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Dear Maxine,

Open letter on the issue of customers switching to more expensive suppliers

Thank you for the opportunity to respond to your open letter of 30th May on the above subject.

The competitive energy market provides a range of tariffs and products for domestic consumers, who are on the whole free to move between tariffs and companies to secure the best deal to suit their needs. Consumers need to know how to get the best possible outcomes from their dealings with the market and to secure the benefits of competition. This means they need to have the confidence, information and understanding required to enable them to make rational, informed choices between suppliers or products and to seek the best deals for themselves from their current supplier or indeed by changing suppliers.

It is important to note that in the competitive market environment, consumer choice is influenced by a number of competing variables, of which financial benefit may only be one aspect. For example, other factors influencing switching may include; customer service; brand loyalty; convenience; and other product offerings, including non-prepayment products. Consumers in the market should be free to make their own switching decisions. This may include a switch to a more expensive provider, and this should be allowed, provided that they are not misled into making that decision.

Doorstep selling continues to be an effective marketing channel for all suppliers, with some suppliers indicating that around 60% of sales are made through face-to-face marketing. We acknowledge that doorstep selling is a principal switching channel for prepayment customers and that the information provided to these customers must be clear and easily comparable as far as possible.

To this end, we use price comparison tables – currently on paper but soon to be displayed electronically – which show the customer what savings can be made by switching to ScottishPower based on average consumption and, more importantly, where no savings can be made by switching. This aims to ensure that, to the best of our ability, we provide clear, transparent pricing information for all potential sales. Further details of our sales compliance process are outlined in Annex 1 to this letter.

As you know, we offer an attractive pricing and service proposition to our prepayment customers, and so it will be rare for a customer switching to us to be opting in to one of the three highest priced suppliers. Given our prepayment pricing, it is however quite feasible that a customer leaving us may be switching to a more expensive supplier.

While it is important that mis-selling is eliminated as far as possible, we think that it is equally important not to stunt the operation of the competitive market with over-regulation. We would

suggest that a first step, before considering the costs and benefits of additional regulation, would be to assess whether the existing rules and codes are being fully followed.

We agree that the current investigation into npower is likely to provide evidence on the potential scale of any mis-selling and whether the current AES code and licence are being fully observed. In addition, the Consumer Protection from Unfair Trading Regulations 2008 (the Regulations) could help to reinforce existing regulation around these issues and we welcome the forthcoming guidance from Ofgem on how the Regulations are expected to apply to the energy sector.

Once there is a clearer picture on the reasons for apparently poor switching decisions by many PPM customers and whether there are gaps in existing compliance, Ofgem will be in a better position to assess the case for any further action. It seems unlikely that any such case for action would go beyond PPM customers, though it would be necessary to consider the potential cost of any measure targeted specifically at that group. It would also be necessary to consider the risk of information overload versus the ability to make a well-informed choice and the overall impact on the workings of the competitive market.

I attach at Annex 2 a brief commentary on the particular options outlined in your letter.

We wholeheartedly embrace the value of the EnergySure sales code and believe that this is a strong example of self-regulation that has provided clear benefits to customers and suppliers alike. If there is a case for further action in this area, the EnergySure code may be an appropriate vehicle for developing standards that offers customers the information they need but still allows suppliers to be innovative and compete within the market.

Please do not hesitate to contact me if you wish to discuss any of the points raised above in more detail.

Yours sincerely,

Stephanie Tobyn
Regulation and Commercial Manager

cc Claire Tyler, Ofgem

ScottishPower's Doorstep Sales Process

Between July and September 2007, complaints to energywatch on direct sales totalled 103. In that same period 2.1m gas and electricity domestic customers switched supplier. Ofgem itself has recognised that this performance reflects the strides the industry has made in developing self-governance arrangements for face-to-face selling activities.

The six major supply companies have continued to develop the EnergySure Code and remain committed to it. The Code mirrors many of the requirements of the marketing licence conditions, and in some areas (notably on the training and vetting of sales agents), exceeds them. In addition, since September 2007, the Energy Supply Ombudsman has also been enabled to deal with selling disputes.

Within this context, ScottishPower operates a rigorous compliance process covering the recruitment, training, auditing and quality monitoring of all of our doorstep sales agents. This process includes:

- Disclosure Scotland vetting of all new agents;
- Field Sales assessments;
- Back Checks on Agents to assess competency;
- Telephone verification of sales quality.

The above processes are mandatory and the frequency of performance checks may increase for individual agents as a result of customer complaints or cancellations. This seeks to ensure that agents are fully competent in providing accurate information to customers and perform honestly and ethically in their dealings with the public. In addition, our sales agents are provided with clear price comparison tables, which they use to enhance the customers' ability to understand the services that we provide. It allows them to compare the prices available from other suppliers and to make decisions about the best product to meet their needs. An example of these savings tables, for PPM customers in the East Midlands area, is below:

ScottishPower gas and electricity		EAST MIDLANDS ELECTRICITY AREA (Code 11)			EnergySure
Fuel/s	Dual Service				
Current Payment type	Prepayment				
Supplier	Annual Bill	£'s Saving with ScottishPower	%'s Saving with ScottishPower	Equivalent free days energy	
ScottishPower	£1,047				
British Gas	£1,131	£84	7.43%	27	
e.on	£1,102	£55	4.99%	18	
npower	£1,102	£55	4.99%	18	
Scottish & Southern Energy	£1,057	£10	0.95%	3	
edf energy	£1,015	No Saving	No Saving	No Saving	

Saving shown based on an average customer using 3,300kWh of electricity on Domestic Standard Rate meter & 20,500kWh of domestic mains gas per annum paying by prepayment in the former Host PES area known as East Midlands Electricity switching to ScottishPower's Prepayment Package. Excludes IGT domestic gas customers. Prices correct as at 2nd June 2008. All figures shown include VAT at the current applicable rate of 5%. The supplier commonly known as ScottishPower is now part of the Iberdrola Group. The supplier commonly known as East Midlands Electricity is now part of the e.on Group.

As this shows, we make every effort to demonstrate clearly to customers where, based on average customer usage, no saving can be made by switching supplier. The tables provide clear, easily understandable savings information in both pounds and as a percentage of an average annual bill. An estimate is also made of the equivalent number of free days of energy that any saving could equate to should the customer choose to switch supplier. The comparison tables form a key part of our sales activity. We believe that through the use of such transparent price comparison information we have minimised the likelihood of mis-selling or indeed mis-informed customer choices.

We are shortly moving to a paperless sales process, but the relevant information from this table will be displayed electronically to assist the customer.

We are unaware of the exact practices used by other suppliers when making price comparisons to PPM customers via doorstep sales. Obviously, if they are not adequate, this is a matter which should perhaps be followed up. For our part, we would be happy if a representative of Ofgem wished to accompany one of our agents to observe the sales process in practice. We believe that this would not only provide a high degree of understanding over how and when price comparison information is used, but would also provide a valuable insight into the entire end-to-end sales process. We would be happy to arrange such a visit if Ofgem would find this useful.

Options for New Licence Conditions

In the event that Ofgem concludes that further regulatory action is required, the appropriate option should be cost effective, incur limited administration burdens and drive the appropriate behaviour from the customer, without artificially influencing them or restricting their choice. The selected option should be a proportionate approach to the issue, which can empower consumers, without restricting competition. We have commented on each of the specific options proposed in the consultation paper in turn.

1) A requirement on suppliers to provide a written statement of the savings that will be available to the customer from switching provider

While outline information of the kind in our sales factsheet illustrated in Annex 1 can be made available, it is not realistic for suppliers to be able to calculate savings available in individual cases. That calculation would depend on accurate consumption details and knowledge of the precise existing product that the customer was on, including any price fixes or other deals. Where a fixed or capped product was being offered, the price relativity would depend on future price movements. We do not believe the requirement described would be practicable or cost effective.

2) A requirement on suppliers to provide the customer with pricing factsheets (for example those prepared by energywatch) at the point of sale who show each supplier's offerings based on average consumption

We already use the sales aids described in Annex 1, so in principle an obligation to give a comparison at that level of generality would not be problematic for us (we have corresponding tables for solus gas and solus electricity switchers).

However, we are currently engaged in introducing a paperless process for all doorstep sales. The existing process is heavily paper-based, labour intensive and is more susceptible to errors, both through manual data processing, and through a lack of appropriate data validation at point of sale. The new automated process will remove all paper requirements, and will provide a secure, real time interface with data validation checks on our sales management system, minimising errors. This will shorten the transfer period by up to 4 days, making the experience for both the customer and the sales agent much smoother and more efficient.

Any requirement for us to provide a comparison chart to the customer should therefore include an option for the appropriate paperless alternative.

3) A requirement on suppliers to alert customers to the importance of checking that the product is the best for them and to provide details of where to obtain price comparison advice

This option also appears to be practicable and is similar to the method already adopted in Financial Services. We would expect that clear scripts could be developed for sales agents and clear information could be provided on redress that would empower customers to make their own choices and would reduce interference in the competitive market.

4) A requirement on suppliers to alert customers at the point of sale where they are switching to a more expensive supplier

Where our price comparison chart indicates that no savings are to be made, the sales contact is often terminated by the customer so in practice a well-conducted doorstep sale will already meet the essence of this proposed requirement. As with option 1, it is not however practicable to calculate the savings in individual cases with the data available on the doorstep, as we are unaware of consumption data, the precise existing tariff or in the case of fixed or capped products, future energy prices.

We are additionally concerned at the principles behind this proposal, which would seem to go further than the requirements in other markets. In particular, by focussing so extensively on price, it could make it harder for suppliers to compete on service or other aspects of the proposition. It could also adversely impact competition in both the short and longer terms, by placing too many controls around customer behaviour and reducing the diversity of supplier offerings.

5) A requirement on suppliers to alert customers as part of the follow-up contact (under SLC 25) where they are switching to a more expensive supplier

This has similar characteristics to option 4 above, but has the potential to incur further costs because the review and possible cancellation of the deal was taking place at a later stage.

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