
Building Trust:

SSE's proposals to build customers'
trust in energy supply

Contents

Introduction	01
Summary of proposals	03
There are too many tariffs, they are too complicated and customers are confused	05
Energy suppliers are not transparent enough on costs	07
Energy suppliers have lost touch with their customers	11
Loyal customers lose out	14
Taking our plans forward	16

Introduction

As Robert C Solomon and Fernando Flores said in their book, *Building Trust*, 'to understand trust is to be able to build trust into our everyday practices and relationships, and to develop institutions in which such practices and relationships are not only possible, but mandatory'.

When SSE announced the suspension of its commission-based doorstep sales activity in July 2011, it said that 'confidence in the way companies sell energy on the doorstep, and the way in which salespeople are remunerated, is low'. Unfortunately, that lack of confidence, or trust, extends to too many other aspects of the provision of electricity and gas in Britain's retail energy market.

Some executives employed by overseas-owned energy companies believe the answer to the trust question is to pass the buck to the Competition Commission. It is the considered opinion of SSE that there are two fundamental problems with this.

Firstly, SSE has been advised that a decision by the regulator, Ofgem, to pursue a Competition Commission inquiry into the energy sector would be unlikely to result in a conclusion much before the middle of 2016.

Secondly, and more fundamentally, SSE believes that the time for action is now, and that the five years it would take for a Competition Commission process to conclude would be better spent on developing and deploying practical steps to improve customers' experience of the retail energy market – in other words, building trust into everyday practices and relationships.

This document sets out SSE's initial plans and priorities to address customers' concerns on issues relating to complexity, transparency and customer service. SSE is actively seeking comments and feedback on those plans and priorities from customers and other interested parties.

At the same time, it must be emphasised that the plans are initial. SSE is very conscious of the extent to which the retail energy market is changing and believes it, too, must continue to change if it is to provide customers with the right products and services as the way that we provide energy fundamentally changes as the 'smart' world gets under way .

Energy companies do a huge amount of good work on a day-to-day basis. SSE's team handles over 20 million customer calls a year and its customer service has been recognised as sector leading. Consumer Focus publishes a simple, but important complaints league table to help consumers understand which energy supplier will handle complaints that arise most effectively - SSE is consistently ranked top of this league table.

What is more, beyond these plans SSE will be spending around £200 million over the next four years to help vulnerable customers through the Government's Warm Home Discount. SSE will complete 300,000 installations of cavity wall and loft insulation in homes this year, as well as implementing the new systems required for Green Deal, preparing for the roll-out of smart meters and investing around £1.5 billion a year in new energy infrastructure

It is against this background that the ten proposals set out in this document should be assessed, evaluated and improved.

Summary of proposals

There are too many tariffs, they are too complicated and customers are 'bamboozled'. SSE will:

- **Introduce an Energy Price Rate (EPR)**

To better enable customers to compare prices SSE will introduce an easy to understand "APR style" comparison tool allowing them to compare its products on a consistent basis. The EPR will compare tariff options on an estimated annual basis and will be used through mediums where exact usage data is unavailable. SSE urges other suppliers and switching sites to work with it to create a cross-industry standard.

- **Simplify tariffs**

To end the complexity around buying energy SSE will significantly reduce the number of tariff options. As part of this package, SSE has terminated around 20% of its tariff arrangements with immediate effect and no more customers will be placed onto these. In the future, SSE will introduce a new and radical approach to energy tariffs that fulfils two key principles: simplicity for the customer who is concerned only or mainly about price; and choice for the customer who is concerned about the services it can offer.

Energy suppliers are not transparent enough on costs. SSE will:

- **Provide a breakdown of what makes up a customer's bill**

SSE will display on each annual statement the cost breakdown for a typical customer, including how much profit it makes.

- **Publish an online tracker showing the wholesale and retail costs of energy**

This will clearly show the changing nature of costs on bills and explain, using externally-sourced third party information, what is happening to wholesale energy prices, distribution costs and the cost of policies for energy efficiency and low carbon technologies.

- **Transform wholesale market liquidity**

This radical change will mean that SSE will inject additional liquidity into the wholesale market by committing to auction, in due course, 100% of its available electricity generation output and its demand on the "day ahead" wholesale market. SSE will effectively be selling all of its electricity generation output via a trading platform through a day ahead auction, and buying all its electricity for supplying customers through the same process. SSE aims to begin the process of trading in this way this week.

Energy suppliers have lost touch with their customers. SSE will:

- **Introduce a mis-selling guarantee**

Customers should be able to trust SSE and this guarantee will ensure that if customers are sold electricity or gas based on incorrect information provided by SSE representatives then we will guarantee to compensate them accordingly.

- **Offer every customer an Annual Energy Review**

SSE wants to ensure that customers are on the best tariff to meet their needs and are taking advantage of services such as insulation. As a result, it is piloting Annual Energy Reviews which it intends to offer to all customers in due course.

- **Set up customer forums**

These permanent forums for discussion and consultation will be open to all customers and will ensure that it has a constant “reality check” to help it offer the best customer service possible.

Loyal customers lose out. SSE will:

- **Never engage in any form of predatory pricing**

SSE will continue to ensure that all of its tariffs (excluding social assistance packages) are cost reflective. It has never overcharged, but it also does not undercharge one group of customers as that pushes costs up elsewhere.

- **All customers will have the opportunity to access all tariffs**

To ensure that existing customers are treated as fairly as any new customer, SSE will ensure that all customers have the opportunity to access any tariff rate SSE offers.

There are too many tariffs, they are too complicated and customers are confused

'Many consumers are bamboozled by the number of available tariffs from the whole energy industry.'

Energy and Climate Change Committee,
July 2011

Background

As the energy market has matured, different companies have produced more and more tariffs which are specifically suited to different types of customers. For example, some customers don't like standing charges, so products were created with no standing charges. Other customers support renewable energy, so products were created based on green energy.

This proliferation of tariff options has made comparability difficult and significantly increased the risk of customer confusion. On occasions customers have moved to products which do not meet their needs, while research shows that many people feel unable to make well-informed tariff choices.

Ofgem's remedy is to let companies have one "evergreen tariff" (a single tariff that does not need renewing), with all other offerings having to be fixed term. If customers forget to renew their fixed term offering, they will be returned to the companies' evergreen tariff.

Ofgem has acknowledged that this approach will need special arrangements for certain customer groups, such as those on heating tariffs often without access to the gas

network, to prevent them from having to opt in at the end of the fixed term or face huge increases in their bills which would be caused by them going onto evergreen tariffs. However, SSE and many other stakeholders believe that Ofgem's proposal would stifle choice and for many customers it would create a market of hassle, where any choices they make would be undone unless they repeatedly opted in. This is unlikely to be well received by customers.

Consumer organisation Which? has also proposed a solution. It suggested that tariffs could be simplified by having a standardised fixed element (covering the cost of using the energy networks which are set by Ofgem), with energy companies charging everything else (such as the cost of energy and of Government-sponsored socio-environmental schemes) through a unit rate.

This is again a well-intentioned idea, but it does not take account of the fact that many of the costs associated with Government-sponsored schemes are allocated on a per customer basis - indeed so are some of the other costs such as metering. The Which? proposal therefore has quite serious unintended consequences as it would mean that energy companies would be unable to recover their per customer costs from those who use very little energy, making low-consuming customers loss-making, which in turn encourages energy suppliers to focus on higher value customers.

A better way

Introduce an Energy Price Rate (EPR)

Customers are all different. They live in different areas, in different circumstances, with different lifestyles. However, they are not at present being given information that helps them make the right tariff choices.

To help customers' understanding SSE will introduce an Energy Price Rate (EPR) for each tariff option. This would serve a similar function to an APR in financial markets. It would provide an estimate of a typical customer's annual bill for each tariff option. Based on Ofgem's average customer usage it would allow the following type of comparison to be made.

Tariff	EPR	Change
Tariff A	£1,000	0
Tariff B	£1,020	+20

This easy comparison tool will allow customers to compare tariffs on a consistent basis.

SSE will use the EPR as a tariff comparison tool and is currently exploring the most appropriate mediums for displaying this information to customers'. Clearly, this tool is of particular use when customer usage is unavailable or unknown. Where a customer has good consumption data, other comparisons will be of greater use.

SSE believes that the EPR will help assist customers with comparison, but hopes other suppliers will use the EPR so that customers can easily compare tariffs across

the market. In addition, SSE hopes all switching sites will also use the EPR where appropriate.

Simplify tariffs

An EPR will aid comparison, but if there are too many tariffs in the first place, then comparison becomes a difficult process. In consequence, SSE will drastically simplify its product offering.

The first stage of this is to reduce SSE's current offering. SSE has therefore decided to terminate around 20% of its tariff arrangements with immediate effect . These include Welsh Rugby, power2, RSPB, Advance Pay, and Premium Advance Pay. These will be removed across all regions and no further customers will be added to these tariff arrangements.

However, a far simpler model is needed for the long term. In 2012 SSE will introduce a new and radical approach to energy tariffs that fulfils two key principles: simplicity for the customer who is concerned only or mainly about price; and choice for the customer who is concerned about features and services other than just price.

It would not be appropriate to specify precise details about this new approach at this stage within a competitive market, but SSE is committed to setting out the full details and introducing it next year. The message from customers and consumer bodies has been clear: radical action is needed - not just to tackle tariff complexity but to eliminate it altogether. SSE understands that message and is actively acting on it.

Energy suppliers are not transparent enough on costs.

Energy firms have "failed to play it straight with consumers."

Ofgem, March 2011

Background

Many customers are unaware of what components make up their energy bills. Five years ago, when the average bill was lower than today, customers did not necessarily want or need to know. However, energy is essential for a good quality of life and the energy bill is now one of the biggest regular payments that a household has to make. Over the last five years the increase in costs which suppliers have had to pay to secure energy, combined with the increasing tendency for successive Governments to use energy bills (electricity, in particular) to finance socio-environmental policies and the increasing charges (approved by Ofgem) for using the energy networks, has led to a doubling of the retail cost of energy.

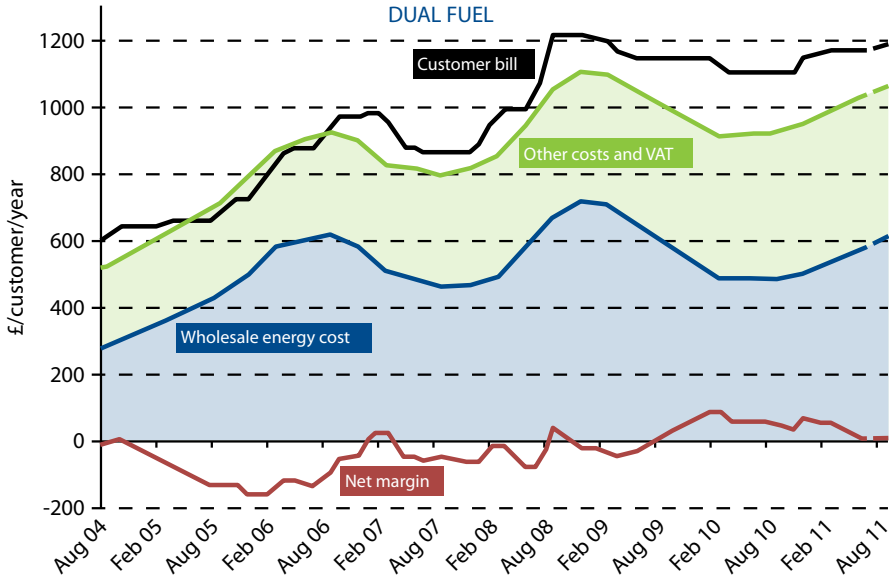
In 2008, following the price rises of that autumn, the energy companies were subjected to particularly intense public scrutiny, with a strong focus on profit levels. Customers questioned whether they were getting a fair deal because they were unable to see the link between the prices at which energy retailers were buying their energy from wholesale market participants and the price which the customers were paying.

Ofgem, which closely monitors all energy market activity, started to publish its forward looking analysis of the relationship between the wholesale market (where suppliers secure their energy) and the retail market (where customers buy their energy from suppliers). Ofgem started to produce analysis, on a quarterly basis, describing profit and costs.

The graph below, taken from the Ofgem report of June 2011 shows that energy retailing has actually been a very low margin business, and shows negative margins for two thirds of the last seven years. SSE believes that this research actually overstates margins and calculates them to be lower than stated, but the trend is correct.

While the Ofgem analysis has demonstrated that margins are low and has brought greater clarity to that part of the market, it has also drawn public attention to the socio-environmental levies placed by Government on suppliers and has also led many to ask what is happening in the wholesale market, given that the energy companies have explained its impact on retail price rises.

Typical dual fuel customer bill, costs and net margin



Ofgem, June 2011

Commentators have also asked whether the fact that most of the major market players are vertically integrated (meaning that they own, to a greater or lesser extent, both electricity generation and supply) gives them an unfair advantage over other market participants. This has been prompted, in part, by small suppliers claiming that they are unable to participate on a level playing field with the bigger companies. It has also been highlighted by an apparent lack of transparency over the price at which vertically-integrated companies are selling electricity to their retail businesses from their generation businesses. In relation to electricity, Ofgem has become involved and has launched a detailed project aimed at intervening to increase liquidity in the wholesale electricity market.

For customers, the picture painted above has become very confusing and this has bred suspicion. People want to know how their energy bills are made up and the politicians and regulators want to be sure that the current market set-up is as transparent as possible and fair to all participants.

A better way

In order to improve customer understanding of the factors affecting energy bills, SSE is intending to undertake the following.

Provide a breakdown of what makes up a customer's bill

SSE will display on each annual statement the cost breakdown of a typical customer bill, including profit. This will allow customers to see clearly what they are being charged for, improving transparency and customer understanding.

The profit element will be consistent with SSE's Consolidated Segmental Statement which is a report prepared for Ofgem to provide financial information about energy companies' generation and supply businesses. SSE is required to publish these statements six months after the end of its financial year, i.e. 30 September, but this process will be accelerated. A customer-friendly form of SSE's Annual Report will also be made available to customers to give them an understanding of how its generation and supply business works.

Publish an online tracker showing the wholesale and retail costs of energy:

This will clearly show the changing nature of costs on bills and explain to customers what is happening, for example, to forward wholesale energy prices and the cost of Government schemes.

The tracker will show a variety of information, including:

- the changing nature of wholesale costs, Government schemes, network and other costs;
- what the forward market is indicating for wholesale energy costs;
- the future impact of network and Government scheme costs, where possible.

The tracker will use, and cite, externally-sourced third party information so that it is, and is seen to be, objective.

Transform wholesale market liquidity

On one level, there is a lot of detailed information about wholesale energy prices publicly available from the likes of Bloomberg, Reuters, ICIS Heren and others. However, the market does not show the extent to which suppliers have bought from their own generation or what price or volume they have hedged in the market. SSE has always been active in the forward markets, typically trading many times the volume of the electricity it produces and would be keen to improve price transparency and liquidity in these markets.

This area will always be complicated, but SSE will radically change the way that it engages in electricity trading by committing to auction, in due course, 100% of its electricity generation output and its demand on the day ahead wholesale market. By committing to this trading system, SSE will effectively be selling all of its electricity generation output via a trading platform through a day-ahead auction, and buying all its electricity for supplying customers through the same process.

When fully implemented, this will more than double current volumes of electricity traded in the GB day-ahead auction market and, perhaps more significantly, will result in improved price transparency. SSE's intervention should be helpful to small suppliers, and SSE hopes that other generators will follow suit, offering an increasing amount (and eventually all) of their generation to the market.

It should be noted that SSE will continue to trade electricity in the forward markets, along with other energy companies and financial institutions in the same way as it does now, including entering into long term contracts with independent generators and suppliers who require them.

SSE aims to begin the process of trading in this way very shortly and is committed to fully implementing this approach by the end of its financial year, subject to market conditions and costs.

However, it is important that, alongside this, the industry should attempt to tackle the biggest thing constraining small suppliers in the market, namely the credit constraints that small suppliers face. Small suppliers often struggle to put up the relevant collateral needed for purchases of energy they can therefore, just as in any commodities market, face substantial risk premiums. Ofgem and the FSA should redouble efforts to find solutions to this issue in order to ensure a level playing field for all suppliers.

Energy suppliers have lost touch with their customers

"In a period of rising energy prices, energy suppliers have to transform the way they deal with consumers."

Ofgem, June 2011

Background

Energy companies have made a catalogue of customer service errors over the last few years. Almost every company has made mistakes through its sales channels. Companies have been slow to address issues affecting certain customer groups. They have overcharged, mis-read meters and been accused of mis-selling. This is simply not good enough, particularly when people need energy to sustain a decent quality of life and are increasingly being asked to pay more and more for their energy due to increases in wholesale costs and increasing quantities of Government initiatives towards achieving a low carbon economy.

SSE has consistently been the top energy company for customer service (see table below). This is no longer good enough. SSE has made too many mistakes in the way that it treats its customers and wants to move from being the only one of the major suppliers to have a 5* rating from

Consumer Focus to being a company that can offer a standard of service that compares well across a variety of customer-facing sectors.

The first step towards turning round customer service was SSE's decisions to become the first energy company to cease commission-based doorstep selling, a move welcomed by consumer organisations. As SSE said at the time:

- confidence in the way companies sell energy on the doorstep, and the way in which salespeople are remunerated, is low;
- energy is a significant purchase, and the sales process rightly requires increasingly significant customer safeguards;
- customers have a growing need for objective information and help to enable them to use efficiently the energy they buy, especially in an environment of rising unit prices; and
- the energy supply market is evolving, from the simple retailing of electricity and gas to providing a bigger range of smarter energy products and services, and engagement with customers needs to reflect this.

	Jul-10	Sep-10	Sep-10	Oct-10	Oct-10	Jan-11	Jun-11
Utility	UKCS	Uswitch	Consumer Focus	JD Power Electricity	JD Power Gas	UKCSI	Consumer Focus
SSE	1st	1st	1st	1st	3rd	1st	1st
EDF	2nd	2nd	Joint 4th	3rd	1st	2nd	4th
E.ON	3rd	Joint 3rd	3rd	2nd	2nd	3rd	Joint 2nd
Scottish Power	4th	Joint 3rd	Joint 4th	6th	5th	5th	Joint 3rd
British Gas	5th	5th	2nd	5th	4th	4th	Joint 2nd
Npower	6th	6th	Joint 4th	4th	6th	6th	Joint 3rd

SSE also agrees with consumer group, Which? that there should be greater transparency about complaints data across energy suppliers. SSE has announced that every quarter it will publish on its websites information concerning the total number of customer complaints received and sent to the Energy Ombudsman, Consumer Focus and Consumer Direct. To improve transparency across the sector SSE urges other energy suppliers to do the same.

A better way

Introduce a mis-selling guarantee

As hard as SSE tries, and regardless of whatever systems are put in place, there is always the possibility of an internal error. However, customers need to know that they will be treated fairly when such an error occurs.

Correspondingly, SSE is committing to introducing a mis-selling guarantee during 2012. This means that if a customer shows, within six months, that he or she switched his or her electricity or gas supply to SSE after being deliberately misled, or being given inaccurate information, SSE will compensate that customer.

Before implementation, SSE will consult consumer bodies and others on the practical application of the mis-selling guarantee to ensure there is a clear understanding of what constitutes mis-selling, what evidence is sufficient to demonstrate that mis-selling has taken place, what time-frames should be used and how compensation should be applied. This will also introduce an element of independent assurance into the process.

SSE believes that its commitment and the consultation that it will undertake should result in a fair, practical and effective mis-selling guarantee.

Offer every customer an Annual Energy Review

In order to ensure that all customers, not just the regular switchers, get the best out of the energy market, SSE intends to offer every household customer an Annual Energy Review, starting in October 2012. The aim of the review will be to ensure that customers are on the right tariff to suit their needs and may be an opportunity for other energy improvements, such as providing information on available energy efficiency measures.

SSE is currently trialling the best way to engage customers with an Annual Energy Review and the exact shape that they will take. It is currently piloting these reviews amongst some customers and is keen that these pilots are used to determine the best way of engaging and assisting all customers. The pilots have included encouraging customers to pay by direct debit and to go paperless, both of which provide cost savings to the customer. At present SSE envisages using customer's energy bills as one of the primary ways of raising customer awareness of the Annual Energy Review.

Anecdotal customer feedback from the Annual Energy Review pilots

'Oh I am glad you called as I have been meaning to call for the past three days'

'Surprised that you are calling to save me money'

'I like the fact that you called and you are not selling'

'I won't be leaving you because I like what you do'

Establish formal customer forums

To inform its short-, medium- and long-term thinking, SSE will continue to draw extensively on its day-to-day experience of working with customers and its ongoing dialogue with consumer organisations. At the same time, SSE plans to establish formal forums through which customers can formally advise SSE about, and scrutinise its performance and plans in, the key aspects of energy supply. There will be forums for SSE's customers in England, Scotland and Wales and an online forum for customers of its Atlantic brand.

SSE is, however, very aware that the forum's terms of reference, membership and agendas need to be designed in a credible and coherent way that gives substance to the forum and its impact on SSE's work with customers. As a result, it has already invited views on how an effective SSE customer forum in energy supply could work: what it should do, how it should operate and the types of individuals and organisations that should be on it, and will take account of these views and others before establishing the forums on 1 April 2012. **Customers who would like to join a customer panel should visit www.sse.com/buildingtrust.**

Loyal customers lose out

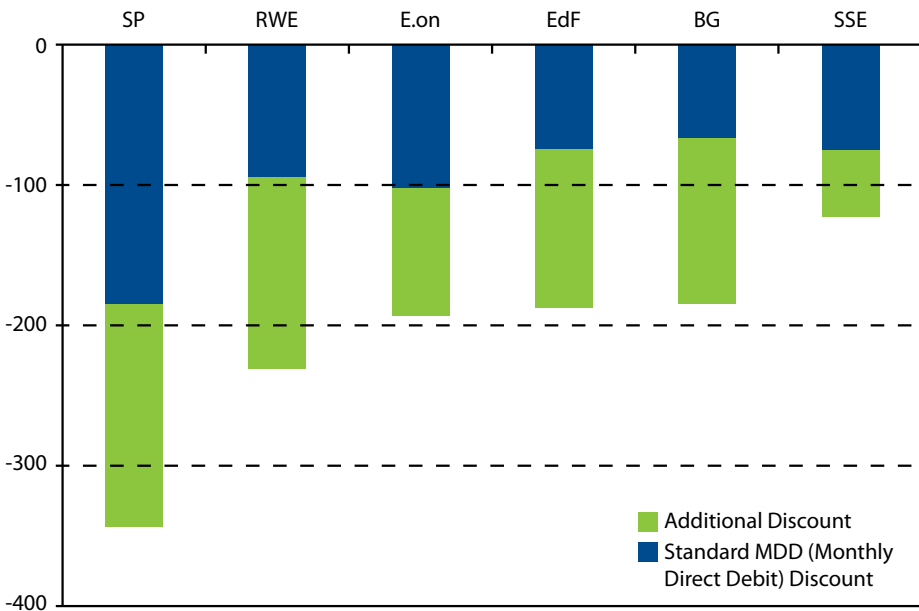
“It’s not fair that big energy companies can push their prices up for the vast majority of their consumers – who do not switch – while introducing cut-throat offers for new customers that stop small firms entering the market. That looks to me like predatory pricing”.

Rt. Hon. Chris Huhne MP,
September 2011

Background

Another issue that SSE has observed is that some companies offer certain deals, only on the internet, which existing customers cannot access. This angers and frustrates customers, and completely disregards their loyalty. It is simply unfair and undermines consumer trust in the sector.

Predatory Pricing
Differential Cheapest Vs Standard Quarterly
EPR (Epa on 3,300kWh elec and 16,500 kWh gas)



For some time, SSE has been examining other companies' online offerings and it believes that the differentials they apply are not cost reflective i.e. it appears that they are either undercharging for online products or overcharging elsewhere. This point has been recently highlighted to Ofgem and by the Secretary of State for Energy and Climate Change.

The graph on page 14 shows the discount offered by suppliers for their standard credit offering at 7 October 2011. The blue represents a direct debit discount and the green represents additional discount provided for standard online tariffs. It can be seen that some suppliers have extremely large differentials, one of over £300, which appears inexplicable to SSE.

It should also be noted that SSE's standard quarterly tariff is one of the cheapest, and the lowest for a customer paying promptly.

A better way
Never engage in any form of predatory pricing

SSE will continue to ensure that all its tariffs are cost reflective. It has never overcharged, but it also does not undercharge one group of customers because that pushes costs up for other groups of customers. It also has the effect of making retail energy market entry more difficult for new suppliers.

There are two areas we have identified where we will have to make exceptions. These are where customers receive discounted social assistance packages and where customers pay by prepayment meters which are historically discounted due to political and consumer group pressure.

The result of SSE's commitment is that, in practice, SSE will not be offering loss leading tariffs.

All customers will have the opportunity to access all tariffs

SSE will also commit to ensuring that all customers will have the opportunity to access all of its tariffs. There will be no tariff rates for new customers which its existing customer base cannot access, although, of course, some customers may need a change of meter to access certain available tariffs.

While SSE cannot control customers' circumstances, such as whether they are on direct debit, it can and will ensure that loyal existing customers have the same tariff rate opportunities as any new customers. This will require some changes to systems, but is the right thing to do.

Taking our plans forward

There has been a severe breakdown in trust in the energy market, leading to confusion, apathy and anger. Some have suggested inquiries are needed, Ofgem has suggested highly prescriptive solutions, while others have suggested that a Competition Commission inquiry is needed. Indeed, some energy companies have also stated that an inquiry may be needed to rebuild trust.

SSE believes that the energy industry should take responsibility for itself and take the necessary steps to rebuild trust in the sector. This document is the beginning of this process.

This document begins the process of trying to rebuild trust by simplifying tariffs and allowing customers to better engage in the retail market, by clearing up confusion over the wholesale market and wholesale costs, and by raising the bar on customer services. SSE's ten commitments are real, meaningful and will be implemented.

SSE is hopeful that customers and third parties will want to share their views on these commitments. **We welcome that dialogue and ask any interested parties to provide feedback via our website at: www.sse.com/buildingtrust**

About SSE

SSE, formerly Scottish and Southern Energy is the second largest energy supply company in the UK with over 9 million customers. SSE is UK based and operates through the following brands



SSE plc
Registered Office: Inveralmond House 200 Dunkeld Road Perth PH1 3AQ
Registered in Scotland No. SC117119
www.sse.com

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