

OFFICE OF FAIR TRADING

1.19. Manx Gas price increase – OFT Statement

The Hon. Member for Onchan (Mr Callister) to ask the Chairman of the Office of Fair Trading:

If he will make a statement on the recently announced Manx Gas price increase?

The Speaker: Question 19 then, and I call on the Hon. Member for Onchan, Mr Callister. Question 19, sir.

Mr Callister: Oh, apologies. Sorry, Mr Speaker, I was still – (*Interjection*) Yes. Thank you, Mr Speaker.

Could I ask the Chairman of the Office of Fair Trading if he will make a statement on the recently announced Manx Gas price increase?

The Speaker: I call on the Chairman of the Office of Fair Trading, Mr Perkins, to reply.

The Chairman of the Office of Fair Trading (Mr Perkins): I thank the Hon. Member for Onchan for this Question and I am delighted to be able to make the following statement on the position of the OFT regarding the price increases announced by Manx Gas which came into effect on 1st June this year.

There is, of course, a well-known regulatory agreement covering gas supply. It was signed by the Office of Fair Trading, the Department of Economic Development, the Treasury, and also with the approval of the then Council of Ministers. That agreement was viewed by all parties at that time as the most cost-effective way of managing the natural monopoly in gas supply. The agreement came into force on 1st January 2015 and it can be viewed on the OFT website.

The agreement fixes the level of profits of Manx Gas on the basis of the capital employed in the business, commonly referred to as the 'ROCE' method of regulation. It fixes profits at a level which is fair – fair to the company and, importantly, fair to the consumers. In answering a later Question today which I believe will be placed, I will talk in more detail about why the OFT believes the regulatory agreement is indeed fair.

Manx Gas has a contractual duty under that agreement to set its tariffs to achieve that fixed level of profit each year. When setting its tariffs, Manx Gas considers a range of data, including its forward purchasing contracts, customer usage projections and market pricing assumptions.

Manx Gas is required under the agreement to give eight weeks' notice of changes to the Office of Fair Trading and has to consider any representation the Office of Fair Trading makes back to them within four weeks of that notice.

In considering any proposal from Manx Gas, the Office of Fair Trading has to ask itself three questions: does the detailed information supplied with the proposal support the fact that the changes are necessary to meet the level of profitability; are the assumptions included in the detailed analysis fair and reasonable; and finally, does the proposal apply any adjustments fairly across the customer base? On this occasion the OFT was satisfied on all three counts and responded accordingly.

The Office of Fair Trading estimates that for a typical central heating customer using 10,000 kWh, the changes announced will increase the annual bill by around £25. During 2016, Manx Gas reduced tariffs on three occasions by a total of almost 10%. This, in our calculation, would have saved the same average customer around £63 a year. These were tariff reductions which Manx Gas was required to make to comply with the regulatory agreement. What we are now seeing is prices rebounding slightly. Compared to 2015, that same average customer will still be around about £38

per year better off. Finally, it is worth pointing out that, because of the regulatory agreement, there is currently a regulatory adjustment in place which will save that same average customer around another £12 a year. This is itemised on the bill.

The regulatory agreement was intended to ensure that Manx Gas customers get a fair deal on pricing and that Manx Gas cannot exploit the natural monopoly in gas supply. Manx Gas supplies a lot of commercially confidential information to the OFT in order that we can scrutinise its operations on behalf of customers. We are able to look not only at the profits but also the overall efficiency of the business and its forward purchasing strategy. It is light touch regulation and this leaves Manx Gas free to run the business while providing a framework of consumer protection. The agreement was also intended to provide long-term security of supply by encouraging the necessary investment in the gas supply infrastructure, and the OFT believes it is doing exactly that.

The Speaker: Supplementary question, Mr Callister.

Mr Callister: Thank you, Mr Speaker.

Can I thank the OFT Chairman for his detailed response there. Could I ask the Chairman if he is happy with the way the refunds are currently given back to Manx Gas customers as per the agreement?

The Speaker: Chairman to reply.

The Chairman: Thank you, Mr Speaker.

In answer to your question, we are happy that the refund is given back to the consumers. It is at the discretion of Manx Gas how they arrive at that refund, but we do scrutinise it to ensure it is fair across the customer base.

The Speaker: Supplementary question, Mr Callister.

Mr Callister: Thank you, Mr Speaker.

Again, I thank the OFT Chairman for his response. He mentioned in his statement that the Manx Gas had cut their price in 2016 three times and this equated to, I think he said, 10% discount. What has always angered me with those articles is that the Manx Gas actually advertise those as price cuts and it only took some research from myself and the previous Treasury Minister in another place to highlight that they were actually regulatory adjustments. Will the OFT ensure, going forward, that any press releases given by Manx Gas actually say what it says on the tin, and that is if it is a regulatory adjustment it says it is a regulatory adjustment – if it is a genuine price cut, then it is a genuine price cut? Can he also reassure that any readjustments are taken off the standing charge and not the tariffs, as per the agreement dated 2015?

The Speaker: Chairman to reply.

The Chairman: I thank the Hon. Member for that observation and confirm that we will go back to Manx Gas and confirm that.

I am not directly responsible for Manx Gas press releases, and indeed we do advise them but they do their own press releases and I think one has to say that we were very disappointed on how they communicated the price increase requiring three letters sent out to their consumers, which is not the best way of telling consumers your prices are actually going back up. But I do take the Hon. Member's comment on board and I will make sure that happens.

The Speaker: Supplementary question, Dr Allinson.

Dr Allinson: Thank you, Mr Speaker.

I would like to thank the Chairman of the Office of Fair Trading for his statement. Would he agree that his Office is very much policing a regulatory agreement that was made by a previous administration, and that I look forward to that regulatory agreement being renegotiated next year as planned?

The Speaker: Chairman.

The Chairman: I thank the Chairman of the MUA for that comment. Yes, we are very much the policemen in this and we are stuck with the agreement until 2018. I have further comments to make on that, but another Question will be coming up.

The Speaker: Final supplementary, Mr Callister.

Mr Callister: Thank you, Mr Speaker.

Again, I thank the OFT Chairman for his detailed response this morning. I am not asking the OFT to manage Manx Gas or their PR going forward; all I am asking for is, similar to my colleague from Ramsey, that the OFT assure this House that they regulate and monitor Manx Gas as per the agreement and make sure that consumers are kept fully informed and the information being put in the public domain is accurate. Does the OFT Chairman agree with that?

The Speaker: Chairman to reply.

The Chairman: Yes, I do agree with that.