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“FILE ON 4”

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O’HALLORAN: The prices paid by gas and electricity customers in millions of British homes have rocketed by more than a third this year. And that’s on top of previous steep increases going back several years. This week even Number Ten joined the chorus of demands to energy companies to lower their prices. The companies blame factors beyond their control. But tonight File on 4 hears that some of the sky high prices we’re facing are due not to worldwide market forces so much as to Britain’s own chronic failure to plan and build enough new generating stations. And one consumer champion says tougher competition and market reforms could bring steep falls in average bills.
You’re saying for the individual family or customer there could be a reduction if the market worked efficiently of up to 30% or 35%?

ASHER: That’s right. Over a year, if there was a much more competitive market, prices could fall by £300 to £400 per domestic consumer per annum.

SIGNATURE TUNE

ACTUALITY AT COLIN STONE’S HOME

STONE: Recently we had brand new patio sliding doors installed to replace the old aluminium units that we had previously. These are double-glazed units with energy-efficient glass installed. All the lighting in the house is low energy and we also have cavity wall ….

O'HALLORAN: Colin Stone points out a series of alterations he's made to his family home in New Moston, North Manchester.
And what about in the kitchen?

STONE: When we had the gas fire installed, we also had a new condensing boiler installed, which is this one over here, which has just been in for two months.

O'HALLORAN: He's carried out these changes in a desperate attempt to cut energy bills. But the one thing he can't do is turn the heating down. That's because his fourteen year old daughter, Helaina, suffers from a rare genetic disorder which affects her body's temperature control.

ACTUALITY AT BATH TIME

STONE: Come on, Helaina. Do you want to come and have your bath? Do you want to get yourself ready? Are you coming in?

O'HALLORAN: Helaina, who is scarcely the size of a normal six year old, suffers acutely from the cold in winter and from heat in summer.

STONE: Because of her special needs she has a bath every night, which is constant cost of hot water. In summer we need to run an air conditioner because of the reverse problem, she feels the heat more than the average person. So it's not a lifestyle choice, it's a medical necessity.

O'HALLORAN: Colin Stone is on the best energy deal he can find, a dual fuel direct debit with one of the top six suppliers. But even so, like most customers, he's seen huge rises in his monthly payments.

STONE: Two years ago we were paying a direct debit of around £45 a month and that's currently £72 a month before the next energy price increase.

O'HALLORAN: So that's an increase of about 65% on a quick calculation?

STONE: Correct.

O'HALLORAN: Does that reflect the new increases this year in January and then another big one in August?

STONE: It reflects the January increases only, but it doesn't reflect the August increase. That will be applied in November.

O'HALLORAN: So you've got that in the pipeline still?

STONE: We've got that to scare us.

O'HALLORAN: What's that going to do to your monthly payment?

STONE: Probably cost another £40 a month.

O'HALLORAN: So from £45 a month two years ago you'll be paying over £100 a month.

STONE: Over £100 a month.

O'HALLORAN: How are you managing?

STONE: With difficulty. We cut down on food bills. We're currently making lots of stews and casseroles. You have to manage. There's no choice in the matter. My annual income doesn't go up in the same way that the fuel bill goes up.

O'HALLORAN: What do you think is behind these price rises?

STONE: I think the companies are making excessive profits at the cost of the consumer. Fuel companies are very good at putting the prices up and excessively slow at putting the prices down.

O'HALLORAN: This year's rises will have sent average dual fuel bills up by 40%. The six dominant supply companies - known as the Big Six - blame both international factors and extreme movements in fossil fuel prices. Although energy suppliers produce much of their own power, they and other big energy users also need to buy bulk supplies of gas and electricity on the wholesale markets.

ACTUALITY WITH STUART LEA

LEA: We have the four trading platforms in front of us for gas and power. We're trading in electricity and an annual delivery, we're probably trading about £700 million worth a year.

O'HALLORAN: Stuart Lea head of energy trading at INENCO – a firm based in Lytham St Anne's, Lancashire – says in recent months wholesale electricity prices have risen to levels which have amazed even experienced traders, especially for supplies for next month.

LEA: The big issue in the market at the moment is the November prices. If we take a look back to last year, we were seeing November baseline prices at around £39.

O'HALLORAN: Is this this line up here?

LEA: Price curve here, yeah. As we look at our price graph for this year we see in May 08 we've prices around £75 per megawatt. Prices have moved up during the summer, and if we go back to early September, we're looking to pay £100 per megawatt – so that's nearly double what the peak of the price for November was last year.

O'HALLORAN: Double?

LEA: Double.

O'HALLORAN: The price of last year?

LEA: Yes. However it gets worse, because if you look at the next part of the graph, you see a horrendously steep curve up again at a similar kind of time and now you're looking to pay in the market about £144 per megawatt, so nearly triple what you would have paid at the peak for this market period last year.

O'HALLORAN: But it turns out the immediate reason for forward power prices hurtling to these record levels is not so much fuel costs as the fact that many of Britain's power stations are quite simply out of action. Some require modifications to clean up their emissions. But others have simply broken down for months on end, says David Hunter, an analyst with the energy consultancy McKinnon and Clarke.

HUNTER: The nuclear power stations are ageing, they're unreliable. For example, Hartlepool and Heysham One reactors, owned by British Energy, have been offline for a year due to the discovery of corroded wires within the reactor walls themselves. Looking at coal-fired power stations, there were serious limits placed on emissions and rules on how long they can operate. For example, Fidler's Ferry, Scottish and Southern Energy's plant, has been reduced dramatically in terms of the hours it can run. That's a list of twenty to thirty power stations, roughly speaking, that are offline for planned or unplanned maintenance.

O'HALLORAN: How much of a supply margin, I suppose that's a safety margin, does the National Grid normally like to have?

HUNTER: National Grid likes to plan for a 25% margin of available capacity over the expected winter peak demands. We're seeing weeks that are really now less than a month away where the forecast capacity margins are only 1.5%, so that 1.5% roughly on the week commencing 10th November is an excess capacity of only 800 megawatts, which is very little more than one unit of a power station, so even less than one major power station in terms of spare capacity over the demand that we expect to draw.

HUNTER cont: The tightening, the closeness is not something frankly we're used to in this country and that does spook people, it certainly makes us nervous. It's already had a very big impact on prices and will continue to do so.

O'HALLORAN: As with any scarce commodity, the price of electricity for November has shot up because there are too many buyers chasing too little product. So why haven't more generating stations, whether conventional, nuclear or renewable been built in time to replace the old and unreliable ones? Dr Dieter Helm, Professor of Energy Policy at Oxford University, believes the present shortage of generating plant is just one manifestation of a market structure, fully liberalised six years ago, which has serious flaws.

HELM: There are two ways in which security of supply comes into threat. One is the lights go out, but the other is the price just goes so high that people can't afford to turn the lights on. Either way round there are major economic consequences of running a electricity system on this very short term type of market and in a world in which there is potentially deficient capacity investment compared with what we need.

O'HALLORAN: How long has it been known really that this market structure might not be very good at sending the right signals in time to build new power stations or else ruthlessly cut demand?

HELM: When this current market arrangement was brought in at the end of the 1990s, there were several people who pointed out the shortfalls and shortcomings of this market and in particular the lack of incentives to invest. And I count myself as one of those. So it cannot be the case that anyone could be surprised by what's happened. It's inherent in the regime we've designed and it was pointed out from the start that these difficulties would eventually mature. The miracle in a way is that it's survived so long, not that it's running into difficulties at the moment.

O'HALLORAN: As a result of the current market structure, companies have been stalling on whether to build new generating plant, says Philip Wright, Professor of Energy Policy at the University of Sheffield.

WRIGHT: The private sector has very little incentive to build capacity which gives us reserves to deal with emergencies. The incentive is not there, in fact more money can be made when supply is short and prices go up. So, if you like, these market arrangements do provide a disincentive to engage in long term investments that the country needs.

O'HALLORAN: Before the last five or six years, how would things be done in terms of incentivising investing in new power plant?

WRIGHT: Well if we go back to the period when there was price controls for domestic consumers, when the prices were regulated by the regulator, part of that process would be to plan forward with investment and to allow companies within the price control to have sufficient funds to make the required investment, and these plans would be scrutinised, they would then be monitored, and companies would be assured of sufficient investable funds to make these investments. Now it's more of a free-for-all where the price is far more uncertain, the companies aren't sure what to invest, when and where in order to make profits from this or not. The country needs long term investments, the signals are short term, so nobody really knows where they are.

O'HALLORAN: One of the Big Six energy companies, Scottish Power, a supplier and electricity generator, believes that there'll be more power stations available to run next year, helping to bring down wholesale electricity prices. But Director of Energy Wholesale, John Campbell, concedes that right now the national safety margin of supply over demand, in terms of working power stations, is less than satisfactory.

CAMPBELL: I think at the moment and over the coming weeks, we are getting to a position where margins are much tighter than we would like to see for having a strong security of supply message.

O'HALLORAN: Is it right to say though that you, the power companies, have not got round to building new power stations in time really to avert this rather risky situation?

CAMPBELL: The current situation is down to an unusually high amount of plants - coal and nuclear - being unavailable for maintenance, for repair and for fitting of environmental mitigation equipment.

O'HALLORAN: But surely a lot of that could have been foreseen, couldn't it?

CAMPBELL: Yeah, I think I would highlight that some reliability issues aren't foreseen. Sometimes, in some of our nuclear plant, there are unexpected technical issues have caused the plant to be off. In terms of the environmental works, I know that a number of companies have had longer outages to make these massive investments than originally anticipated.

O'HALLORAN: How would you defend yourselves and the other companies against the allegation really that you've sailed too close to the wind because you won't lose out. You know you won't lose out on prices, in fact the opposite.

CAMPBELL: Well I would defend myself or defend the businesses by saying first of all that there is no centrally planned electricity system in the UK. I don't think its any one company's responsibility to plan for long term security. That system security will be achieved by a number of companies having the framework and the financial strength and Government vision leading them to have investment plans in place to deliver that system security, it's very much a joined up effort.

O'HALLORAN: We asked to interview the energy minister but the new Department of Energy and Climate Change rejected our request. It said in a statement that 8,000 MW of generating capacity – equivalent to about eight large power stations – were under construction. It didn't predict when they'd be ready. In natural gas development as well there are claims that the liberalised market has led to unnecessary price rises because it's failed to stimulate strategic capital investment in good time.

ACTUALITY IN EASINGTON

O'HALLORAN: I'm about a hundred metres from Easington Beach in East Yorkshire with a rather grey North Sea stretching out to the East. This is, in fact, a massive gas plant packed with tubing and metal structures. And right in front of me a thick grey pipe coming out of the ground, about a metre in diameter, bringing gas onto the mainland from an offshore British-owned gas field about thirty miles away.

BENSON: The gas comes from about 200 metres from the east of here through another maze of pipework, which is effectively to separate liquids from the gas before it goes into this compression plant.

O'HALLORAN: Very rapidly Britain has gone from self-sufficiency in gas to having to import about 40% of supplies. That has increased the need for gas storage. So this Centrica terminal doesn't just bring gas ashore. It also sends surplus volumes offshore through another pipeline, to be stored in the disused rough gas production field eighty miles away, says plant manager Mike Benson.

BENSON: We inject gas in the summer when prices are low. We pump it offshore and eject it and store it to release it back through the pipeline into national transmission system during the colder months when the price is high.

O'HALLORAN: So that big offshore storage site beneath the North Sea is valuable to Centrica. The problem is that nationally Britain is very short of such gas storage facilities. And the former chief executive of the consumer body Energywatch, Allan Asher, compares Britain's situation unfavourably with that of other major EU countries.

ASHER: Gas storage in Europe is typically from fifty to even eighty or ninety days' consumption, stored underground ready to be brought out in cold snap weather or in case of plant failure. In Britain, unfortunately our storage is not much more than a week or two and that just wouldn't survive a protracted cold spell. Up until four or five years ago that wasn't so important because the North Sea fields and the limited storage that we had were enough, but that's clearly inadequate now and we face these crises every winter. The adverse price effects each winter are very much an example of the impact of fuel insecurity hitting consumers in the pocket.

O'HALLORAN: The shortage of storage space means that at times of year when gas prices are lower, British companies have less opportunity to put it aside for use at times of higher demand, says Professor Philip Wright of Sheffield University.

WRIGHT: If you have storage, adequate storage, you'd be able to buy during the summer months when prices are cheaper and fill up your storage, as the continental European countries do. But because we haven't had sufficient, we've been having to top up during the winter, if you like, with expensive imports from elsewhere.

O'HALLORAN: So what is the likely impact of a lack of sufficient storage, gas storage on prices for customers?

WRIGHT: That we pay more for our gas.

O'HALLORAN: Why hasn't something been done earlier about this?

WRIGHT: Well, a lot of our infrastructure, gas storage and other infrastructure, was built under public ownership, when if you like, the national interest was being taken into account by publicly owned enterprise. When the market is fragmented into several competing private sector companies, their willingness to build sufficient storage capacity will be predicated on whether they think they can make money out of it, and there's been a disincentive to invest in storage. If you don't have adequate storage, actually prices can rise and companies can make more money, and if one company decides to build more storage, it can mean that it's actually giving a free lunch to other companies. It's a systemic failure because we need our gas and electricity supply systems to behave really in the collective interest, but a system has been established where it behaves in the corporate interest, and the two things are different.

O'HALLORAN: So how do the companies explain this awkward situation? Roddy Monroe of Centrica Storage, chairs an industry group which focuses on the problem.

Is it fair to say that the push for the development of gas storage now, that this is really coming rather late in the day?

MONROE: No, I think that’s slightly unfair. We have been working for the last couple of years on trying to get projects to delivery. There have been significant problems with the planning regime to actually get these projects to market, and so there are people willing to invest time and money in them, it is just the time it’s taken to actually get them to the planning process has been a major impediment to bring them to market.

O’HALLORAN: But it does all raise the question of whether the energy company needed to get in on the act of finding new storage sites a lot earlier.

MONROE: Centrica has been very active in this area and it has already this year publicly announced it’s purchased two facilities and it may be looking at a third, so we are very actively responding to the potential shortfall.

O’HALLORAN: Has one problem been to do with the fact that companies have not really seen profitability in building this storage up until very recently?

MONROE: The rate of the drop off of indigenous gas was not anticipated, I think that’s fair to say. And so perhaps the need for additional gas storage didn’t present itself as it currently has, but the market has responded and by 2020 we have projects that will bring us up to the European average.

O’HALLORAN: Well that’s over a twelve year period. That could be a very long time in terms of rising gas prices for the consumers.

MONROE: Yes that’s right, but we should also remember that we still do have indigenous gas coming in from the UK continental shelf.

O’HALLORAN: But to be quite clear about all this, it does have a definite impact on prices at the times when we don’t have enough storage in Britain?

MONROE: That’s right, yes.

O'HALLORAN: But as well as the question of where to store cheap gas supplies, there are problems over how gas is traded on the markets.

ACTUALITY IN TRADING ROOM

O'HALLORAN: In the trading room of energy consultants, INENCO, gas trader Sally Sidebotham says prices have recently been extremely volatile.

SIDEBOTHAM: The wholesale cost of gas, if we just look for delivery in, say, summer 09, which is the next period that we will see trading, you can see ….

O'HALLORAN: You can see that on this screen here, can you?

SIDEBOTHAM: We can, yes.

O'HALLORAN: And that's a graph going up. It looks a bit like Mount Everest actually, doesn't it, going up and then coming down again on the other side.

SIDEBOTHAM: This year we've seen increased volatility. You can see from the 1st of April we saw summer 09 gas trading at around 50p a therm, it's reached a peak in July of 94p a therm.

O'HALLORAN: But it's the numbers that she and the other traders can't see on their screens which may be most significant. Dominic Whittome, a former head of gas trading for a major energy supplier, believes by far the bulk of wholesale gas is traded in hidden deals where the prices offered or paid are never known to the markets.

WHITTOME: I doubt whether any more than 20% of the actual gas available is made open and traded openly on the market. I believe more than four-fifths is sold under secret contracts. They are bilateral contracts, which are traded away from the market, so the market does not actually know at any one time what the actual price is. Furthermore there is a lack of available gas for purchase on the forward market because so much is traded under the counter, so to speak. This creates the perception of traded gas scarcity, which has the effect of

WHITTOME cont: pushing prices up rather than down or leaving them the same. Essentially it distorts or rather removes completely effective competition, which in any industry will lead to higher prices, and that I believe is one of the major reasons prices have risen 400% over the last ten years.

O'HALLORAN: If it's not helping the consumer, this sort of trading, who is it helping, in your view?

WHITTOME: It's helping the provider of the gas, it leads to higher gas prices, which clearly plays into the commercial interests of the sellers and that's what they're in business to do. The point I'm making is that a lot of these price rises are unnecessary. If we did take action in the forward market we could reverse a lot of the price rises that we've seen.

O'HALLORAN: Centrica, which owns British Gas, is the leading gas player among the Big Six energy suppliers. Its Director of Power Business, Sarwjit Sambhi, challenges the claim that across the market as a whole, up to 80% of wholesale gas deals are invisible, to the disadvantage of consumers.

SAMBHI: I'm not sure where the 80% comes from, but if we look at a measure in the traded market of how healthy it is and we look at something called 'churn', which is the number of times the physical volumes get traded in the gas market, we see multiples of traded volumes versus the physical volumes. And that tells me that actually industry participants have access to buying and selling gas as they would in other markets. There are very few off market deals.

O'HALLORAN: But they could account for a great many in percentage terms – 50%, 60%, 80% some experts believe.

SAMBHI: In terms of the figure, they seem much larger than what my understanding is.

O'HALLORAN: That figure, you think is an overestimate?

SAMBHI: It’s not a figure I’m familiar with.

O’HALLORAN: Would you agree that the invisibility of a lot of the market, that can only be in the interests of the big companies and that it does effectively, that invisibility, drive up prices?

SAMBHI: I can’t, I don’t think we can make the direct link. I think we can, what we can say is a more transparent wholesale European gas market would lead to a better understanding of why we’re seeing wholesale price changes - up or down.

O’HALLORAN: In a recent report, the Commons Business and Enterprise Committee expressed concern about low levels of visible trading on gas wholesale markets. The regulator OFGEM also began an investigation into the energy markets in February. Like the Government, OFGEM refused to be interviewed, but it told File on 4:

READER IN STUDIO: OFGEM’s probe found many aspects of the market are working well, but fell well short of giving the industry a clean bill of health. We have proposed a wide range of measures to deal with unfair practices.

O’HALLORAN: On wholesale markets, OFGEM has called on the Big Six energy suppliers to increase transparency, by publishing separate accounts for their supply and generation businesses. And it said it’s consulting on whether it needs new powers to combat potential wholesale market abuses. Another major point of contention between the energy companies and their critics is how wholesale prices are reflected in customers’ bills. Until six years ago there was price control regulation. It was only lifted in 2002. So researchers at the University of Sheffield have tried to find out how wholesale price changes have been reflected in customers’ bills since then.

WRIGHT: I’ve got a couple of charts in front of me. One of them shows the behaviour of UK gas prices since privatisation, and you’ll see quite clearly there that once the market becomes fully open after 2002, prices are rising sharply and faster than inflation. As you can see from the graph, in one year prices are rising by 30% above inflation.

O'HALLORAN: So these are the large black columns above the line?

WRIGHT: Exactly.

O'HALLORAN: Whereas before 2000 virtually every year it's actual falls in prices.

WRIGHT: That's correct, yes. That's for gas, and you can see if you look at the other charts I've got here that it's very similar for electricity.

O'HALLORAN: Professor Philip Wright, who led the research, says it was no easy task. That's because most companies don't release enough information for others to test their claims that retail price rises have driven by upward wholesale prices. Did you find any company where you could get at the important figure?

WRIGHT: Yes, up until 2006, British Gas. Unfortunately they've now withdrawn that transparency in their 2007 reporting accounts.

O'HALLORAN: So overall, to what extent did you find that British Gas price increases could be justified or not by wholesale price costs?

WRIGHT: Sometimes they could but in other years they couldn't.

O'HALLORAN: So in the case of Centrica, which owns British Gas, what did you find about profitability over the years you've looked at?

WRIGHT: The profits of Centrica, the parent company of British Gas, between 2003 and 2007 their profits almost doubled.

O'HALLORAN: And how have the shareholders benefited according to your analysis of the figures?

WRIGHT: They've seen their earnings per share increase from 16.8p in 2003 up to 30.6p in 2007 so they've done handsomely really. It seems to be a case of companies profit and consumers pay.

O'HALLORAN: In 2003 Centrica's profits stood at just over £870 million. From then until last year they surged upwards by an average of more than £200 million a year, hitting £1,745 million in 2007. Britain's biggest gas supplier rejects the charge of profiting excessively while customers bear the pain. Centrica's Director of Power Business is Sarwjit Sambhi.

SAMBHI: I think, across the industry, when one looks at how retail prices have moved, they track wholesale prices very closely.

O'HALLORAN: Academics from the University of Sheffield have said that in some years retail prices were justified by wholesale increases, but in others they felt they weren't.

SAMBHI: The only instance where, for example, wholesale prices come down but retail prices may not follow as fast, there are there are two explanations. One is, companies have to hedge their energy purchases well in advance of time. For example, for next winter may have bought a substantial quantity of their energy requirements now. And that may be at a cost, by the time you get there, that is much higher than the actual spot gas or power price.

O'HALLORAN: On profitability, it's also said that earnings per share have gone up in the last five years from 16.8p to 30.6p – nearly doubled. So again shareholders doing very well indeed while consumers are suffering.

SAMBHI: Earnings per share for a company like ours has gone up because of the profitability in other parts of Centrica. You can't look at supplying UK retail energy in isolation.

O'HALLORAN: So when a critic says it's a case of companies profit and consumers pay, you would say what?

SAMBHI: One has to look at investing in supplying future energy infrastructure. In order to meet the basic investment in new power stations and also the environmental commitments, you know, huge sums of money are needed and this investment has to come from the energy companies.

O'HALLORAN: Another research team, this time at the University of Greenwich, charted how electricity prices have moved relative to the wholesale power markets in the last six years. Professor Steve Thomas concluded that hefty retail electricity price hikes could also not always be linked clearly to wholesale price movements.

THOMAS: The price rises we've seen this year probably amount to about a 50% price increase, and that comes on top of some very large price increases in 2005 of about 60%. And if you factor all those together and take into account some small price rises in 2006, the price of electricity has more than doubled in the past three years.

O'HALLORAN: So how convinced are you by the companies, the supply companies attributing such large price rises on the wholesale prices they are paying for electricity?

THOMAS: I'm sceptical. I think the public doesn't know the details of the wholesale electricity market, but they can smell a rat. And we have seen on two or three occasions that wholesale prices have gone down and that's not been accompanied by reductions in retail prices. Yet, when the wholesale price goes up, the retail price goes up very quickly.

O'HALLORAN: Has that happened in recent years?

THOMAS: Yes, the wholesale price went up rapidly in 2005 and that was very quickly followed by retail pricing increases and again this happened in 2008. Yet in 2002 and in 2006, when the wholesale price fell sharply, those price reductions were not passed on to retail consumers.

O'HALLORAN: However, Scottish Power insists that much of the movement in retail prices is linked to wholesale price fluctuations. And Director of Energy Wholesale, John Campbell, says there have been recent increases of up to 65% in fuel to run power stations, which have not been fully passed onto consumers.

CAMPBELL: What we as an industry and what Scottish Power does, we do buy our gas on a rolling basis. We try and shield customers from the extremes of volatility. I guess in recent months or certainly over the last year that volatility has been particularly extreme. We believe our customers look for some stability, and whilst they have seen increases in the last year, the increases they have seen have been much smaller than the underlying swings in the commodity price.

O'HALLORAN: What some critics say though is that wholesale prices result very rapidly in retail price rises by you, the companies. But when there are wholesale price falls, you're very slow to pass those falls back to the consumer. How do you respond to that?

CAMPBELL: I think the reality is that we have been living with a rising commodity market and therefore there have been more increases than there have been decreases and that's an unfortunate fact. In Scottish Power I'm the guy signing the cheques off to gas producers, to co-producers, to oil producers, and usually the trend and price is up. I would not say though that we are more tardy in reducing prices than rising them, I think it's just reflecting the underlying trend.

O'HALLORAN: But is it fair to say that over the last seven years of fully liberalised energy markets, that consumers really haven't done well in Britain?

CAMPBELL: My perspective on it is that consumers have a, I don't have the numbers in front of me to quote real terms price increases. I think perhaps until recently fuel prices to customers in the UK had been performing relatively well in real terms compared to where they were back in 1990. What we have in the UK is a very competitive market.

O'HALLORAN: However consumer champion, Allan Asher, is deeply sceptical about how effective that competition is. Until last month he headed Energywatch, a body that has now closed down. He's formed the view over the years that energy price increases suffered by British consumers have been over the top.

ASHER: The main signs of a market not working well are firstly huge price rises, but also volatility, and of course for domestic consumers you want

ASHER cont: markets that aren't going to show these huge price hikes that we've had. And since 2003 gas prices have gone up around 120% for most domestic consumers. The market in the UK is not working at all well for consumers, either domestic or business. The market is broken.

O'HALLORAN: So how much higher, do you think, are gas prices, for instance, in percentage terms, than they should be, from everything you know?

ASHER: UK prices for gas and electricity could fall by well over a third, perhaps as much as a half, if we had much more competitive structure. If the gas prices at the wholesale level were set by forces of supply and demand and if we had real competition between the suppliers here, and that makes a difference of millions or even billions of pounds per annum. Over a year, if there was a much more competitive market, prices could fall by £300 to £400 per domestic consumer per annum.

O'HALLORAN: For the companies, the Energy Retail Association says it doesn't know how Mr Asher arrived at his judgements. It insists there is vigorous competition and it says it's awaiting the final outcome of the OFGEM probe. But File on 4 has found considerable agreement among independent experts that energy prices for consumers are being made worse by a lack of long term strategic planning. Professor Dieter Helm says that the new energy trading arrangements brought in less than ten years ago, backed at that time by the Government and industry, have proved inadequate. He says they need to be urgently overhauled, not least to help get soaring gas and electricity prices back under control.

HELM: The market design we have was designed to answer the questions of the 1980s and 1990s. And those questions were, in a world in which fossil fuel prices are very low, there's very substantial excess capacity and we've got gas coming out of our ears in the North Sea, what is the best way to sweat the assets? The new problems are very different. We have higher oil prices, we have no gas of substance left in the long run in the North Sea and we have an enormous investment requirement as supply and demand comes together. And of course, it's inevitable that you need to ask yourself is the market designed for the 80s and 90s fit for purpose for the next couple of decades or so - and the answer is in my mind, certainly not.

SIGNATURE TUNE