

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

### **Summary of hearing with Citizens Advice Scotland on 15 June 2018**

#### **Introduction**

1. Citizens Advice Scotland (CAS) was represented by its Consumer Futures Unit (CFU) and Extra Help Unit (EHU).
2. The CFU had originally been part of Consumer Focus but had been transferred to CAS in 2014. It advocated on behalf of energy customers in Scotland by using research and evidence to represent consumers in the regulated industries (energy, water and postal sectors) in Scotland.
3. The EHU advocated on behalf of energy consumers in vulnerable positions across GB by investigating cases where there was a risk of a person being off supply and also assisted other vulnerable consumers. They also monitor individual suppliers to identify policy concerns, so these can be addressed, and promoted good practice.
4. CAS said it advised on approximately 38,000 energy related issues last year in Scotland.

#### **Customers in Scotland and switching**

5. CAS said customers in Scotland were more likely to suffer from fuel poverty than in other parts of the UK and were also less likely to switch to alternative energy suppliers. 12% of customers in Scotland had electric heating, and were more likely to be on higher dynamic teleswitching tariffs. CAS said customers in Scotland are typically thought to be more brand loyal. In the case of SSE, people were familiar with and like the brand Scottish Hydro. SSE was also well regarded for customer service.
6. CAS explained that customers who were less likely to switch could be under the impression that switching was a complex process. The EHU explained that almost half of the complaints they were currently investigating related to non-six large energy firms (SLEFs). Customers making these complaints may

feel using a larger supplier could be safer. Some consumers were also nervous of using suppliers who relied on online communication and service.

7. Evidence from a CAS online survey of 3,500 people in Scotland showed the most frequently given reasons for those who hadn't switched were "It is too much hassle" or, "I do not believe that I will save money". CAS said the survey showed for those who did switch, the reasons for switching were primarily financial - 71 per cent of people who said it was because they wanted to save money.
8. CAS said the survey found the customers of small and mid-tier firms (SAMs) were twice as likely as those of larger suppliers to have switched in the previous 6–12 months. Of those who switched, the three companies in Scotland who they were least likely to switch from were British Gas, ScottishPower and SSE. When asked whether they had ever thought about switching, those three companies also had the highest proportion of people who had not, suggesting they might have the least engaged consumers. Of those who had switched from these companies, many had switched to another SLEF. However, there was little switching directly between Npower and SSE.
9. CAS said sometimes customers are just not interested in engaging with the market at any level. For others, switching might be impeded in other ways. For example, there were a lot of alternative suppliers in the market all offering multiple tariffs. As a result, many customers, not just vulnerable ones, could feel felt a bit bamboozled by it, for example in taking a view on suppliers they had not heard of. The CAS survey had found some people were unaware they could switch - 10 per cent of people who were with ScottishPower and 9 per cent of people with SSE did not think that they had a choice of supplier.
10. CAS said according to the evidence it had seen, customer switching can be prompted by price rise announcements and media coverage of these.
11. CAS said that where customers were not engaged, particularly in relation to digital exclusion, there was value in face-to-face and telephone advice. CAS said that it had run campaigns such as Energy Best Deal, which had been successful in encouraging switching among vulnerable consumers. These campaigns typically involved having group and one-to-one sessions with energy customers to provide them with advice on the best energy schemes available to them and how to reduce their consumption. Bodies like Citizens Advice Scotland may be trusted where the energy suppliers are not.

## **Ofgem's disengaged customer database**

12. CAS said that Ofgem's plans to communicate information on savings via switching to disengaged customers using its database was potentially positive and it was waiting to see how successful the trials would be, although CAS did not want customers to be pestered. It thought the success in persuading people to switch may depend on whether the information came from energy suppliers or from Ofgem.
13. CAS said it was concerned however, that Ofgem would suggest alternative energy suppliers to customers solely based on price. This could lead to customers switching to suppliers who did not provide good levels of customer service.

## **Vulnerable customers**

14. CAS explained that it could be more troublesome for vulnerable customers to switch. For example, if they are currently receiving the Warm Home Discount , they might find it hard to find an alternative smaller supply who will also offer them this discount. CAS gave an example of one customer who had switched four times in anticipation of receiving the Warm Home Discount but on each occasion, had then found he was not considered eligible.
15. CAS said that SLEFs were better able to offer vulnerable customers lower tariffs and benefits.

## **Effects of the merger**

16. CAS explained that it was concerned about the merger because there was a risk that customers on default tariffs would shoulder the burden of additional payments should costs go up. SSE and Npower were the two companies to raise their SVT the most compared to other SLEFs in March 2018. This was especially a concern for the many customers in Scotland who were historically loyal to SSE, or on complex tariffs (eg dynamic teleswitching), and could end up paying higher SVTs.
17. CAS said its survey found only a small percentage of SSE customers switched to Npower and vice versa. 5.3% of those who had been with Npower switched to SSE, and 3.6% of those with SSE switched to Npower.
18. CAS explained that the anticipated merger could in theory bring some benefits to vulnerable customers by the two merging parties combining their resources to provide more advice on energy efficiency and how to reduce consumption, as well as other support which is currently only available on a regional basis.

Experience with billing migrations was an area of particular concern to CAS as there is evidence of these having led to serious disruption for consumers, although CAS hoped Npower will have already addressed any problems with their IT system.

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

19. CAS said it would broadly be in favour of Ofgem's proposed price cap, but its support was subject to ensuring there were no unintended consequences. CAS said since the implementation of the prepayment price cap, that some prepayment tariff rates had increased towards the cap level. This included examples where standing charges had increased penalising very low consumption customers.