

Executive Summary

The Retail Market Review (RMR) has provided the catalyst for many of the significant supplier-led changes in the domestic market over the last eighteen months.

SSE was the first of the major suppliers to make public commitments to address customers' concerns and has since gone further than other suppliers not just in simplifying our 'live' tariffs but in progressing with the complicated process of migrating existing customers, where possible, onto our simpler tariff structures. Whilst the RMR has set the agenda for change, SSE's Building Trust programme has set the pace.

SSE welcomes Ofgem's acknowledgement of these initiatives in its consultation document, yet remains concerned that much of the thinking that underpins the current package of proposals is rooted in the past. Of note is that Ofgem continues to offer solutions tailored towards the "market that was" (most clearly highlighted by the provision of an "overview of the arguments [Ofgem] set out more fully in the Probe" (consultation document, para. 2.2)). Ofgem's current minded-to position, both in terms of the scope and nature of the proposals, comprises a profound intervention in the market that threatens to exacerbate the perception of disengaged consumers, just as some suppliers are beginning to make real progress through Building Trust.

Ofgem's updated proposals attempt the difficult task of managing tensions in a number of areas:

- rebuilding trust through the introduction of outcome-focused principles based regulation (PBR) versus increasing costs for suppliers and customers through detailed prescription;
- reducing confusion by simplifying tariffs versus damaging competition by curtailing innovation;
- providing customers with information believed to promote better engagement versus overwhelming customers with information presented in an unengaging manner.

SSE believes that there is a real risk that these internally inconsistent proposals could combine to produce adverse unintended consequences which prevent the measures achieving Ofgem's desired outcome for customers. The increasing politicisation of this debate means that any failure to meet expectations, either by Ofgem or by suppliers, could result in further, more extreme interventions in future. If this package does not have the intended transformative impact on customer engagement with the energy retail market, Ofgem *must* be prepared to recognise that this could be due to shortcomings of the proposed measures, rather than automatically attributing any negative outcomes to poor conduct by suppliers.

SSE's response to the consultation is split into several parts. This summary document highlights the areas where SSE is particularly concerned that the correct balance has not yet been found between the above considerations and identifies whether these concerns are due to differences on policy or due to issues around the practicality of the proposed approach to implementation. Further details on these points are provided in our detailed answers to the consultation questions contained in Appendix I.

Successful outcomes

Ofgem needs to provide further clarity on the range of acceptable outcomes following the introduction of any new licence obligations.

This need is particularly pressing given the surprising blind-spot highlighted in the draft impact assessment: Ofgem notes that the spectrum of change in consumer engagement could "lie between no change in the level of engagement to a market where consumers are fully engaged" (Draft IA, para. 7.9). Clearly the spectrum is far wider than this – it is possible that the RMR will lead to the introduction of measures which prove to be either inappropriate or counter-productive and therefore have the unintended result of a market that is *less* engaged

than at present. Given the historic pattern of high switching rates and low energy prices relative to other European countries this risk is real and needs to be given due consideration. It is extremely worrying that Ofgem's impact assessment starts with an assumed worse case scenario that is explicitly 'no worse' than the current market.

With this in mind, **Ofgem needs to clearly articulate the range of acceptable outcomes.**

One possible outcome could be a market in which customers continue to generally pay less than in comparable European markets, where customers are generally better able to identify whether they are on a good tariff and are increasingly satisfied with levels of customer service but in which the annual switching rates are substantially lower than those seen today. Would such a market represent success or failure? We believe this outcome is not only possible but highly likely under the package of reforms proposed and Ofgem must acknowledge this.

More worrying is the possibility of more damaging outcomes. Customers would be right to distrust suppliers who provide a clear signpost labelled "Cheapest overall tariff" which does not point to that supplier's cheapest tariff.

A key point to note is that if the debate is reduced to purely being a matter of price, then Ofgem's intervention becomes a hostage to fortune – success or failure is determined more by fluctuations in world energy prices than by positive developments in terms of customer engagement.

Tariff simplification

SSE has already committed to reducing customer confusion by initiating our own process of tariff simplification. In doing this we identified the following key elements:

- Simple structure – standing charge and single unit rate
- Simple discounts – savings clearly presented as £/qtr or £/yr
- Fair treatment – best tariffs available to all customers

Whilst these principles are well aligned to Ofgem's updated proposals for tariff simplification, the proposed licence changes would require us to go much further and have consequences for our existing white label partnerships (with Ebico and M&S Energy) and any future partnerships.

SSE believes that if Ofgem is committed to choosing simplicity over innovation then there should be no loopholes – **the limit of four core tariffs must mean four.** There should be no exceptions made allowing additional core tariffs for dual fuel, collective switching or white labels, as these could provide opportunities for some suppliers to offer discriminatory prices or to hide their best deals from the majority of their customers. If, as Ofgem has argued, tariff profusion is the biggest driver of customer confusion and disengagement, then we believe that this hard-line approach would be entirely justified. However, in adopting this "four means four" approach, Ofgem would have to be realistic about the potential unintended consequences, and take full responsibility for any detrimental impact on competition and, in particular, the likely fall in switching rates that may arise as suppliers take action to comply with the new requirements.

Information on bills

SSE made a clear commitment as part of Building Trust to provide our customers with the simpler bills they have asked for; existing and proposed requirements for information on bills have constrained our ability to meet this commitment as quickly as we were able to deliver simplified tariffs.

Ofgem states that for "all of the communication channels, it is important that the purpose of the communication remains clear" (consultation document, para. 5.14), yet the level of prescription for information on bills belies this simple principle. It also creates a potential conflict with the proposed Standards of Conduct: should customers complain that prescribed content is cluttered or confusing, suppliers will not be able to take the remedial action which the SOC would require.

This lack of focus is further compounded by Ofgem's preference that as much information as possible is accommodated on the front page of the bill. This continues the recent trend for all

new content on bills to be immediately elevated to a position of prominence, somewhat neglecting the growing body of consumer research which shows that customers' main concern is that bills communicate simply and clearly the amount of money that is owed and the date by which payment is due (e.g. *Prompting engagement with and retention of written customer communications*, Ipsos Mori October 2012).

Ofgem's proposed **summary boxes on bills are text heavy and unengaging**, with the likely result that most customers will barely even scan the information they contain. The primary design principle appears to have been "if this information is to be included on the front page, how can we make it fit?" SSE is also extremely concerned at the proposed juxtaposition of the generic TCR (quoted in p/kWh) with the bill calculation containing the *actual* unit rate for the tariff. It is hard to imagine any other consequence of this poorly considered proposal than increased customer confusion, exacerbated by the already well publicised lack of familiarity with the unit 'kWh' and the discomfort this engenders.

A far more sophisticated result would be achieved by assessing the minimum information that is to be provided, and challenging suppliers to decide how the information can best be presented in an eye-catching and appealing way. If Ofgem is concerned that this would not be sufficient, perhaps there is initially a role for Ofgem to approve suppliers' bill designs. This would be a more proportionate approach and would benefit from being more easily modified to take account of customer feedback following implementation.

Information remedies

SSE broadly welcomes Ofgem's current view that the most effective means to transform the supply market and rebuild consumer trust is to address perceived complexity and provide customers with the information required to identify the best deal for them. SSE suggests that the package of information remedies currently under consideration represents a work in progress. The proposed measures do offer the promise of simplifying the choice facing customers and improving customer experience of the process of switching tariff. However, having identified promising tools for the job, Ofgem has exercised little discrimination in prescribing how these tools should be used.

The proposed information remedies are extremely prescriptive and impact on each of the principal supplier-customer communications. The IT project required to deliver these changes is considerable and the capital expenditure significant. Good governance of such projects requires that the scope is fully understood and well defined before work can commence—anything else will impact on suppliers' ability to deliver the changes efficiently and effectively.

The implementation timescales outlined in the consultation document are therefore extremely optimistic. SSE believes that implementation of these measures could take up to **{18 months}** from the Statutory Consultation stage.

Tariff Comparison Rate

SSE broadly welcome the proposed Tariff Comparison Rate as the type of metric we have long argued for – this is similar in concept to SSE's Energy Price Rate (EPR) but is slightly more complex in practice.

Our EPR focuses on simplicity and takes advantage of customers' familiarity with cost projections to present our price comparisons in units of '£/year'. We believe that **Ofgem's proposed TCR would be more effective expressed in the same units as personalised projections**.

Whilst there is definitely a need for a standard tariff comparison metric, it will not enhance customer understanding and engagement if the TCR if it is used inappropriately. SSE does not believe that there is any case for the inclusion of the TCR on bills.

Ofgem has proposed a national TCR to facilitate publication of national best buy tables. SSE believe that the risk of confusing customers or providing misleading information by smoothing out regional differences should not be ignored. This risk is compounded by the proposed weighting of regional prices that would result in each supplier using different methodologies. This is totally unacceptable as it would discriminate against suppliers whose customers

predominantly reside in high cost-to-serve regions. If the national TCR is to be introduced then the **regional prices should be weighted consistently for all suppliers**, using the total number of domestic meters in each region.

Supplier Cheapest Deal

Signposting of cheapest tariff information has gained significant political traction and SSE supports transparency in this regard, as it is consistent with Building Trust. However, we do have two particular concerns: the exemption for limited availability tariffs and the bias towards variable prices.

If limited availability tariffs are exempted from the cheapest deal messaging, as proposed, significant customer harm could arise. Suppliers would be misleading all of their existing customers where the “cheapest tariff” turned out to only be the “cheapest tariff we have to tell you about”. Media coverage of such misinformation would result in the proposals having the opposite effect to that intended by Ofgem. **We would urge Ofgem to include all tariffs in the comparison.**

Where energy prices are on an upward trend (as they have been for the last few years) fixed price tariffs are generally more expensive in forward looking comparisons and cheaper in backward looking comparisons. Ofgem should give further thought to presentation to ensure that customers are not misled into believing that fixed price tariffs always work out to be more expensive.

Conclusion

SSE has made significant changes to the tariffs and services we provide to our customers, and we have made a public commitment to develop simpler bills as a clear response to feedback from customers. Building Trust has demonstrated the intent of SSE to do whatever it takes to address the perceived complexity in the energy supply market and to regain the trust of customers - as such we broadly welcome the Ofgem’s stated objectives in the Retail Market review. However, the concerns discussed in this executive summary and in Appendix I are significant and, taken as a whole, make it difficult for us to welcome the package of measures in its current form.

The key changes which we would ask Ofgem to consider are:

- Reduce the level of prescription in customer communications
- Further consideration and research to ensure that inappropriate information is not included in customer bills
- A firmer commitment to provide clarity and consistency in the imposition of the cap on tariff numbers –no exceptions should be provided for dual fuel, collective switching or white label tariffs: four *must* mean four if tariffs are to be regulated
- Signposting of suppliers cheapest deal must highlight the cheapest deal that is available at the time of printing – anything less is unfair to customers
- Ofgem must explicitly accept the risk that the choice for simplicity over innovation has consequences for customer choice and for competition

We would be very willing to discuss any of the points made in our response in more detail with Ofgem and other stakeholders. We are keen to engage constructively in order to establish a route forward that delivers the best possible outcome for customers.