

ENERGY MARKET INVESTIGATION

Summary of hearing with SSE plc on 26 August 2015

Background

1. SSE agreed with the Competition and Market Authority's (CMA) provisional finding that markets were generally competitive and well-functioning. SSE agreed that wholesale markets were liquid and that vertical integration had no detrimental impact on the market, with the potential to provide efficiencies and other benefits to customers. SSE agreed that the domestic supply market had many positive features with the expansion of small suppliers and greater competition. SSE agreed that developments such as the roll-out of smart meters and measures to make switching quicker and more reliable could only have a positive effect for customers in the future.
2. SSE strongly disagreed with the CMA's finding that there was an inherent overarching feature of weak customer response in the energy market and also with how the CMA produced its profitability analysis.

Introductory statement

AEC (adverse effect on competition) 3: Weak customer response from domestic and microbusiness customers

3. SSE strongly disagreed with the provisional finding that there was an inherent overarching feature of weak customer response. SSE found that switching rates and awareness of switching were high and that customers found the market straightforward and navigable. SSE said that the CMA's customer survey showed that more customers valued good customer service from their energy supplier than valued price, and that 70% of customers were satisfied with their supplier. Satisfaction was also the most frequently cited reason for not switching. Also, 80% of customers who were not likely to switch over the next three years were doing so because they did not believe they would make sufficient savings. This showed that customers were exercising rational choices in their search and purchasing decisions, and this included customers who chose to stay with their current supplier. SSE did not recognise a notion of a large, inert base of unengaged standard variable tariff (SVT) customers, SSE had extensive contact with its SVT customers each year.

4. Regarding customers who were less engaged, SSE disagreed with the CMA's identification of six broad demographic groups of 'potentially vulnerable' customers. SSE's advisers' analysis of the CMA data uncovered four key factors that were positively correlated with customers who were less likely to switch but which were not linked to income level or vulnerability. These were customers who lacked internet access, customers who lacked contact from their supplier(s), customers who rented and customers who were in receipt of the Warm Home Discount. SSE encouraged the CMA to pursue action to help these groups. SSE also supported the desire to support vulnerable customers through engagement with experts in the field, such as Citizens Advice.
5. SSE argued that these four groups could be targeted with market-friendly remedies. SSE suggested prompting renters to switch supplier when they received their new residence's energy performance certificates. Non-internet users could meet with suppliers or trusted face-to-face intermediaries to help with the switching process and SSE said that the work that had been done with the Big Energy Saving Network (with campaigns such as Power to Switch and Energy Best Deal) could continue.
6. SSE encouraged the CMA not to distort the entire market with measures that would do more harm than good, such as a safeguard tariff.

Profitability analysis

Issues with ROCE analysis

7. SSE strongly disagreed with the CMA's return on capital employed (ROCE) profitability analysis, which it argued understated the costs of managing the risks in energy retailing. SSE argued that the CMA's analysis relied heavily on its interpretation of a product offered by a single intermediary and that this interpretation could not be correct. SSE noted that its own experience of the market also suggested that intermediary arrangements could not have operated in the way envisaged by the CMA, for a number of reasons.
8. First, SSE argued that the CMA misunderstood the risk that intermediaries would be prepared to accept, including all the suppliers' trading risks, including commodity price directional movements, volatility on those commodity markets, market access to liquidity in times of stress, counterparty or market failure and basis risk coming out of shape movements and cross-commodity movements. SSE stated that it would be inconceivable that Shell would absorb this level of risk on the terms envisaged by the CMA.
9. Secondly, SSE argued that the CMA failed to take into account that these risks got larger as the volume of supply increased and were substantial even

in benign periods. However, when risks went beyond the introductory risk appetite there was a requirement for the supplier to provide cash or collateral. SSE suspected that the intermediary arrangement referred to by the CMA was offering no more than what SSE offered and was therefore not scalable.

10. Thirdly, SSE also argued that the CMA had failed to take into account that the risks faced by suppliers as scale increased could not be fully offset by taking a position in generation. SSE argued that while an intermediary could hedge the commodity risk by dealing in the power market, buying generation or contracting into a power purchase agreements (PPA), in doing so, it exposed itself to credit risk on both the supply and wholesale side and the risk costs remained.
11. SSE also disagreed with the CMA's assumption that the intermediary arrangements that were currently available would remain viable in less benign market conditions. SSE argued that trading markets worked on value at risk which determined the amount of capital that participants were prepared to risk. SSE stated that in volatile market conditions, vicious price cycles could emerge as traders simultaneously attempted to reduce their exposures. This volatility could not be predicted and therefore the intermediary model proposed by the CMA could not be relied upon to operate such volatile conditions.
12. SSE argued that all of these assumptions led the CMA to underestimate the capital base for a stand-alone supplier of scale, which had led to the ROCE being substantially overestimated.
13. Additionally, SSE argued that the CMA's suggestion that intermediary arrangements removed the need to hold collateral was not correct. SSE argued that the CMA's assessment of capital employed using ROCE was flawed and underestimated the level of capital employed required for an efficient stand-alone supplier of scale. SSE also argued that the CMA needed a more robust measurement of the working capital requirement for an energy supplier, given the extreme volatility in the estimates of capital employed over time.

Benchmarking profitability

14. SSE argued that the CMA's profitability benchmarking relied on assumptions that an efficient supplier should be able to sustain an extremely large negative working capital when, in reality, a large positive balance was required. SSE also argued that the CMA had wrongly assumed that energy suppliers should have perfect foresight in the procurement of wholesale energy in volatile wholesale energy markets over the Relevant Period. SSE argued that the

CMA's assumption that suppliers should be able to reopen long-term agreements with generators, setting aside any contractual constraints at the point that those contracts became, even temporarily, less beneficial was neither realistic nor feasible in a commercial market.

15. On this final matter, SSE argued that the CMA had failed to present a coherent counterfactual argument which worked through the effect that this approach would have on the viability of long-term contracts and, in turn, on the economics of the investment in the development of generation. SSE said that without such long-term contracts, the effect on development could have led to higher wholesale prices and the CMA's analysis had not taken this into account.
16. SSE also disagreed with the CMA's approach of benchmarking 'efficient' profitability by drawing heavily on the lower quartile of energy costs achieved in each year and argued that no single supplier would have been able to meet this standard consistently over the Relevant Period. SSE noted that different purchasing strategies made up the lower quartile of energy costs in different years due to the unpredictable nature of the inherent risks and difficulties associated with purchasing energy in wholesale markets. SSE said that any benchmark price should not be based on the lower quartile outcomes over the Relevant Period but rather it should be based on a realistic benchmark strategy. SSE expressed concern that these counterfactuals had yet to be worked through. For example, SSE said that PPAs could not simply be assessed as to their efficiency in retrospect, as this ignored the fact that less generation plant capacity would have been available had these PPAs not been in place in the first place, and this would have other market consequences, such as higher wholesale prices.
17. SSE argued that if the CMA's ROCE approach and estimates were accepted, this implied that suppliers would make just £8 per customer account, which clearly could not be right. Once the errors they described were addressed, it was clear the average retail prices were competitive and supply profits were not excessive by any relevant benchmark.
18. SSE suggested that margin could be used as an alternative measure of profitability and did not disagree with the CMA's measurement of industry margin of 3.3%. SSE believed that it was very difficult to calculate a reliable ROCE measure and advised the CMA to look at a range of profitability benchmarks.
19. SSE argued that market comparators indicated that margin in the GB energy market should be above 3%. It said that the Northern Ireland allowed margin of 2.2% and the 1.5% margin in the GB market before its liberalisation were

lower than what might be expected in the non-regulated GB retail market. SSE said that in this market, risk was higher and so investors would demand higher margin in order to invest. Also SSE noted that the margin in the industrial and commercial (I&C) sector of the GB energy market was around 2% (and that there was lower risk for I&C customers). SSE deemed this margin to be below the bottom of the reasonable range for acceptable margin in the GB domestic retail market as the GB domestic retail market had greater risk.

20. SSE said a more comparable market was the retail market in New South Wales which allowed an EBIT (earnings before interest and tax) margin of 4.5%. However, SSE said that this benchmark margin was now being removed because there was a concern that it was set too low and would start to inhibit competition.
21. While SSE accepted there was no perfect profitability proxy for the UK, it argued that there was certainly a framework within which an appropriate approach to margins could be considered. SSE argued that the absence of a perfect proxy did not justify the CMA adopting a ROCE analysis which had no grounding in reality.
22. SSE agreed that testing efficiencies in supplier costs was a valid theory to test. However, it said that a large part of the 'overcharge' above the competitive level the CMA identified was driven by the CMA's flawed assumptions in relation to the capital base.
23. SSE had provided the CMA with estimates of what level of collateral and risk capital a stand-alone supplier of scale would need to hold and concluded that there was no evidence of either excessive profit through a ROCE analysis or any degree of overcharge for domestic customers in the efficiency analysis.
24. SSE was concerned that the CMA's flawed profitability work underpinned the CMA's assessment of customer detriment and, as a consequence would have an impact on the perceived proportionality of remedies.

Remedies

Remedy 1 – Introduction of a new standard condition to electricity generators', suppliers', interconnectors', transmission, and distribution licences to require that variable transmission losses are priced on the basis of location in order to achieve technical efficiency

25. SSE expressed concerns with this remedy. On balance, SSE felt that this remedy intuitively offered, at best, a very marginal benefit while creating

market disruption that might have consequences. SSE agreed with the CMA that cost-benefit analysis underpinning the remedy needed updating as the grid and the structure of generation dispatch had changed since the last cost-benefit analysis, evidenced by falling constraint costs. For this reason, SSE said that it was hard to comment on the merits of the remedy until this work was done.

26. SSE questioned whether locational pricing on losses would be prescribed on an annual basis and what that would mean in the high wind yield years and the low wind yield years. SSE said that if losses were prescribed on a more dynamic basis, this would introduce volatility into generators' cost structures and therefore a risk premium.
27. Also SSE felt that this remedy was not consistent with EU policy, which was driving to a more congruent and connected up EU market.

Remedy 2a – DECC to undertake and consult on a clear and thorough impact assessment before awarding any Contract for Difference (CfD) outside the CfD auction mechanism

Remedy 2b – DECC to undertake and consult on a clear and thorough assessment before allocating technologies between pots and the CfD budget to the different pots

28. SSE agreed that a clear, transparent and objective CfD process was good and noted that the current CfD process was clearly competitive. SSE noted that transparency around what lies behind customer bills was an important component of trust.
29. Regarding remedy 2b, SSE thought that the funding pots¹ as they stood made rational sense and it expected competition around those pots to be open.
30. SSE also noted that new technologies, which comprised one of the three pots, needed to be incentivised due to the level of capital and risk often involved in these projects.
31. SSE said that it would be unfortunate if remedy 2 delayed the CfD process.

¹ Government funding for low carbon electricity generators through the CfD mechanism was split between established renewable technologies, less established renewable technologies and biomass conversion, which comprised the three 'pots' of funding.

32. SSE recommended that the CMA may not be minded to prioritise this remedy as it may be overtaken by forthcoming Department of Energy & Climate Change (DECC) policy on the Low Carbon Fund.

Remedy 3 – Remove from domestic retail energy suppliers’ licences the ‘simpler choices’ component of the Retail Market Review rules

33. SSE noted that Retail Market Review (RMR) was well intentioned but resulted in fewer choices for customers and that engagement would typically decline when suppliers could not provide consumers with products that met their individual needs. Remedy 3 would not result in confusion of customers, as suppliers would still be required to treat customers fairly as part of the standards of conduct licence condition. SSE explained that treating customers fairly had been adopted at each level of its business and it outlined how this principle manifested itself in its communications with customers. SSE acknowledged that before the RMR, the multitude of tariffs was complex for customers and that if remedy 3 was implemented, different tariffs would need to be communicated in different ways to be simple for customers to understand. SSE also observed that it had recognised this in its own initiatives to address customers’ concerns prior to the formal introduction of the RMR changes.
34. SSE said this remedy could be achieved in a sensible time frame and had sent a detailed submission detailing how to deliver the remedy in practice.
35. SSE argued that remedy 3 would drive engagement and could achieve the overall aims of remedy 11 without the unintended consequences associated with remedy 11, which SSE did not support. Also SSE stressed the importance of simple communication and that, to this effect, said remedy 9 needed to work in tandem with remedy 3. SSE said that if there was still a burdensome level of communication on bills after the implementation of remedy 3, customers could disengage.
36. SSE noted that, while it could not speak for its competitors, it believed that the ‘treating customers fairly’ ethos would continue as it fitted with SSE’s culture. Also, Ofgem required suppliers to demonstrate how they had improved on a number of different fairness metrics.
37. SSE did not have any concerns with price comparison websites (PCWs) operating in a market where there were no restrictions on the number of tariffs as this was the case in the mobile phone tariffs, insurance and mortgages markets, and had no apparent negative consequences.

38. SSE said that PCWs must continue to be clear as to how they ranked tariffs and ensure that products were ranked objectively based on the right deal for the customer. SSE said this was achievable but that Ofgem's role in monitoring this was key. SSE supported transparency on commission rates, and PCWs signing up to codes of conduct and standards, in order to reinforce trust in the market.
39. SSE said that remedy 3 would allow the market to develop initiatives and tariffs to engage less engaged people, such as SSE's free broadband deal.

Remedy 4a – Measures to address barriers to switching by domestic customers

40. SSE supported measures that could improve the process of switching for customers and could reduce errors in the switching process, such as meter information problems. SSE said that with the phasing-in of smart meters, faster switching was completely justified, provided it was implemented in a way that was safe and kept erroneous transfers at low levels. SSE did not want fast switching to result in errors that caused customers to lose confidence in the switching process.

Remedy 4b – Removal of exemption for Centrica on two-year inspection of gas meters

41. SSE said that Centrica's derogation should exist across the whole supplier base for specific technologies that had proven to be safe for customers. SSE supported Ofgem's assessment of this area.

Remedy 5 – Requirement that energy firms prioritise the roll-out of smart meters to domestic customers who currently have a prepayment meter

42. SSE said that SMETS 2 (smart metering equipment technical specifications) meters could be rolled out to prepayment customers as part of the general smart meter roll-out plans as soon as the prepayment solution for SMETS 2 had been properly tested and deemed safe for customers. SSE said that it had factored this into its roll-out plans and intended to start smart meter roll-out under the SMETS 2 framework by October 2016 at the latest once the national systems were ready.
43. SSE said that it intended, where technicalities allowed, to offer prepayment customers the same deals as the generality of customers and that this would be facilitated by the removal of RMR restrictions, the proposed remedy 3.

44. SSE recognised that there were concerns that suppliers could install many SMETS 1 meters which were not interoperable and that this lack of interoperability would not give the right message to customers in terms of their ability to engage with the market, the smart meter programme and the potential benefits of smart meters. SSE said that it used SMETS 1 meters to test its new systems and processes.
45. SSE said that once the Data Communications Company (DCC) went live, SSE would start working on the solution to make any SMETS 1 meters installed interoperable. SSE said that the CMA had a role in supporting supplier pressure on DECC to get the DCC up and running and that this was where the CMA should intervene, if at all.

Remedy 6 – Ofgem to provide an independent price comparison service for domestic (and microbusiness) customers

46. SSE had no issue with Ofgem running an information service, subject to cost-benefit analysis. SSE questioned whether Citizens Advice might be better placed to deliver this as it had all-of-market coverage, not just the energy market. SSE said that the CMA needed to consider whether the proposed service aligned with Ofgem’s duties. Citizens Advice would have the advantage of perhaps appearing more citizen-focused but Ofgem had powers to request all the information that it could want and need from suppliers about prices. However, SSE said that it would have no problem working with and providing Citizens Advice with any information it requested. SSE said that as a general rule it would not argue with transparency of information in the market, provided it was accurate and not overly burdensome, which would push up costs for suppliers or customers.
47. SSE had no objection providing its business rates to Ofgem for publication on an information website. SSE currently offered its rates to third party intermediaries (TPIs). However, SSE noted that in the business market there were more complex pricing structures, tariff structures and regional variations which would make this process more difficult than in the domestic sector.
48. SSE noted the recent increase in TPIs and believed that the TPI experience was quite valuable. SSE expressed concern that an Ofgem PCW risked undermining the developing PCW market for microbusinesses more than would be the case in the domestic context.

Remedy 7 – Measures to reduce actual and perceived barriers to accessing and assessing information in the SME retail energy markets

49. SSE did not agree with the AEC underpinning this remedy. SSE said that different suppliers treated different types of businesses in different ways, and so suggested redefining the microbusiness market. SSE said that its definition of microbusinesses was much broader than the CMA's description (including all small and medium-sized enterprises (SMEs)) and did not distinguish between businesses by industry.
50. SSE argued that engagement was strong among SMEs with statistics implying that 40% of SMEs were actively switching. SSE said that the SME market was in a vibrant place compared to previously and was moving in the right direction.
51. SSE said that imperfect TPI behaviour was possibly what one might expect as the market was maturing and postulated that perhaps it was a matter of time and experience for this behaviour to improve. SSE supported the introduction of a code of conduct for TPIs and non-domestic PCWs, which it believed would strengthen engagement in the market.
52. On the issue of price transparency, SSE said that it gave TPIs complete matrices of prices which were updated fairly regularly and that TPIs provided a link between SSE and smaller businesses to get the best contracts for those customers. Also SSE said that it had an online portal to provide quotations to customers directly.

Remedy 8 – Introduction of a new requirement into the licences of retail energy suppliers that prohibits the inclusion of terms that permit the auto-rollover of microbusiness customers on to new contracts with a narrow window for switching supplier and/or tariff

53. SSE noted that the non-domestic market had been improving. SSE ended auto-rollovers in April 2014, and said that most, if not all, of the six large energy firms had done similarly. SSE said that its out-of-contract non-domestic customers either went onto a variable business rate (VBR) or a deemed rate. [✂]

Remedy 9 – Measures to provide either domestic and/or microbusiness customers with different or additional information to reduce actual or perceived barriers to accessing and assessing information

54. SSE supported remedy 9 as a way of allowing suppliers to communicate in an effective and appropriate way with customers, which could encourage

customers to read communications and engage with the market further. [✂]
SSE did not think it was the job of the regulator to dictate how suppliers talked to its customers, as the regulator lacked this expertise, and it would also adversely affect innovation.

55. SSE noted that, apart from bills, there were other communications such as end of fixed term contract letters and annual statements where suppliers were instructed to communicate to customers in a prescribed way and that there would be benefit in rolling back the regulation. SSE observed that as remedy 3 was focused on giving customers more choice and giving suppliers the ability to give customers that choice, so remedy 9 and the whole approach to customer communication should be customer-centric and focused on increasing choice.
56. SSE noted that some customers did like receiving some of the prescribed information on an annual basis, but emphasised that it was crucial that this was clearly and simply presented and easy to find. SSE cited the success of the recent DECC switching campaign which was effective because it communicated simply and at a very high level.
57. SSE said that when the current long, prescriptive bill was conceived, suppliers did not have standards of conduct, nor the obligation to treat customers fairly and communicate with them simply and clearly. SSE said that the duty to treat customers fairly should result in suppliers delivering simpler bills independent of regulation around bill format, and that should suppliers get complaints from customers because of a failure to do this, Ofgem had remedies and sanctions at its disposal to resolve this.
58. Regarding microbusiness customers, SSE thought that the existing regulatory mandate, which reminded customers when their contracts expired, was good for the market. SSE thought that requirements to nudge microbusiness were sufficient and did not require intervention.
59. SSE thought that remedy 9 could be implemented quickly if a principles-based approach was adopted where suppliers could be told the essential information that was required on customer bills (eg amount owed, meter reading) and that the responsibility should be left with suppliers to innovate bill design. SSE expressed concern with potentially asking regulatory working groups to devise bill design, as this could slow down the implementation of this remedy.

Remedy 10 – Measures to prompt customers on default tariffs to engage in the market

60. SSE questioned whether another nudge would help drive engagement, given that many such nudges already existed. It said that this needed to be customer-driven given feedback from customers that there was too much information. SSE reiterated that it disagreed with the CMA's identification of overarching weak customer engagement which led to the perceived need for this remedy. Also SSE disagreed with the assumption that SVTs were default tariffs and noted that [X] % of SSE's new customers between 2010 and 2013 had chosen an SVT, which showed that customers on SVTs were not an inert set of customers.
61. SSE also said that the introduction of remedy 3 would allow the development of new SVTs and extend the scope for competition in the area.

Remedy 11 – A transitional 'safeguard regulated tariff' for disengaged domestic and microbusiness customers

62. SSE disagreed with remedy 11, saying that it had no defensible basis in the CMA's profitability work nor did it have a basis in customers' responses to the CMA's customer survey. SSE agreed that things should be done to help vulnerable customers, and cited that it offered the biggest discounts for vulnerable customers prior to the Warm Home Discount. However, it said that helping vulnerable customers was not related to the effective operation of the energy market and that the safeguard tariff would distort the market.
63. SSE said that a safeguard tariff would have numerous practical difficulties and adverse unintended consequences. First, the implementation of the safeguard tariff would force suppliers simultaneously to do their hedging for customers rolled onto the safeguard tariff. This would create a bulge of demand into wholesale markets which could increase price excitability and volatility.
64. SSE argued that there were difficulties setting the tariff on a cost-plus basis, as many of what were conventionally thought of as 'pass-through' costs were variable. SSE said that network costs varied and that this was a commercial risk that SSE managed on behalf of customers. SSE argued that obligation costs also varied, such as Energy Company Obligation (ECO) costs. Finally SSE said that while indirect costs were, to some extent under supplier control, they were also subject to variation due to initiatives like the smart meter programme. SSE noted that Ofgem's Supply Market Indicator (SMI), which aimed to estimate future profitability, underestimated costs by an average of 2% of the total bill. SSE argued that if this was the level of error in setting the

safeguard tariff, the safeguard tariff could push some suppliers into being loss-making.

65. SSE believed that the safeguard tariff could restrict price competition in two ways. First, the safeguard tariff would reduce price dispersion in the market and because the potential savings would be lower, there would be less reason for customers to engage. Secondly, SSE said that bigger discounts were only sustainable on the basis that there was the norm of offering customers a fixed-term introductory offer, followed by an SVT. SSE said that if the SVT price level was reduced through a safeguard tariff, then bigger introductory discounts would become unsustainable, and so competition would be reduced in terms of what suppliers could sustainably offer. SSE was concerned that the safeguard tariff would threaten small suppliers.
66. SSE said that if the safeguard tariff was set unilaterally by an external agency, and was set too low, there was the danger of disenfranchising smaller customers because they potentially became unprofitable at the low end. SSE raised a number of other technical difficulties with setting the safeguard tariff. It noted that pricing was a detailed and complicated process in which suppliers tried to balance the risks that they faced and therefore was not best done by an outside agency.

Remedy 12a – Requirement to implement Project Nexus in a timely manner

67. SSE was of the view that Project Nexus was on a much sounder footing, following project management responsibilities being overseen by Ofgem. SSE expressed disappointment at the delay to Project Nexus and said that the lesson learned from Project Nexus was the need to have a body to provide strategic oversight. SSE said that there was no need for any additional remedy to deliver Project Nexus on schedule.

Remedy 12b – Introduction of a new licence condition on gas shippers to make monthly submissions of Annual Quantity updates mandatory

68. SSE believed that this remedy was unnecessary, as the implementation of Project Nexus would remove any incentive or ability for shippers to game the system. SSE also noted that this was an area which was very closely monitored, and Ofgem had powers to take action if any misbehaviour occurred.

Remedy 13 – Requirement that domestic and SME electricity suppliers and relevant network firms agree a binding plan for the introduction of a cost-effective option to use half-hourly consumption data in the settlement of domestic electricity meters

69. SSE was enthusiastic about moving towards the possibility of greater time-of-use signalling and opportunities for demand management generally rather than the possibility of half-hourly settlement specifically. SSE expected that time-of-use tariffs would blossom with the relaxation of RMR rules, long before half-hourly settlement was introduced. SSE had already developed a programme for profiles five to eight.
70. SSE said it was involved in the Ofgem Smarter Markets Programme, and that half-hourly settlement for the smaller group of profile classes was definitely on Ofgem's agenda. Therefore SSE did not think a remedy here was needed, especially in light of the proposals in remedy 18.

Remedy 14 – Remedy to improve the current regulatory framework for financial reporting

71. SSE believed that current financial reporting was fit for purpose and there was no evidence in the CMA's findings that there was an AEC supporting this remedy. SSE said the current consolidated segmental statement (CSS) gave the market adequate information, was being used actively and was functional.
72. SSE appreciated that, as a publically listed company, any information on margins generated interest and it would be prepared to include the trading function of wholesale costs in future CSS.
73. SSE would not object to the sharing of confidential information with Ofgem, provided it was not published and was appropriate information that helped debate.
74. SSE said that the volume of any additional information sharing should be proportionate and that the CMA should bear in mind that the preparation of additional information would require supplier resources.
75. The CMA asked whether there was any information that SSE could provide to reduce public concerns about the energy industry in the long-term. SSE felt that the public had access to all the information they needed including SSE's financial statements, prices and profits. SSE felt this provided a real evidence base that customers could use to make independent judgements. SSE said the financial predictions based on theory – like the Ofgem SMI – were not very helpful as they consistently misstated supplier profits and thus increased customer concern unnecessarily. SSE felt that customer concern over retail

profits could be reduced by presenting bills clearly and providing transparent information to customers about why costs had gone up or down.

Remedy 15 – More effective assessment of trade-offs between policy objectives and communication of impact of policies on prices and bills

76. SSE said that anything that could be done to make trade-offs between policy objectives clear to customers and to the market would be beneficial.

Remedy 16 – Revision of Ofgem’s statutory objectives and duties in order to increase its ability to promote effective competition

77. SSE was in favour of remedy 16.

Remedy 17 – Introduction of a formal mechanism through which disagreements between DECC and Ofgem over policy decision-making can be addressed transparently

Remedy 18a – Recommendation to DECC to make code administration and/or implementation of code changes a licensable activity

Remedy 18b – Granting Ofgem more powers to project-manage and/or control timetable of the process of developing and/or implementing code changes

Remedy 18c – Appointment of an independent code adjudicator to determine which code changes should be adopted in the case of dispute

78. SSE was broadly in agreement with the CMA’s findings and remedies regarding codes and code governance. SSE had submitted a detailed response to the CMA’s working paper that suggested what else could be done in this area. SSE said that it would welcome good project management in the industry. SSE suggested, further to the CMA’s proposals, streamlining the number of codes that existed and it was interested in having further debate on the topic.

79. SSE supported anything that improved clarity, transparency, authority and stability around bodies that scrutinised the market. SSE said that this could involve creating an independent body, as per remedy 18c. In principle, SSE supported remedy 17, which it felt would restore the credibility of Ofgem and would minimise the number of measures that could come from DECC that, to some extent, would undermine Ofgem. SSE said that if the process by which DECC and Ofgem addressed disagreements over policymaking was more assured, Ofgem could be left to administer remedy 15.