any direction which the Authority may issue, after consultation with the licensee, to pay a rebate to Relevant Customers if, due to a material discrepancy between the forecast and actual average consumption splits referred to in paragraph 28A.26(b), Relevant Customers on average incurred Charges for Supply Activities in excess of the Relevant Maximum Charge.

7.4   For any multi-register meter type there will be a range of consumption splits across the customer base, with some customers having greater than average peak rate consumption and others less than average.

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[4]   'Single-Rate Metering Arrangement' means using one or more Electricity Meters for the purpose of a Prepayment Tariff whereby a Domestic Customer is required to pay for the Charges for Supply Activities on the basis of a single Unit Rate

[5]   Under the CMA's latest proposals there would be no obligation for suppliers to offer single rate tariffs to customers with restricted prepayment meters (ie consumption on each register charged at same unit rate), but suppliers would be permitted to do so.

[6]   'Multi-Register Metering Arrangement' means using one or more Electricity Meters for the purpose of a Prepayment Tariff whereby a Domestic Customer's electricity consumption at certain times, or for certain purposes (for example, heating), or both, is separately recorded - on one or more registers - and includes any contractual arrangement whereby the Domestic Customer is charged on the basis of Time of Use Rates (regardless of the metering equipment employed);

Even when the forecast consumption split accurately reflects the actual average consumption split there will be some customers (possibly as many as 50%) whose charges for supply activities are in excess of the Relevant Maximum Charge because they have a higher than average proportion of peak rate consumption. The correct test is whether relevant customers <u>on average</u> incurred charges in excess of the relevant maximum charge.

ANNEX 1:

OUTSTANDING ISSUES WITH CMA BENCHMARK COST ANALYSIS

Introduction

1. In ScottishPower's response to the PDR, we argued that the benchmark chosen by the CMA for the purpose of estimating consumer detriment and setting the prepayment price cap was based on the tariffs of companies that had very low or negative profitability, and that bringing these tariffs up to a level that is consistent with a reasonable profit margin would result in the benchmark annual dual fuel bill increasing by £34.[7]

2. In its Final Report, the CMA responded to these points, but made new adjustments to the customer acquisition and other overhead costs of the benchmark firms that are potentially larger than the profitability adjustment we put forward and act to reduce the benchmark dual fuel bill. These adjustments, the basis for which is not fully disclosed, appear to rely either on assumptions that are likely to bias the results, or on a methodology that may yield unreliable results. This annex provides further detail of our concerns and some illustrative calculations to demonstrate materiality.

Customer acquisition costs

3. In selecting an appropriate depreciation period for capitalised customer acquisition costs (CACs), the CMA used an assumption in its analysis that is likely to be inappropriate and may bias the results of its calculations. It assumed that the average customer life used to calculate the benchmark price (by adjusting the results for Ovo Energy and First Utility) should be six years. It selects this figure on the basis that it is the average for the industry as a whole.[8] Given that Ovo Energy and First Utility have rapidly grown their market share by pricing aggressively, partly supported by the exemption from certain social and environmental obligations for smaller suppliers, it is likely that they have acquired the most mobile customers who, given the intermittent nature of most customer acquisition campaigns, may be unlikely to remain with their existing supplier for as long as the average energy customer.

4. It appears from paragraph 31 of Appendix 10.1 that the CMA had information to the effect that the average customer lives for Ovo Energy and First Utility were in fact below 6 years, although the actual figures are not given (even within a range). The CMA therefore could have used the actual average customer lives for the two benchmark firms. The CMA suggests that switching rates (and so average customer lives) might be either higher or lower in a market with more effective competition.[9] Given that uncertainty, it would be reasonable to take the observed average customer lives in the reference period for the benchmark firms, rather than using average customer lives from the market as a whole.

5. The CMA states that assuming a shorter average customer life does not make a significant difference to the results of its analysis;[10] however, the actual assumption as to customer life used by the CMA in this sensitivity analysis is not disclosed, and the basis for this alternative assumption is unclear.

6. Using the actual average customer life for Ovo Energy and First Utility could make a significant difference to the results of the CMA's final detriment analysis. For example, assuming a customer life of three years would significantly increase the adjusted costs of the benchmark firms in the

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[7]   See Table 7.2 of Oxera (2016), 'Critique of CMA direct benchmarking analysis: A note for ScottishPower based on a non-confidential submission to the CMA', 12 April
[8]   Appendix 10.1, para. 30.
[9]   Appendix 10.1, para. 31.
[10]   Appendix 10.1, para. 31.

reference period.[11] Consequently, the CMA would need to increase benchmark prices (to maintain a 1.25 per cent EBIT figure[12]) and the calculated detriment would decrease.

7.   An illustrative example is provided in Table 4 below, where CACs adjustment values are shown to drive a substantial decrease in consumer detriment of £268m per year if a three- rather than a six-year customer life is used.

Table 4: Impact of customer life assumption on detriment

Year		2012	2013	2014	2015
Theoretical detriment adjustment related to CACs					
6-year depreciation	£m	1,154	929	1,035	579
3-year depreciation	£m	1,076	629	650	268
Annual average (6 years)	£m	924			
Annual average (3 years)	£m	658			
Difference	£m	268			

Data sources: segmental accounts data for OVO Energy and First Utility, Appendix 10.1 to the Provisional Decision on Remedies, DECC and Ofgem statistics and ScottishPower customer acquisition costs.[13]

8.   In this illustrative example, total customer acquisition costs for the two benchmark companies are calculated using ScottishPower's average per customer acquisition costs as a proxy for the corresponding costs of First Utility and Ovo Energy and combined with estimated annual customer acquisition numbers to calculate total customer acquisition costs.[14] Straight-line depreciation is then applied to these costs using different assumptions on customer life. The analysis also includes an adjustment for depreciation of estimated CACs incurred prior to the reference period (eg costs incurred in 2010 are depreciated until 2015 when the assumed customer life is 6 years, and until 2012 when the assumed customer life is 3 years).[15]

9.   On the basis of the significant effect of changing the customer life assumption as demonstrated above, we believe that the CAC adjustment calculated by the CMA cannot be considered to be reliable unless the average customer life for the benchmark companies is demonstrated to be similar to the average customer life for the market as a whole.

Overhead costs

10.   Our understanding is that the CMA determined the benchmark for overhead costs (OHCs) (excluding CACs) as a fixed percentage of revenues. After stripping out actual OHCs net of CACs, the CMA applied this percentage to calculate the assumed steady-state OHCs of both Ovo Energy and First Utility, based on each year's revenues. Thus, the CMA replaced actual OHCs with these figures calculated as a fixed proportion of revenues in each year. The CMA appears to have considered this approach to be necessary because Ovo Energy in particular had incurred exceptional or otherwise unrepresentative costs in the reference period. The CMA reasoned that such costs would not be

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[11]   A three year period is chosen to illustrate the effect of a significant reduction in the assumed customer life of the benchmark firms as it would be reasonable to assume that the customers acquired by the mid-tier suppliers through aggressive pricing are likely to be significantly more mobile than the average customer. Disclosure by the CMA of information on the average customer life for the benchmark firms would be required in order to calculate the appropriate adjustment to CMA's detriment calculations.

[12]   The CMA ultimately adjusted the benchmark prices to give EBIT of 1.25%, based on the adjusted costs of the benchmark firms in the reference period, see Appendix 10.1, para 45.

[13]   https://www.ofgem.gov.uk/system/files/docs/2016/07/energy_companies_consolidated_segmental_statements_css_july2016.pdf , consulted on 16 August 2016, https://www.gov.uk/government/statistical-data-sets/quarterly-domestic-energy-switching-statistics , consulted on 16 August 2016, and https://www.ofgem.gov.uk/chart/electricity-supply-market-shares-company-domestic-gb , consulted on 30 August 2016.

[14]   Customer acquisition numbers for Ovo Energy and First Utility are calculated using customer numbers found in Appendix 10.1, para 21 for 2012-2015 and segmental accounts data prior to 2012; combined with a steady state churn rate assumption.

[15]   Past CACs and the corresponding depreciation are calculated following the same method as for CACs incurred in the reference period.

expected were the benchmark firm to have been operating on a larger scale and at a steady state (rather than growing rapidly).[16]

11.   From the information contained in Appendix 10.1, it is not clear exactly how this fixed percentage was calculated. The CMA indicates that actual OHCs of First Utility as a percentage of revenues played a significant role in this calculation.[17] Para 10.28(c) of the Final Report provides some further (but still unclear) information, as follows:

"We adjusted their overhead costs as a percentage of revenues to be in line with First Utility's actual overhead costs in 2014 and 2015 and with Ovo Energy's forecast overhead costs to reflect the level of overhead costs that we would expect to see in a large firm operating with a stable customer base (ie one which was neither growing, nor shrinking materially year on year)."

12.   It is not clear whether the CMA took an average for First Utility's OHCs as a percentage of revenues for the whole period or for the more limited period of 2014-2015 or whether it weighted the later years more heavily in an overall calculation. It is also not clear what role Ovo Energy's actual or projected OHCs played in the calculation, although the CMA states:

*"[T]his adjustment has a relatively minor impact on First Utility's cost base over the period, **since it is based on its own achieved costs**..." [emphasis added]*[18]

13.   This indicates that Ovo Energy's actual costs during the reference period are given little, if any, weight.

14.   Due to the natural variation in overhead costs between different companies, employing one company's data as a benchmark can significantly bias consumer detriment results. In particular, the resulting number is likely to depend largely on the choice of the benchmark rather than on the level of overhead costs of the SLEFs.

15.   Table 5 illustrates the effect of choosing the company with the lowest costs among the SLEFs as a benchmark to calculate consumer detriment. Estimates are derived using the following methodology:

- Approximate overhead costs with 2012-2015 indirect costs for the Big 6 suppliers;[19]

- Identify a theoretical benchmark company based on the lowest average overhead cost per customer;[20]

- Take the difference between indirect costs per customer of the benchmark and of all other SLEFs on a yearly basis for the 2012-2015 period;

- Obtain the theoretical detriment and scale the yearly difference obtained for every company to the whole market by multiplying by customer numbers for each of the SLEFs.

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[16]   Appendix 10.1, paras 33 to 38.
[17]   Appendix 10.1, para. 38.
[18]   Appendix 10.1, para 39.
[19]   Source for indirect costs: Segmental accounts for each of the SLEFS.
        https://www.ofgem.gov.uk/system/files/docs/2016/07/energy_companies_consolidated_segmental_statements_css_july2016.pdf ,
        consulted on the 16 August 2016
[20]   Customer numbers are calculated using DECC data on total number of accounts and Ofgem data on market shares.
        https://www.gov.uk/government/statistical-data-sets/quarterly-domestic-energy-switching-statistics , consulted on 16 August 2016, and
        https://www.ofgem.gov.uk/chart/electricity-supply-market-shares-company-domestic-gb , consulted on 30 August 2016.

Table 5: Illustrative impact of using one of the SLEFs as a benchmark

Year		2012	2013	2014	2015
Theoretical detriment	£m	1,183	1,005	955	880
Annual average	£m	1,005			

Data sources: segmental accounts, market shares published by Ofgem and DECC data on total number of customer accounts.

16.   The relatively large illustrative average annual detriment of £1,005m calculated using the methodology set out above demonstrates the potential pitfall of using the data of only one firm as the benchmark for the whole industry. On this basis, we believe that the OHC adjustment calculated by the CMA cannot be considered to be reliable.