

## **SSE RETAIL/NPOWER ANTICIPATED MERGER INQUIRY**

### **Summary of hearing with Citizens Advice on 18 June 2018**

#### **Introduction**

1. Citizens Advice (CA) said that their main function was to advise customers to help them understand what their rights and obligations were and to engage with Government and Ofgem to ensure representation of energy customers' views in energy policy.
2. CA said that they had a unit known as the Extra Help Unit (EHU) which was a shared function with Citizens Advice Scotland (CAS). EHU worked as an intermediary between vulnerable customers and suppliers.

#### **Customer behaviour and switching**

3. CA explained that whilst energy customers state that they are principally driven by price in choosing their suppliers, in practice many customers switch between the big six large energy firms (SLEFs) or from small and mid-tier energy firms (SAMS) to the SLEFs. CA said that this may be attributable to brand-name recognition.
4. CA said that many customers feared bad customer service when contemplating switching to another energy supplier. CA explained that some price comparison websites initially showed a limited number of suppliers including the SLEFs. Further clicks were required to view a wider range of cheaper deals from SAMS.
5. CA suggested that customer engagement tended to increase with public price announcements made by the SLEFs, particularly where it involved price rises. This could be because of the bad press these resulted in, or prompted by letters from the SLEFs sent directly to their customers.
6. CA said that some customers who were from low-income households, in rural areas, disabled and elderly were less likely to have switched supplier.
7. CA explained that there may be regional differences in customer switching behaviour. CA said that customers in the north of Scotland may be more likely

to stay with SSE because of its reputation and role as regional network operator.

8. CA explained that because the majority of consumers were not interesting in switching, it would be very difficult for SAMs to reach the size of the SLEFs quickly. This would remain the case even if large entities with significant resources acquired SAMs.

### **Effects of the merger**

9. CA opined that the merger would not lead to a substantial lessening of competition as the merged entity's market share would not exceed 50% and there would only be one less SLEF in the market. One less SLEF meant fewer price announcements meaning fewer prompts for customers to engage, but the media and public lost interest in successive price announcements so a 6 to 5 merger effect would be unlikely to have a significant impact on media-led prompts to engage.
10. CA explained that customer service may be adversely affected due to the merger because historically migrations between IT and customer service systems have led to disruptions in customer service quality.

### **Standard variable tariffs (SVTs)**

11. CA explained that it was those customers who were on default standard variable tariffs (SVTs) who were likely to pay higher prices. Engaged customers were more likely to be able to switch to a cheaper fixed or acquisition tariff, making significant savings.

### **Prepayment price cap**

12. CA said that they did not recognise that prices for prepayment energy customers had converged at the prepayment price cap, although they had observed a limited spread in prices before the cap was introduced.

### **Ofgem's proposed price cap on SVTs**

13. CA viewed Ofgem's price cap as a mitigating factor against higher prices for disengaged customers who were least likely to switch suppliers.
14. CA said that it would still be difficult to incentivise customers to engage. But it noted that switching rates in Northern Ireland where price caps already apply remained similar to the rest of the UK. CA explained that removal of the price

cap may not have a significant impact on switching given how embedded customer disengagement is.

## **Smart meters**

15. CA said that the market is slowly transitioning to using smart meters. Generally, the customer experience with the meters had been positive. However, some problems with switching smoothly from one supplier while retaining functionality had been seen.
16. CA said that they were unsure whether smart meters will make any significant change in customer engagement.

## **Obligations on larger energy suppliers to provide particular discounts**

17. CA opined that the obligation on larger energy suppliers to provide particular discounts such as the Warm Home Discount discouraged switching. CA explained that customers receiving the discounts would not switch to SAMS as they would fear losing out on the discount even though the SAMS offered much cheaper rates that would allow even further savings.