



Chris Smith
Retail Markets
Ofgem
9 Millbank
London
SW1P 3GE

Head Office
Inveralmond House
200 Dunkeld Road
Perth
PH1 3AQ

Telephone: 01738 456726
roger.hutcheon@sse.com

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Dear Chris

Retail Market Review: Standardised element of standard tariffs

Thank you for providing SSE with the opportunity to respond to Ofgem's consultation on the Standardised Element of Standard Tariffs under the Retail Market Review (RMR).

In our response to the main consultation on the RMR in February, we highlighted our opposition to Ofgem's proposal to set the standing charge for all standard domestic tariffs. SSE believes that this proposal will have a number of unintended consequences that will be damaging to competition and which will have a particularly detrimental impact on customers with low usage and on the significant percentage of high usage customers defined as 'poor' (annual household income less than 60% of median).

Recent market developments

We are seriously concerned that the changes to the market resulting from the proposed introduction of a regulated standing charge would be a backward step in terms of simplicity and customer choice from where we are today. We announced our Building Trust initiative in October 2011 and since then we have made significant progress towards tariff simplification and enhanced customer engagement, both through the development of customer forums and the introduction of Annual Energy Reviews.

Several other suppliers have followed our lead and introduced their own initiatives that directly address many of the concerns that Ofgem raised following its market review in 2010. The danger that the introduction of a standardised charge would impede or derail some of these initiatives (particularly around tariff simplification) cannot be ignored. The limitation of customer choice and the consequent possibility of diminished competitive pressures in the standard tariff market pose a serious threat to the current development of better outcomes for consumers through simple competition. The market has evolved significantly in the last six months and we would therefore urge Ofgem to reconsider the need for drastic intervention on the scale of the damaging proposal to set the standing charge.

Issues with Ofgem setting the standing charge

Ofgem's position has evolved significantly between the publication of the December 2011 and February 2012 consultations. However, the serious concerns which we identified in our earlier response remain valid. In particular we would highlight the following:

- The current proposals appear to be incompatible with EU Internal Energy Market legislation (Directives 2009/72/EC and 2009/73/EC)
- Suppliers will be restricted in their freedom to balance recovery of fixed costs from across their customer base – this is likely to result in risk premiums being applied to standard tariffs with customers paying higher prices than would otherwise be the case
- Innovation and competition are likely to be focused in the fixed-term contract (FTC) market only
- The consequent development of a two tier market will be to the detriment of any customers unwilling to sign up to an FTC

- The imposed timetable of price changes which would result from scheduled changes to Ofgem's standing charge (which would not necessarily coincide with tariff changes based on market price movements) could lead to a higher frequency of pro-rated bills
- Differentials between payment methods implemented through unit rates are not cost reflective (for instance, high users realise a greater benefit for choosing monthly direct debit than low users do)

Whilst some of these negative consequences can be mitigated to some extent by ensuring that the widest definition of elements of the standing charge is used, SSE remains opposed to the proposal that Ofgem sets the standing charge. We believe that the likely unintended consequences of this proposal greatly increase the probability of further intervention in the market by Ofgem in an effort to undo any damage caused. The resulting lack of confidence in a stable regulatory regime poses a significant barrier to entry and reduces the scope for competition to work effectively to deliver the best outcome for customers.

Alternative approach

It would be far more prudent and proportionate to limit the scope of the current proposals, allowing suppliers to continue to set their own standing charge. The benefits to consumers would be increased if Ofgem proposed further simplification through restricting all tariffs to be based on a standing charge and a single unit rate. Ofgem should allow such reforms time to take effect before considering the drastic measure of setting an element of end-user energy prices.

Conclusion

This response comprises an Executive Summary in which we present our arguments in relation to the questions raised by the current consultation. We identify what we believe to be the least damaging approach to take should Ofgem be minded to implement the proposed standardised element of standard tariffs under the RMR.

We present our responses to the specific consultation question in the Appendix to this response. We will continue to engage with Ofgem in a constructive manner in order to arrive at the best possible outcome for consumers in the GB energy supply market. Please contact me on 01738 456726 if you wish to discuss any of these issues, or the other points raised elsewhere in this response.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Roger Hutcheon', written in a cursive style.

Roger Hutcheon
Regulation, Markets