

Wednesday 3 April

OFGEM FINES SSE £10.5 MILLION FOR MISSELLING

- **Ofgem found SSE failures at every stage of the sales process**
- **SSE management failures led to prolonged and extensive misselling**
- **Proposed SSE fine is largest ever imposed on an energy supplier**

Ofgem has today published its intention to fine SSE £10.5 million for numerous breaches of its obligations relating to telephone, in-store and doorstep sales activities.

The level of fine reflects the seriousness and duration of breaches, the likely substantial harm that they have caused and the likely gain to SSE.

Ofgem found that a failure of SSE's management arrangements meant that insufficient attention was paid to ensuring compliance with obligations. This enabled misleading and unsubstantiated statements to be made by sales agents to potential customers about savings.

Ofgem found failings at all stages of SSE's sales processes, from the opening lines on the doorstep, in-store or over the phone through to the confirmation process which follows a sale. In particular, SSE consistently failed, over a prolonged period of time, to conduct its sales activities in a way that would provide clear and accurate information on prices and potential savings to enable customers to make an informed decision about whether to switch suppliers. Although SSE terminated doorstep sales in July 2011, failures in telephone and in-store sales persisted.

Sarah Harrison, Ofgem's Senior Partner in charge of enforcement said: "In order to restore trust in the energy market suppliers must comply with their obligations and play it straight with consumers. Ofgem's findings show SSE failed its customers, missold to them and undermined trust in the energy supply industry.

"These failings did not just take place on the doorstep but also in the management of SSE. Ofgem's fine reflects an absence of effective management control over energy selling.

"Today's fine sends a clear message to suppliers that Ofgem will hold to account those companies which fail to treat consumers fairly. It is time for the energy industry to take note and get behind Ofgem's reforms to rebuild trust and make the market simpler, clearer and fairer for consumers."

Ofgem does not yet have powers to require companies to award consumer compensation. We have argued for powers of redress and are pleased that Government is backing our call with new powers in the Energy Bill. When these powers come into force they will further strengthen our ability to take more targeted action against companies that are found in breach of their licence.

SSE has in place a £5 million misselling fund, where customers can receive compensation if they have been missold to. Ofgem would encourage anyone who believes they have been missold to by SSE to call the fund's dedicated line on *0845 0707 388*.

-Ends-

1. Summary of Breaches

Customers contacted by SSE were exposed to misleading statements, inaccurate and misleading information on SSE's charges and misleading comparisons between SSE's charges and the costs with other suppliers. These failures meant that many customers were unable to make well-informed decisions about whether to switch to SSE and about comparing products in a competitive market, and they were exposed to the risk of choosing a more expensive energy deal. Customers were also told that they could save more money on switching to SSE than was possible. In addition, insufficient checks were made after the contract was made.

Examples of the breaches are below. Further details are available in the penalty document:

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=22&refer>About%20us/enforcement/Investigations/CurrentInvest>

Failures in relation to doorstep, telephone and in-store sales – SSE's door to door sales team, their in-store teams and their in-house and contracted telesales teams made misleading and inaccurate statements to customers in order to induce a sale. Examples include:

- telling some customers that they would save money when in fact they were switched on to a more expensive contract
- telling some customers that they could make larger savings if they switched to SSE than were possible
- telling the customer that by switching to SSE they would be getting the full reductions they're entitled to, "just like the government intended"
- telling the customer that other suppliers were making "all sorts of false promises"
- telling the customer that other suppliers were putting their prices up, or that other suppliers' price increases were higher than they actually were
- suggesting to customers that SSE can put them on a "preferred customer tariff ... with no standing charge if you want", omitting that those customers would be charged higher first tier unit rates instead of a standing charge.

Telesales staff also did not provide the customer with adequate information on the price of energy with SSE. This information was only provided after the customer had already signed up with SSE. Inadequate information was provided in relation to exit fees, unit rates and standing charges.

An example from one doorstep script used in the north of England:

"What I'm here to do today is show you a government thing called deregulation which results in your energy prices being lowered by doing nothing at all."

This is inaccurate and misleading as there is no automatic reduction in energy prices owing to "a government thing called deregulation" or by the customer "doing nothing at all".

Examples of misleading claims which were given:

Being put on a more expensive tariff – Mrs. X had her energy supplied by one of SSE's competitors. She was paying an annual bill of £1,600 for electricity and gas. In April 2010 she was visited by an SSE sales agent. The sales agent said Mrs. X would only pay £1,423 with SSE. That was not true. In fact she was going to pay £1,734 per annum. As a result Mrs. X thought that she was going to save £177 but in fact she was put on a tariff that was £134 more expensive than her previous deal.

Direct debit payment being set too low – Ms. Y had her energy supplied by another supplier. In January 2011 she was visited by an SSE sales agent and, based on a monthly direct debit amount of £81, she decided to switch to SSE. However, on paper it was estimated that she would pay £1,072

for the first year's charges. She is likely to have ended up being £100 in debt at the end of the year because the direct debit had been set too low.

Misleading statements during telesales call - In December 2010 Mrs. Z terminated her supply contract with SSE to switch to another supplier. She was called by an SSE sales agent who asked her why she had switched. Mrs. Z said that she had done so because SSE was increasing its gas prices by 9%. The sales agent countered that SSE were still the most competitive and that the other supplier had increased their prices by "14% combined". This was misleading because the other supplier had increased their electricity and gas prices by 7% each which is 7% combined.

Failures in management arrangements – although SSE's senior management were not found to have engaged in any willful or intentional non-compliance with the licence conditions, they found that SSE should have been aware of the breaches. Many of the 19 breaches which have been found concern inadequate monitoring and control arrangements over the behavior of SSE's sales agents and this was a matter of particular concern. This allowed misselling to happen. SSE's board paid insufficient attention to compliance and it was not a sufficiently high priority by SSE's senior management.

Examples of failures found in management arrangements –

- use of misleading scripts
- the people employed to do the main auditing of doorstep sales received a commission on sales and therefore had a financial interest in not reporting misbehaviour
- failure to adequately monitor and audit sales activities in relation to doorstep sales, in-store sales and telesales
- failure to ensure accurate estimates of SSE charges and comparisons with the charges of competitors were provided
- failure to take into account all relevant information when estimating a customer's annual energy consumption
- not having a contract in place with the SSE agent carrying out telesales

Duration of the breaches – different breaches lasted for different periods, but the breaches lasted for between 1 and 3 years.

2. Penalty notice

Any representations on the penalty may be made via email to david.ashbourne@ofgem.gov.uk. The closing date for representations is noon on 25th April 2013.

The penalty decision was taken by the Authority of the Gas and Electricity Markets and was taken following submissions by SSE and also Ofgem's enforcement team.

3. Ongoing investigations into energy sales

Ofgem has now concluded two of the four misselling investigations launched in 2010. The two ongoing investigations from this time relate to Scottish Power and npower. Ofgem opened an investigation into E.ON's energy sales practices in April 2012.

4. Previous investigations

Since April 2010, Ofgem has completed 14 full scale investigations. More than £35 million of penalties have been imposed and around £6 million of redress payments have been made to benefit consumers.

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