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Dear Lisa,

Energy Affordability: helping develop Ofgem's Vulnerable Consumers' Strategy

Thank you for the opportunity to provide comments on the above document, which Ofgem published for consultation on 30th March. We have provided responses to the individual questions in the attached annex.

SSE is already focussed on identifying and supporting our vulnerable customers. There are a number of initiatives dedicated to assist these customers, reviewing their individual circumstances whilst ensuring they are protected from falling further into fuel poverty.

SSE welcomed the opportunity to participate in the recent round table sessions hosted by Ofgem in London, Glasgow and Cardiff. We believe that in this area in particular that there is much to be gained from information sharing between relevant industry stakeholders to ensure that we are all working together to help vulnerable customers.

We would be pleased to discuss any of the points raised in the attached in more detail with Ofgem and will be in touch over the next couple of weeks to arrange a call.

Yours sincerely

Lynsey Matheson
Regulation

Annex

Question 1: What should be the key factors or actions that we should consider incorporating in our Vulnerable Consumers' Strategy? How should the themes of our strategy be changed?

Hills review and fuel poverty

SSE welcomes the work the Hills review has done and agrees with the principles of the report; however a broader approach is required to target fuel poverty. Practical, flexible and tangible measures are needed to be able to tackle energy affordability issues.

The Hills review describes fuel poverty as a problem affecting people on low incomes who cannot keep warm at a reasonable cost. SSE's view is that it is not necessarily only those customers who spend 10% of their income on energy who are on the fuel poverty line but more about recognising transient positions for many customers who find themselves in hardship and who have difficulty affording to heat their homes.

Ofgem should consider setting out a clearer vision on identifying vulnerability whilst encouraging a co-ordinated approach from suppliers and other relevant stakeholders such as consumer groups. Ofgem's vulnerable consumers' strategy needs to be flexible and take into account the differences across vulnerable groups and the particular characteristics of fuel poverty.

We are aware of the compromises people make between heating, food bills, debt and other household priorities. In addition to elderly people, those with young families, affected by redundancy or long term illness may also be considered vulnerable and their needs have to be addressed. Income, fuel prices and fuel consumption along with factors such as lifestyle and how energy efficient the household is means there are a variety of customers who are in a situation where they find it difficult to pay for their energy bills. Consideration needs to be given to those in a temporary fuel poverty situation caused by redundancy, bereavement or illness and to customers just under the fuel poverty threshold i.e. those who do not qualify for benefits or support through the Warm Home Discount scheme. A particular characteristic of fuel poverty is its impact on health. For example, if people are under-heating their homes there can be severe impacts, such as respiratory illnesses which can result in winter-related deaths. This fact means that there is a particular danger associated with fuel poverty that does not apply in relation to other parts of poverty in general.

Ability to Pay, Debt and disconnection

We note Ofgem's support to encourage suppliers to adopt best practice managing and preventing debt. Ofgem could assist with this by identifying best practice across

suppliers and by promoting and publicising the work suppliers are doing to protect vulnerable customers. Whilst this is undertaken as part of Ofgem's social obligations monitoring, we believe that there is a role for Ofgem in continuing to encourage customers to contact their supplier or other trusted intermediaries if they are in need of assistance. Ofgem should also look to facilitate more of a joined up approach across suppliers around ability to pay, debt and disconnection. For instance, not all suppliers have adopted the principles underpinning the Energy UK Safety Net.

It is essential that suppliers have the appropriate conversations around energy affordability and take account of the customer's individual circumstances on an ongoing basis. This is done through the ability to pay principles. Our credit management teams currently use a "know your customer" tool. Capturing as much information as possible about a customer with a debt on their account gives an insight into their specific circumstances and where vulnerability is identified, SSE will manage that customer's account in line with the ability to pay principles. A rigorous process around customer's ability to pay is crucial.

We are in favour of a debt management tool which would allow suppliers to share collections data as an additional measure to protect those who are vulnerable.

The Priority Services Register (PSR) is a means of collating vulnerable customer data to safeguard our customers and SSE would give backing to a national database to help manage the debt issues across vulnerable groups and across other sectors such as water and telecoms.

Ofgem could encourage a more collaborative approach with the PSR. There are currently various methods in use to identify vulnerability and the terminology is not standardised across the industry. In addition, if a customer switches supplier, the vulnerability flag is not carried over to the new supplier which is a risk for an already vulnerable customer. In our experience some customers are reluctant to identify themselves as vulnerable and therefore this approach would enable these customers to be consistently identified as in need of additional assistance and support.

SSE's Building Trust Campaign

SSE agrees that customers need to have confidence if they are going to switch to a new deal, either with their existing supplier or to a new company. Such confidence will require the ability for customers to be able to make a straightforward and easy to understand comparison. SSE's proposals for a simple industry wide Energy Price Rating (EPR) would provide this comparison but measures need to be taken to avoid customers who do not have internet access to compare tariffs are not being disadvantaged.

Within the Consumer Landscape reform, there may be a place for CAB to have a role in providing assistance with tariff comparisons on a face to face basis.

In response to Ofgem's comments around the complexity of pricing information, SSE, as part of our Building Trust Campaign, has committed to providing all customers the opportunity for an annual review of their energy accounts. This ensures that those who need extra help to engage with their supplier or take advantage of a better tariff have fair opportunity and assistance to do so. This should also include a particular focus on the provision of energy efficiency advice.

We have simplified our tariffs giving confidence to all our customers that it is easy to access the best deal to suit their circumstances.

SSE operates a fair pricing policy whereby all customers have the opportunity to access all of our tariffs. In abolishing online only tariffs from the range of tariffs we offer, we believe that we are able to give customers confidence that they are being treated fairly. In this regard we have clearly set a higher standard of compliance with the spirit of both SLC 25A and 27.2A than some other suppliers.

We have noted with interest the calls from several parties for further clarification from Ofgem on the monitoring and enforcement of the prohibition of undue discrimination in the context of Which's recent "Big Switch reverse auction. When initially presented, SSE was concerned that the auction appeared to require discriminatory pricing from participants and it was for this reason that SSE decided not to participate. Whilst SSE recognises that this type of collective switching has proven popular with many customers, care must be taken to ensure that vulnerable groups are not left out, for example, because they do not have access to the internet. To help facilitate this we believe that greater clarity in the guidance associated with SLC25A would be of assistance to all suppliers as it would provide suppliers with the confidence to participate in future collective switching auctions. It is important that Ofgem's guidance is sufficiently clear to ensure that the prices that win any such auctions should be sustainable and at a level that could genuinely be offered to all customers. We believe that this clarity would be to the benefit of all market participants as well as to customers.

Regional variations

Ofgem outlines the diversity of the needs of vulnerable consumers and SSE believes there is scope to centralise a number of tasks to avoid the process of tackling affordability becoming more fragmented. It is important to be mindful of regional and local differences affecting consumers. Governments are presently driving suppliers to deliver different commitments in different areas of the country. Within Scotland, for example, EAP customers are being directed to a number of different sources for assistance, where they are being asked the same questions.

Consumers in Scotland face different issues than those in other parts of Great Britain. On the Islands and in rural areas for example there are geographical challenges and different employment patterns which don't exist in other areas of the country and need to be specifically addressed. There is a need to look at delivering a long term energy solution in the north of Scotland for example, which doesn't exist in other areas of the country.

Consumer patterns

As well as regional differences, there are consumer patterns to consider. Factors which Ofgem needs to take into account in developing the new strategy is support for high use, low income users. These are often consumers who don't have a gas supply or have energy inefficient homes, customers who may be using more energy due to sickness; they may need to be at home all day or have a medical condition which requires constant electric supply (for an oxygen machines or other medical equipment).

Governments should ensure that ongoing and meaningful support is available to help vulnerable consumers improve the efficiency of their home. Whilst Green Deal and

ECO will have a part to play, SSE runs an appliance scheme. This provides A rated appliances to customers who have been identified as vulnerable and could benefit from the scheme. These are often achieved via third party referrals (from organisations such as Women's Aid, CAB, Barnardo's or MacMillan) where the customer has an old, broken or inefficient appliance or who does not have one at all and we deem it to be essential for their welfare. Ofgem could assist by ensuring any energy efficiency visits are carried out by accredited members with specialist energy efficiency training.

It is our view that Ofgem should work with suppliers to make better use of this third party information amongst suppliers. Referrals from external agencies and other third party contacts need to be followed up to ensure that the customers are not merely given one-off assistance and no future support.

Question 2: What can Ofgem do differently to help address affordability concerns?

SSE agrees that informing consumers about ways to lower their energy bills is a key point in the strategy but it needs to be comprehensive.

The most efficient way to help consumers afford their bills is simply to help consumers make those bills lower. Tariff simplification and a fairer deal for all consumers has a part to play in this, but reducing household fuel use through education and energy efficiency measures is the most sustainable and efficient way to achieve truly meaningful savings in the longer term. Customers need to be educated to make the appropriate choice and need to be supported once this is in place to achieve a long term goal. Ofgem can play a part in this by helping to signpost customers to sources of information and advice and again highlighting the positive role that suppliers already play in this process through their existing licence and associated obligations such as CERT, CESP and Warm Homes Discount, as well as via voluntary initiatives such as the Energy UK Safety Net, SSE's Customer Charter and our Building Trust initiative.

SSE poses the question that there should be more flexibility for suppliers around how funding is used. There is a need to be able to deal with specific situations effectively. Funding should not be about meeting obligations and targets but rather about working with our customers over the long term to make a difference. Ofgem's role here is to minimise the amount of bureaucracy associated with the obligations where it has an oversight role, so that suppliers can concentrate on delivering the measures that best help customers. We have commented further on this in our response to question 3 below.

The current strategy encourages best practice among energy suppliers and working to promote a joined up and holistic approach. SSE thinks Ofgem should continue to build on this and welcomes a collaborative approach from suppliers and stakeholders. One of the concerns we have is data sharing. While it is advantageous to suppliers tackling affordability issues, we are of the opinion that this is a government responsibility and Ofgem should take account of this when developing the new strategy. A positive start has been made this year with data sharing where Warm Home Discount information on low income pensioners was provided to suppliers.

Cost of funding social measures

Ofgem acknowledges that the cost of funding social measures should be on a per kWh rather than per customer basis. SSE agrees with this approach and believes it incentivises and encourages energy efficiency amongst consumers.

In addition, with the introduction of ECO, there would be a benefit to all costs being charged on a per kWh basis. Standing charges will go down, profitability will be better and customers will stay active in the market. What needs to be avoided by Ofgem is imposing a no standing charge regime, meaning small customers will be disadvantaged and drop out of the market.

We note that as part of its Retail Market Review Ofgem has proposed that it should set the standing charge. We have responded in detail to Ofgem's recent consultation and have concerns that this approach will not lead to an efficient outcome for customers. In particular, we believe that Ofgem's proposals will have an adverse effect on vulnerable consumers.

Question 3: We welcome views on how Ofgem can help stakeholders with their contribution.

Proposal for a Fuel Poverty Agency

It is our view that the most cost effective measure to benefit income maximisation is to make sure customers are getting the help and benefits they are entitled to. We do believe this should be a government function rather than the responsibility of the supplier. Our proposal is for a "One stop shop", specifically to focus assistance to the people who need it most. This would be the first port of call for anyone struggling to pay their bills once their supplier has them on the best tariff for their needs and taken account of their ability to pay for their ongoing consumption. The fact that not all consumers are comfortable using the telephone as the main method of communication means Ofgem should consider face to face contact for consumers to discuss all aspects of their energy consumption.

Ideally, the service would ensure that the individual is on any benefits that they are entitled to. It could also ensure that those individuals who are struggling with their bills are on a "priority list" for receiving energy efficiency measures through the new Energy Company Obligation. Benefits checks are already completed as part of the support SSE provides but the Agency will be able to make better assessments of need than energy companies and will have a range of options for improving peoples' circumstances, far exceeding those offered by energy companies.

We would urge Ofgem to back this proposal; it is crucial that vulnerable households are identified and easily accessible assistance is provided for those who require it most.

Off grid energy

Four million households in the UK are not connected to the mains gas grid and therefore use other fuel sources for their heating. Consumers off the gas grid often have inefficient housing and appliances. They may not qualify for benefits but their fuel bills mean they fall into poverty. An increasing number of customers can't afford to fill up their oil tanks or have boilers repaired so are plugging in electric heaters,

accruing debt. Distance and difficulty of access often means lack of choice.

It is important off grid customers are educated to avoid a situation where there is an inefficient use of available resources resulting in bills which are higher than they need to be. Ofgem has a role to play here by encouraging innovative approaches to provide customers with more affordable energy solutions, whether that be via network company initiatives or alternative ways to heat their homes.

Smart Metering

In order to ensure Government can continue to meet the aims of its low carbon agenda Ofgem should allow suppliers the flexibility to engage with customers in a flexible manner while maintaining transparency in order to ensure consumer trust in the smart meter roll-out. Ofgem should work closely with the Smart Metering Implementation Programme in order to avoid onerous obligations on suppliers that do not assist in the overall objective of the smart metering rollout, whilst giving consideration to the benefits that could potentially be achieved through increased consumer engagement, particularly for vulnerable customers.

It is important to ensure that vulnerable customers are protected and that they receive a level of service appropriate to their needs and that they are aware of the benefits of smart metering. Suppliers have a duty to protect them from any risks as a result of the Smart meter roll out (for example that disconnection doesn't automatically happen due to the technology.) Energy suppliers need to monitor the consumption of vulnerable customers carefully, to avoid situations where as they realise how much they are using, may turn heating down or switch off appliances.

In order for suppliers to deliver a high standard of service to potentially vulnerable customers, the information sought from smart metering could potentially assist in providing further protection for vulnerable customers. This could be delivered in terms of reducing energy consumption in order to avoid a debt situation, offering appropriate energy efficiency advice or providing the customer with proactive feedback on their individual energy usage.

Administration

SSE is actively involved in the delivery of schemes such as the Warm Home Discount, CERT and CESP. We will also become closely involved in the delivery of the Energy Company Obligation. Schemes such as these are key to delivering the energy efficiency measures and monetary assistance (in the case of the Warm Home Discount) to ensuring that vulnerable customers are protected from rising energy prices and inadequate housing. However, as these schemes require a significant amount of administrative resource (in order to ensure compliance with the respective legislation) SSE remains concerned that this is potentially stifling the delivery of such schemes. For example, in terms of the Warm Home Discount, Ofgem currently requires suppliers to provide a full internal audit of each of the schemes operating. Ofgem currently withholds approval until this audit report is completed and submitted to Ofgem (for certain schemes) as part of the end of year reporting which is a significant amount of time into the next scheme year. This has a significant impact on SSE's ability to continually offer a high level of customer service in a consistent manner throughout each scheme year. This could also have the potential to prohibit SSE from delivering the obligation to its most vulnerable customers for significant periods of time (as no spending can be incurred under that particular scheme for the financial until prior approval has been obtained from Ofgem).

Whilst the Warm Home Discount Guidance is a useful reference tool, we believe that Ofgem should undertake a full review of the scheme to reflect the 'lessons learned' during the first scheme year and incorporate any proposed changes to procedures within this document. This would help ensure that a consistent approach is applied to the future of scheme and allow for suppliers to manage this appropriately.