Building a competitive, productive and sustainable UK economy, and an energy sector that works for customers

SSE proposals for the next UK Government, May 2017

About SSE

SSE is a UK-listed energy company focussed on the energy markets in the UK and Ireland. SSE’s core purpose is to provide the energy people need at home and in the workplace in a reliable and sustainable way. SSE has over 20,000 employees across the UK and Ireland, and independent estimates state it is the largest company by market capitalisation in the FTSE 100 whose revenues are derived solely from the UK and Ireland. It contributes around £9bn a year to UK GDP.

With the UK’s forthcoming exit from the European Union, this is a genuinely pivotal moment to shape a competitive, productive and sustainable future for the UK economy. SSE wants to work constructively with the incoming UK Government, and has plans to invest around £6bn in the UK between 2016 and 2020.

Below SSE outlines five recommendations to be pursued in the interests of energy customers and the country as a whole.

1. Put competition at the heart of the energy retail market to benefit consumers

SSE argues strongly for the next government to put competition at the heart of its plans for the energy retail market. We acknowledge the desire from political parties to intervene in the market to ensure it delivers value and greater fairness, and this interest is of course legitimate as energy is an essential service. That’s why we are committed to working with the government and regulator on proposals that will bring meaningful and sustainable benefits to customers, including actively trialling new ways of engaging with customers.

The energy market has recently been subject to a two year investigation by the Competition and Markets Authority which led to a considerable package of reforms. Following this suppliers implemented in April the price cap intervention for pre-payment meter customers. So a price cap could be introduced; our concern is whether it should be.

SSE would caution that the energy retail market is currently intensely competitive and, whilst switching is not the only barometer of a dynamic market, switching levels compare favourably to comparable markets such as mobile phones or insurance. There are over 50 suppliers, a diverse range of products on the market and major investment is under way in areas such as faster switching times and smart metering which, if rolled-out in a practical way that is cost-effective and efficient, should in themselves bring demonstrable changes to customers’ experience and engagement in the market.

Intervention in this market – particularly in respect of prices – requires a clear objective with broad support, careful consultation on both the principles and the detail and, if introduced, should be time-limited and subject to regular reviews to reflect market realities, such as wholesale costs and the charges of various social and environmental policies funded through energy bills. Without these four features we caution against the unintended consequences of intervention and the impacts on switching, competition and the range of products and extent of value available to customers.

2. Ensure a cost-effective transition to a low-carbon economy by committing to a stable and robust carbon price in the 2020s

The UK has had remarkable success in decarbonising its power sector, whilst maintaining reliable supplies of energy to homes and businesses. A factor in achieving this success has been the UK’s Carbon Price Floor (CPF). SSE has consistently argued putting a price on carbon emissions is a critical part of the UK’s energy policy – and global leadership on carbon pricing is something investors strongly applaud. The CPF has been central to the major transformation in the UK’s energy mix and the reduced reliance on coal-fired power stations. It also cost-efficiently drives decarbonisation by rewarding those who invest in low-carbon power and encouraging electricity generators to switch away from coal to lower carbon alternatives, such as gas which will play a critical role in the UK’s generation mix in the 2020s.

The UK requires a low-cost decarbonisation strategy and the weight of evidence points to a critical continuing role for a robust and stable carbon price.
3. **Build on Britain’s global leadership in the wind sector by putting it at the centre of a modern industrial strategy**

The wind sector is a British success story and an example of government and industry working together to achieve a shared objective. Going forward investment will be driven by government policy and a clear steer on the level of ambition. Contracts for Difference (CfDs) have been an effective tool in signalling intent to investors and creating a competitive, and cost-efficient, market process. SSE supports the continuation of this mechanism for offshore wind to provide stability to the sector and significantly reduce the costs of this technology still further. It could be the route to unlock major investments, such as the Dogger Bank offshore wind farm off the Yorkshire coast.

The next stage of the UK’s leadership in the global renewables sector should consider the future of onshore wind. As the cheapest low-carbon source of electricity – and a technology that recent research suggests may be possible to deliver at no additional cost to consumers over and above the long term wholesale price of power – onshore wind has a major role in our future energy mix. Future considerations can include how to best ensure the UK takes advantage of the optimum wind conditions on the Scottish islands; pursuing new projects that take advantage of the significant cost reductions in the technology; the role of community and shared ownership in wind; and how the 9.9GW of existing onshore wind sites could be ‘repowered’ as they approach the end of their operational project life.

4. **Support the network charging infrastructure to facilitate electric vehicles**

Significant progress has been made in decarbonising the GB power sector, working to a 2050 target of reducing UK carbon emissions by at least 80% below 1990 levels, with 2016 emissions from power stations already down over 61% on 1990, according to BEIS figures. However, similar low-carbon progress has not been made in the transport sector.

It is encouraging that uptake in Ultra-Low Emission Vehicles is increasing and, as with wind, this sector can be a major player in the UK’s industrial strategy. If EVs take off on mass-scale we should be mindful, however, of how our electricity distribution network will adapt. It will require investment to accommodate the charging infrastructure, and at the same time additional generation capacity may be required to enable DNOs to balance demand peaks. Therefore, the next government should continue to commit to EVs and work with the industry to develop a strategic roadmap to manage an EV charging network cost-effectively and efficiently. Distribution companies are at the forefront of this. They operate ‘on the ground’ in their communities and customers’ interests are served in their evolution to be innovative system operators of smarter networks.

5. **Improve tax transparency and ensure businesses play fair with tax**

Business will benefit from a concerted effort by government to boost the UK economy through an industrial strategy. The quid pro quo for business is to play fairly by the rules. This particularly applies to corporate tax avoidance which is the principal public concern about business behaviour and an area in which companies must act within the spirit as well as the letter of tax law. Paying the right tax, in the right way at the right time is a business’ duty to the society it operates in and depends upon.

That’s why improving the communication and transparency of its tax affairs has been important to SSE. We’ve been awarded the Fair Tax Mark for three years in a row – an independent accreditation for tax transparency – setting a positive example for others and we publish a country-by-country breakdown of our tax affairs. In 2016 SSE was commended as “one of the most transparent companies in the UK when it comes to tax” by the Fair Tax Mark. Government should consider how to encourage and reward tax transparency for all businesses, including country-by-country reporting of businesses’ tax affairs.