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Dear Andy,

Re Supplier Objections: a call for evidence

Thank you for the opportunity to provide our views on the current supplier objections process and the potential reforms suggested by Ofgem. We recognise that this is not an official proposal of reforms but instead an invitation to inform debate on the principle and suitability of the supplier objections process. We support Ofgem's drive to make improvements but it is vital that suppliers are able to take appropriate steps to have debt repaid.

We note with interest Ofgem's comment on their work to elicit the views of domestic customers about objections through their Consumer First Panel; as a major stakeholder in this policy area we would be very interested in seeing the output of that research and how it is being – or intended to be – used in formulating policy around objections. Of particular interest is how consumers react to an alternative model whereby the costs of managing the debt of consumers who do not pay their bills is subsidised by those who do.

We have provided responses in Annex 1 attached. If you have any questions or comments, please do not hesitate to get in touch.

Yours sincerely,

Patricia Hall



Annex 1: SSE response to Supplier Objections call for evidence

1. The number of domestic customer who, following an objection:

- a) Are provided with energy efficiency and debt management advice**
- b) Decide to switch to a cheaper tariff with the same supplier**

All customers receive the option of seeking advice on energy efficiency and debt. SSE issues a letter to customers when we block their transfer request, which signposts customers to call our Energyline to find out about using energy more efficiently. We are unable to report the volume of customers who call this number and receive advice as a result of a debt objection letter, because the Energyline number is used extensively across our customer communications.

The letter also prompts customers in financial difficulties to call a separate number to discuss a payment plan, tariff options or energy efficiency. This number is used exclusively on our loss debt objection letters we have in use. The call volumes for this number are not high, as you will see from the monthly totals in the below table.

Month	Calls to financial help number
Dec-2014	48
Jan-2015	45
Feb-2015	54
Mar-2015	35

The calls to the financial help number are answered by our Inbound Collections teams, who use a specific tool to provide a guided journey for our advisor and the customer to follow. On every call, if it is helpful to the customer we provide efficiency advice, information on the payment plans and tariffs available and bespoke payment arrangements which take account of ability to pay. If the customer wishes to discuss a different tariff in more detail, the call is then transferred to a specialist team; however we do not track the number of customers who subsequently change to a different tariff.

2. The extent to which non-domestic supplier may not be complying with objection requirements and/or the extent to which their customers are being moved inappropriately onto more expensive rates

We comply with all objection requirements and only object if a customer is in a fixed term contract with us. We no longer auto rollover SME customers, which means that they are not inadvertently caught in a fixed rollover contract and can move to other suppliers easily.

KEY ISSUES

3. Whether the existence of any objections regime is consistent with an energy market in which all customers should be able to switch supplier readily



The objections process does not prevent customers switching supplier in the majority of cases but instead serves as a tool to help suppliers reduce exposure by managing their debt positions and mitigating the risk that customers can transfer and leave debt behind. This in turn plays a role in risk management and ultimately the cost to serve. This is particularly important, firstly because we are under obligation to offer to supply a customer, secondly because we allow customers to pay for energy in arrears and thirdly because disconnection is a last resort option that is rarely used in the industry. As such, the ability to object plays an essential role in supplier operations.

The Republic of Ireland (ROI) model serves as a helpful comparison for this question. In ROI, consumers can readily switch supplier – in some cases as quickly as next-day – and up until recently there was no objection process. While they have relatively high switching rates, the benefits of the arrangements in ROI have come at a price. As Ofgem will be aware, debt flagging was introduced in the ROI in 2011 by the regulator. The CER explain that “in light of on-going concerns from energy suppliers and consumer organisations that, in the current economic climate, customer and industry debt levels are being exacerbated by some customers changing supplier in order to avoid paying their arrears or to avoid disconnection. This practice of ‘debt hopping’ is considered to raise costs for energy suppliers, and consequently for all consumers, and further compounds an individual’s debt situation making it more difficult to manage in the long run.”¹

Given this experience, SSE considers that an objections regime – of some kind – is absolutely consistent and necessary for the benefit and protection of all consumers in an energy market in which customers can switch suppliers readily.

4. Whether the objections regime places sufficiently strong incentives on suppliers to proactively identify customers who may be struggling to pay and are at risk of falling into debt

Rather than the objections regime, there are a number of other incentives and schemes at play that incentivise proactive engagement with customers who are at risk of falling into debt.

SSE’s customer relations team is particularly active in proactively identifying customers who may be struggling to pay and are at risk of falling into debt. Under the WHD, SSE carried out an initiative earlier this year specifically targeting customers with a priority service register (PSR) indicator on their account and who had attempted to transfer but who were objected to. These customers were transferred to our internal trust fund (set up under WHD) to receive support and advice on managing debt and in some cases debt release. This fund has now closed but this is something that we are looking to set up again in the future. Additionally, SSE’s customer relations team have an ongoing process whereby we proactively scan accounts to identify those with a PSR indicator or where the customer has received previously the WHD. These customers are then recommended to our Priority Assistant Fund. Finally, our front line advisors have a built in process whereby they refer relevant customers to our customer relations team for consideration in the Priority Assistance Fund.

There are clear reputational and licence obligations for us to seek active engagement with all of our customers. This includes considering a customers ability to pay and the most appropriate methods to pay, by sending regular account statements and conducting regular account reviews. These are effective protections for customers, which ensure that customers receive the necessary support.

¹ See page 4: <https://www.cer.ie/docs/000646/cer13120.pdf>

5. **Alternative methods that suppliers might adopt to facilitate and manage credit risks in the absence of an objections process, including any evidence from other markets where there are no or very limited rights to object or where such rights have been removed**

More rigorous credit vetting and credit management mechanisms along with security deposits would be likely tools employed. However this would need to be thoroughly considered by industry within the framework of a market without objections as there are risks and impacts with all options, as discussed elsewhere in this document.

6. **The potential impact of smart meters on suppliers' ability to manage credit risk and the implications of this for suppliers' right to object**

Given smart meters will enable suppliers to switch customers between prepayment and credit tariffs without a meter exchange, this will be an effective tool in facilitating debt management more easily. However there will be other scenarios where effective debt management is not the solution, for example fraud; such scenarios require some kind of objection process to mitigate the risk. Without the ability to raise an objection, the security of debt repayment would be severely undermined with customers able to switch suppliers to avoid debt repayment.

7. **The potential impact of smart meters on related electricity meter point objections**

We are unsure about how smart meters are expected to impact related electricity meter point objections.

DOMESTIC MARKETS

8. **The potential impact of each of the options listed and of any other options we should consider, for example from other British or international markets**

Our response to question 8 below is combined with our response to question 9.

- a) **No material changes to the objections arrangements**

If there were no material changes to the arrangements as they stand, we would maintain the current levels of industry practice. At present, the industry process ensures customers will not be prevented from leaving if they have disputed the debt. As such, the process embraces consumer empowerment by enabling customers to switch supplier while at the same time allowing suppliers to manage risk. This in turn protects the interests of those consumers who regularly pay on time in that they are not subsidising the costs of suppliers pursuing debt from customers who have left without paying.

- b) **Retain debt objections but require objecting suppliers to be more proactive in managing the relationship with their indebted customers, possibly including a requirement to move them onto cheaper tariffs to help them repay their debts**



We would caution that offering a cheaper tariff to customers in debt sends the wrong message to customers who do pay their bills on time in that the entry criteria for the cheaper tariff would require that the customer has not paid their bills. This is an uncomfortable fit with SLC 25C Treating Customers Fairly and might also have the consequence of creating a perverse incentive for customers.

Furthermore, changing a customer's tariff could either be a mutual variation or a sale of new contract, and in either case contact with the customer would be essential. Even if this were not required, we would not change a customer's tariff without consultation with the customer, as we consider that customers need to make an informed choice themselves based on their own circumstances. For example, the "best tariff" is dependent on full visibility of the customer's usage and circumstances. Our cheapest tariff might be a two year fixed option with an early termination fee, which is unlikely to suit all customers. This reiterates the dependency on customer engagement to avoid the risk of unwittingly selecting the "wrong" tariff. Customer agreement is also important as certain tariffs have entry conditions, for example paying by direct debit. There can be other conditions like exit fees for fixed tariffs, which customers need to agree to before switching.

In summary, we feel that designing a tariff specifically for customers in debt would be unworkable and disadvantageous to the wider customer base, who would subsidise such an arrangement. An alternative might be to offer a tariff that targets indebted vulnerable customers or fuel poor customers to help support those who are at risk of falling into debt due to circumstance, but this would need to be thoroughly considered. Additionally, suppliers are currently limited by licence conditions in the number of tariffs that can be available at any one time. We would therefore have to explore the derogation or regional tariff route were we to introduce such a tariff.

c) Abolish debt-related objections

Please see our response to question 3 which summarises lessons learned from the arrangements in ROI.

d) Abolish objections that relate to erroneous transfers

The implementation of Faster Switching last year saw the introduction of a withdrawal flow that enables the gaining supplier to cancel an erroneous transfer. Only in cases where the erroneous transfer has not been identified on time do suppliers use the objections process. In such cases suppliers use the co-operative and customer requested objections process; these must be retained to avoid erroneous transfers.

e) Abolish objections to do with related electricity metering points

This is an essential feature. A customer cannot be supplied by two separate suppliers for their related metering points.

f) Abolish objections relating to indebted customers with Green Deal Plans (objections linked to the Green Deal were introduced by the Secretary of State)

This would not make a big difference in practice as firstly customers with Green Deal plans are relatively uncommon and secondly, where a customer has outstanding Green Deal charges, the most common position would be that the customer is also indebted in relation to their energy charges. As



both energy and Green Deal charges are collected together, if a customer has defaulted on one then typically they will also have defaulted on the other.

We disagree with Ofgem's ascertain that the objection process is used to block a customer seeking to switch to a non-green Deal Supplier; there is a flag to indicate the presence of a Green Deal Plan attached to an MPAN on MPAS and the system itself will prevent a registration by a non-green deal supplier until the end date of the Green Deal Plan.

g) Abolish debt-related objections and instead:

- Extend the DAP to all domestic customers

This process is very manually intensive at present. Additionally, the process is struggling to effectively manage debt e.g. there are already examples of customers repeatedly switching provider and the assignment of debt to the PPM is struggling to keep up (i.e. we gain a customer, send data flows to add a debt, and receive COS loss flow shortly after).

There are some very important points that require considerations e.g. the DAP is currently triggered by a debt objection being raised; all suppliers would need to be obligated to run DAP and we would need to consider more complex scenarios such as debt being accrued due to theft and the associated charges.

It is difficult to envisage how this would work because the process of debt assignment works within a financial limit i.e. if a customer is in debt of up to £500 they can transfer the debt with them upon change of supplier. However, if they have debt in excess of £500, the supplier can object to the transfer request to prevent them leaving until a repayment plan is initiated. Thus, without the 'threat' of having the transfer request being blocked there is no incentive to maintain a level of debt below £500. As such, until we better understand what mechanism would replace the role of the right to object in the DAP, we cannot understand the impact of extending the DAP beyond prepayment customers.

Separately, given the risk presented by the DAP, even in relation to only PPM customers, we would suggest that Ofgem should seek to understand the impact of the new DAP model and whether it is an effective solution, bearing in mind the possible risks we have flagged above. We would suggest a review should be conducted after a sufficient time has passed to enable Ofgem to gather sufficient data for analysis. There is a clear risk to customers, posed by the DAP, that ought to be fully understood.

- Adopt arrangements like those in Ireland where suppliers cannot object to a customer leaving but new suppliers can refuse to take on a customer with debt above a certain level

We caution abolishing debt-related objections in exchange for adopting arrangements like those in Ireland without significant review of their experience – good and bad. Our response to question 3 is again relevant here. We would also add that the CER described the economic environment in 2012 as challenging and explained that levels of debt among consumers continued to be high. Furthermore,



due to the overall increase in the number of customers in arrears, gas and electricity domestic disconnections for non-payment of account, increased in 2012 (by 83% in gas).²

Additionally, this process puts the decision to take on the customer in the hands of the gaining supplier and as such there is a risk this decision will be made on a commercial basis. We believe that this will lead to confusion for customers as each supplier could operate a different working practice. Again, this sits uncomfortably with SLC 25C Treating Customers Fairly as suppliers may be tempted to discriminate in favour of “good” customers and place barriers on those perceived as being “bad” acquisitions. Indeed there is significant risk that we perceive to this model: it may create a “two-tier” market for customers, where customers with a bad credit history might find themselves excluded and only able to access the most expensive deals from large suppliers. We would also expect to see increased use of security deposits, as discussed below, as a pre-requisite for riskier customers gaining access to a new supplier. Finally, we have concerns that we would also not be able to accurately populate the required debt objection letter which has to list the options to resolve the matter as we would not be able to comment on whether the customer could pay part of the balance owing to us and then reapply to their new supplier, as we would not know this.

- **Introduce new rules for example around security deposits**

SSE rarely uses security deposits and even then it is only in the domestic sector. As such we need more time to impact assess this. Our initial thoughts are that it would be difficult to set the security deposit at a level that was both affordable to customers in debt but also sufficient to serve the function of a security deposit. Furthermore, if a customer left while in debt their deposit would be used to offset the debt, which may influence their decision to switch. If this reduced switching rates, it would conflict with Ofgem’s objective of enabling customers to readily switch suppliers.

The current licence states that the security deposit must not exceed a reasonable amount and this will naturally differ between supply companies. If security deposits were to become more widely used, there would have to be a standardised calculation in place to avoid market confusion.

One rule that could be introduced that would benefit suppliers attempting to recover balances from indebted customers would be to restrict the number of times a customer is allowed to switch without objection in a defined period (e.g. one transfer every 12 months).

Mitigating risks would have to be linked to a new risk based process with more stringent credit assessment taking place prior to transfer. Taking on significant volumes of indebted customers would mean that our cost to serve would be likely to increase and ultimately this would have to be recovered from customers via tariffs charged.

9. The potential impact of abolishing domestic debt objections

Please see our responses to question 8.

NON-DOMESTIC MARKET

² See page 5: <https://www.cer.ie/docs/000646/cer13120.pdf>

10. The potential impact of each of the options listed and of any other options we should consider, for example from other British or international markets

- Abolish the contractual right to object

SSE does not object on the grounds of debt, however, we feel strongly that the contractual right to object is an integral part of the non-domestic market that must be retained. If we were unable to object when a customer was still in contract then customers could unintentionally leave a contract early and incur significant termination fees.

- Abolish objections relating to erroneous transfers

The ability to object when a customer has been transferred erroneously serves to protect customers and prevent mistaken transfers. Removing this function would lead to frustration and confusion in the market when such a situation occurs.

- Abolish objections to do with related electricity metering points

We disagree with the proposal to remove objections relating to related electricity metering points. The objecting to related meter points is done to avoid confusion and help the customer, examples are main meter and off peak meter (can be the same fuse), export and import (can be two MPANS but the same meter), Half Hourly lead and associated, the problem is not with a new supplier taking the site but they need to register all metering points associated with the site.

- Abolish objections relating to indebted customers with Green Deal Plans

The impact of green deal plans will be minimal and as such the impact of abolishing this type of objection would be minimal.

- Abolish debt-related objections and replace with other arrangements

SSE do not object for debt and as such cannot draw on experience to inform consideration of alternative arrangements.

11. The potential impact of abolishing debt objections in the non-domestic market

SSE does not automatically roll over contracts which means we do not tie any customers into a further fixed term contract unless it is at their request; any customers that do not sign a new contract and move onto deemed or out of contract rates can easily move to another supplier.

We credit vet all potential customers and part of that process takes into account that we would not object to a customer in debt leaving. Furthermore, as we do not object to debt our processes would not change to include a request for a security deposit.

12. The potential impact of abolishing all contractual objections in the non-domestic market

We disagree that removing all contractual objections would reduce administrative burden, but in fact believe it would increase the administrative burden due to the cost of court fees required to settle



disputes. We agree that higher termination fees would result and we agree that suppliers would be exposed to fluctuations in the price of energy as a result of the requirement to trade out of our wholesale market position, it could also lead to an increase in security deposits and a tighter credit vetting.

TIMING

13. The timing of any changes to the objections regime

From a non-domestic perspective, we would encourage enacting these changes from a certain point onwards, on new contracts only.

From a domestic perspective, it would depend on what exactly was changing in the process but ultimately our preference is for when most customers have smart meters.