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Are the Big Six doubling their profit margins?

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UK IT Association member EDW have expressed concerns that the lack of transparency in the energy sector is undermining consumer confidence.

The reputation of the energy industry is under fire once again, with the Big Six being accused of 'cold blooded profiteering'; after official OFGEM figures showed that they had more than doubled their profit margins in the last 18 months. A headline figure of £95 of profit per household bill at a time when consumers are being squeezed ever harder financially prompted the Energy Select Committee to call them to account for their actions, and to discuss the profits they are making.

Representatives from British Gas, NPower, E-On, EDF, Scottish Power and SSE all appeared before the Committee, and took the opportunity to hit back at claims made by OFGEM on that their profit margin had effectively doubled.

In written evidence to the MPs, British Gas said: "erroneous assumptions in Ofgem's [SMI] methodology materially overstate reported margins by around £35 - £75." It warned that "trust in the energy sector is being undermined as a result" and said the regulator must urgently review its system.

Centrica said British Gas's post-tax profit margins — typically the highest in the industry — had averaged 5pc for the past five years and were currently the equivalent of £50 per customer.

SSE deputy chief executive Alistair Phillips-Davies wrote: "Ofgem's methodology appears to have a consistent bias towards overstating profit margins."

He pointed out that, over 2010 and 2011, "Ofgem's [annual] estimated profit margins averaged £73 per customer". But a "quick comparison" with Ofgem-approved accounts for the period shows that on average they actually earned £30 per customer.

“The trouble is that all of this effectively muddies the waters as far as the consumer is concerned,” comments Graham Paul, Service Delivery Director of electricity supply software suppliers and consultants EDW Technology Limited. “At a time when the energy suppliers are being seen as getting richer while customers are struggling with ever higher bills, the industry needs a transparent policy and squeaky-clean image if they are to restore consumer confidence in the way they do business,” he adds.

Taxing times for the industry

But the Big Six are not just under fire for making profits while Rome effectively burns, but also for dodging their tax commitments too. The admission came as the "big six" energy companies were questioned by MPs over issues including profits and how they treat their customers.

Centrica and SSE have revealed high tax contributions but critics say the accounts of the foreign-owned suppliers — E.On, NPower, ScottishPower and EDF Energy — are less clear. It is thought one of the firms that has invested heavily in new power plants has used legitimate allowances to cut its tax liability.

The energy suppliers have hit back, saying that while they may have paid the bare minimum when it came to corporation tax, they have spent billions in investment, development and renewing the energy infrastructure across the UK. That investment included money being put into renewables such as wind power. These can be offset against the companies’ tax liabilities, effectively wiping out the usual 20% corporation tax bill completely in some cases.

NPower Chief Executive Paul Massara said: "Effectively we have invested £5bn in the last five years building power plants, creating jobs, creating employment and helping to keep the lights on.

"If we had not made that investment we would not have the deductibility that we would be allowed. That is a simple accounting UK rule."

NPower reported a 34% rise in profits to £413m last year.

Keeping the lights on

“The Big Six are telling the truth when it comes to the amount that they’re investing, and it’s crucial to the future of the UK energy industry that the investment continues,” comments Graham Paul, of EDW. We are starting to see a growing trend of de-investments from wind farms by the big six with both SSE and RWE disposing of wind farm assets to investment management firms.

“However, what the consumer sees is a succession of big companies making a lot of money, paying very little tax back into the public coffers and then defending those actions with a few throwaway comments about how they’re investing in the future of Britain. If the Big Six want to restore an element of trust not just with the Parliamentary Committee but with the consumers they serve, then they’ll need to really demonstrate how they’re spending that money to combat the headline-grabbing figures that OFGEM has released. If people can see how much energy really costs and how the industry is working to ensure that the lights stay on in the UK, then maybe the Big Six’s reputations can be restored somewhat, and public confidence will grow,” he concludes.

About EDW:

EDW (http://www.edwt.org/) have a long history in developing, implementing and supporting best-of-breed software solutions for retail electricity quoting and customer management including their bespoke electricity pricing system – (Quote Lab) for the industrial and commercial market sector.

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About UK IT Association

The UK IT Association (UKITA) is a not-for-profit business support and Trade Association. It is a member of the Trade Association Forum which was established by the CBI.

UKITA has links with Universities, Further Education colleges and maintains a relationship with the Department of Business, Innovation and Skills.

It also owns and operates the Skillfair consultants and business advisers membership organisation and tender-sourcing service.

UKITA is a founder member and currently holds the presidency of PIN-SME (www.pin-sme.eu) which unites IT SME organisations in other EU countries and speaks for the sector at EU commission level.

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