



Sean Baker – Enforcement and Competition Policy  
Ofgem  
9 Millbank  
London  
SW1P 3GE

Inveralmond House  
200 Dunkeld Road  
Perth  
PH1 3AQ

8 May 2009

01738 456 410

Dear Sean

### **Direct Debit Arrangements**

Thank you for giving us the opportunity to respond to the questions raised in Ofgem's report on suppliers' direct debit arrangements and the consultation on the potential for a new Licence Condition .

First, we are broadly in agreement with the outcome of Ofgem's investigation and note with interest the findings. Whilst a number of SSE's processes have been held up as best practice, as we indicated during Ofgem's review, we have undertaken work to further improve our customer communications and have considered the best practice set out in the report.

Notwithstanding the above, we do not feel that a Licence Condition covering direct debit is necessary, as there is already protection in place for customers in the form of the Complaint Handling Regulations, the Direct Debit Guarantee and the Energy Ombudsman.

In our updated Domestic Customer Charter, we state that we will review a customer's account every year. Whilst this is true, in fact we undertake more frequent reviews behind the scenes. Going forward, we will ensure that customers are more aware of when a review outwith their annual assessment has been carried out. We are also developing a simple generic step-by-step guide for calculating monthly direct debit amounts and what to take into consideration when doing so. This will be for customers and for staff. Separately, we have made improvements to our website and the available information about direct debit there.

All staff are aware that they must use all available information when manually calculating a customer's direct debit and that the customer has to be informed of the basis for any suggested amount. We have also provided more clarity about our refund policy, to allow staff to better assess when someone has a credit balance that should be refunded.

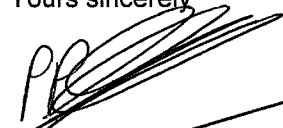
We believe that these improvements along with some minor changes to customer letters will satisfy Ofgem that SSE's customers have all the necessary information available to make an informed choice about direct debit as a payment method and to better understand how we calculated or amended the amount they are paying.

The results of Ofgem's investigation showed that no supplier was deliberately over collecting direct debit and creating unnecessary credit balances on customers' accounts. While there were failings found in some suppliers' communications and a lack of clarity over how figures had been arrived at, we do not believe that there is cause enough for the introduction of a new Licence Condition. We believe that the service commitments made in our Customer Charter are binding and are the benchmark against which our customers and the Ombudsman will judge us. We therefore do not agree that additional regulation is required or necessary to address the concerns raised about the transparency of suppliers' calculations and their communications to customers.

If Ofgem does, following this consultation, consider that a licence condition is necessary, we have set out in the attached paper our opinion on each of the options presented and suggested an alternative approach that we believe to be more workable.

I hope that you find the information useful and we will gladly discuss anything further if Ofgem would find it helpful. Please feel free to contact me or Gareth Shields on 01738 512 608.

Yours sincerely

A handwritten signature in black ink, appearing to be 'K Marshall', written over a horizontal line.

Katherine Marshall  
**Regulation Manager**

**Annex: SSE response to potential Licence Conditions proposed  
in the Direct Debit Arrangements report and consultation.**

Option A.

SSE agrees that there is a need to provide customers with transparency about how their direct debit payments are set. We do have a concern with our ability to comply with such a specific obligation on those occasions where a customer calls to make a change to their monthly payment amount and does not take the advice being given to them by the advisor. We would not be able to provide this customer with a statement showing how the amount has been calculated, as it would differ from that which the customer wishes to pay.

When we set the payment amount we are confident that our statements to customers will be clear and set out how the payment amount has been arrived at. However, Option A does not, in our view, address the other issues that Ofgem has identified in the report as it is so specific. If Ofgem redrafted the condition to remove "direct debit", then the condition would be less specific and would provide the flexibility that Ofgem seeks to achieve in Option B. Our alternative fits with the overarching standard envisaged by the Retail Market Probe.

Enforcement of this condition would need to be limited to persistent material breaches.

We would have no issue implementing our alternative option.

Such an alternative might say:

*"When setting and amending payment levels, suppliers must provide customers with a clear statement of the basis for these payments (including assumed usage). Any credit built up by a customer should not be unreasonably withheld"*

Option B.

Ofgem's drafting takes into consideration all payment methods and allows flexibility in how the condition would be implemented, preserving the freedom for innovation and competition in this area. However, as currently drafted we believe the condition is too broad, but would support moving the sentence on withholding excessive credit build up into SSE's alternative described above.

We agree with Ofgem that further guidance would be needed to avoid creating undue regulatory uncertainty for suppliers on what may constitute a licence breach, should this option be pursued further.

Option C.

SSE would not support a licence condition requiring us to be a signatory to a code of practice. SSE's Domestic Customer Charter is the document that our customers measure our performance against and in which we set out our service standards. The promises made in our Charter have allowed us to maintain our position as number one for customer service since its launch in 2006. We do not feel that an industry code of practice would in any way improve the service that SSE customers receive and a licence condition that requires us to be signatories to such a code would compromise the effectiveness of our Charter and diminish our competitive advantage.

Given the number of bodies that would be involved in establishing, agreeing and signing-up to any such code of practice, we foresee the timescale for implementation would run on significantly.

Extent of Licence Condition.

For all of the above options, we believe that any new condition should apply equally to all suppliers irrespective of market share and to both domestic and small business customers. Any licence requirement should not be so prescriptive that it stifles innovation and the introduction of new products. We believe that our alternative, a hybrid of Options A & B, is the best means to achieve this.