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Dear Faye,

SSE Retail / npower merger inquiry

We are responding to your request for any evidence about competition issues that may be relevant to your consideration of the proposed merger between SSE's retail arm and npower. This submission is entirely non-confidential and may be published on your website.

We would like the CMA's consideration of the proposed merger to pay special attention to two issues:

- Any potential for adverse consequences on competition resulting from increased concentration in the Standard Variable Tariff ('SVT') market at national level
- Any potential for adverse consequences on competition in two specific regions, North Scotland and South Wales, where the merged supplier may be particularly dominant

National issue: increased concentration of SVT market

The 2014 to 2016 CMA investigation into the GB retail electricity and gas markets found that these were failing customers, who were collectively paying an average of £1.4bn/year more than they would if markets were effectively functioning. In particular, the CMA noted that 'the Six Large Energy Firms enjoy a position of unilateral market power over their inactive customer base and have the ability to exploit such a position through pricing their standard variable tariffs materially above a level that can be justified by cost differences from their non-standard tariffs.'[1] The proposed merger involves two of those six suppliers.

The new company created out of the merger of these two suppliers would become Britain's largest electricity supplier, with 24% of the market, and its second largest gas supplier, with 19% of the market, based on proportion of all customers supplied.

[1] Para 158, 'Energy market investigation: final report,' CMA, 24 June 2016.

Figure 1 Domestic electricity supply by market share, Q3 2017[2]

SSE	npower	British Gas	EDF	E.on	SP	Others
14%	10%	21%	12%	13%	10%	20%
24%						

Figure 2 Domestic gas supply by market share, Q3 2017[3]

SSE	npower	British Gas	EDF	E.on	SP	Others
11%	8%	32%	9%	11%	9%	20%
19%						

Within the SVT market, which the CMA's energy market study found to be particularly problematic, the combined market share of the new entity will be higher.

Ofgem publishes information for the largest ten suppliers breaking down the number of their non-PPM customers who are on SVTs compared to other tariffs.[4] [5]

The data suggests that of the 13.23 million SVT customer accounts held by those ten suppliers in January 2018, that 3.56 million - 26.9% - were served by either SSE or npower.

Given the previous findings of the CMA of unilateral market power held by the six largest suppliers over their inactive customer base, we would welcome it giving consideration to whether that situation would be materially affected by the merger of two of those suppliers.

Regional issue: North Scotland and South Wales

The six largest energy suppliers emerged out of former regional monopolies (with the exception of British Gas, which had a national monopoly). As a consequence,

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[2] 'Electricity supply market share by company: domestic (GB),' Ofgem. https://tinyurl.com/yd6curfg
[3] 'Gas supply market share by company: domestic (GB),' Ofgem. https://tinyurl.com/ydb8w878
[4] 'Number of non-PPM domestic customer accounts by supplier: standard variable, fixed and other tariffs (GB),' Ofgem. https://tinyurl.com/y8ywd7wa
[5] Information on the number of SVT customers held by the other suppliers who account for the remaining ~10% of households is, to the best of our knowledge, unpublished, but we think it is unlikely to significantly dilute any SVT market share figure derived from it because most small suppliers are new entrants who have few SVT customers (SVT is rarely if ever an acquisition product).

their market share in regions where they are the former incumbent exceed their national market share.

The CMA's energy market investigation found that 'in relation to electricity, there are two regions – North Scotland and South Wales – where the incumbent (in both cases, SSE) has a market share of 50% or more.'[6] In one of these, North Scotland, SSE's market share exceeded 60%.[7] It calculated that in January 2015, the HHI of the North Scotland and South Wales regions in electricity supply were 4,301 and 3,049 respectively.[8] Economists would usually consider a score in excess of 2,500 as indicating a highly concentrated market.

The investigation did not state how large npower's market share was in those two regions, and we therefore cannot gauge how much larger the combined market share in those regions resulting from the proposed merger might be. The data relates to 2015, and may therefore have evolved. But given SSE's pre-existing majority market share in those regions it appears likely the new player may be in a position of dominance. We would like you to consider whether this may have an adverse effect on retail supply competition in those regions.

Other observations

While we would like the CMA to consider the above matters as part of its considerations of the proposed merger, we would like to be clear that we are not formally objecting to it, simply seeking assurance that these matters will be considered as part of the CMA's process.

In the last week, it has been announced that E.on and Innogy (the owner of npower) intend to enter into asset swaps that would result in the retail arms of both coming under common ownership. This may imply that the ultimate outcome of both transactions is that E.on, SSE and npower's GB retail arms come under common ownership. We think such a merger will raise similar competition issues, although their implications may be more significant given the much larger scale of the new company. We will separately respond to the call for evidence on that merger after it is formally announced.

[6] Paragraph 8.158, 'Energy market investigation: final report,' CMA, 24 June 2016.
[7] See Figure 8.1, 'Energy market investigation: final report,' CMA, 24 June 2016.
[8] See para 8.325, 'Energy market investigation: final report,' CMA, 24 June 2016.

Yours sincerely

Rich Hall

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