

Questions and answers
with the SSE Executive Team

Answering key questions

SSE has two Executive Directors: Alistair Phillips-Davies, who became Chief Executive in July 2013; and Gregor Alexander, Finance Director. Alistair and Gregor both joined the Board of SSE in 2002. Here they answer some of the key questions facing both SSE and the energy industry now and in the future.



The 2013/14 financial year ended with Ofgem announcing that the energy market in Great Britain should be investigated by the CMA. Why have things got to this stage?

Alistair: We think the energy market is competitive and has brought significant benefits for customers. We also think we've done a lot in recent years to make it more transparent and easier to understand. That said, standards have fallen short in some areas and key features of the market have become politically contentious and subject to significant change designed to achieve a mixture of objectives. With all of that going on, we think the CMA now looks like the best way of achieving a new, lasting settlement on the energy market that commands broad regulatory, political and public support.

Energy has barely been out of the headlines over the past year and some of that is down to the profits being made by companies like SSE. How do you persuade people that SSE's £1.55bn adjusted profit before tax* is fair?

Alistair: Profit is contentious – and has become more so as the aftermath of the 2008 recession has put a squeeze on people's living standards. At the same time, Great Britain and Ireland need successful energy companies to secure the energy and provide the services that people need. Profit enables us to do that – but we recognise that profit needs to be earned, not made, and needs to be earned in the right way. That's why we're committed to achieving high standards in everything we do, especially in what we do directly for customers. In that way, we believe that people will recognise the profit we earn across all of our businesses as fair and reasonable.

Profit is one measure of financial performance, but which one really matters to SSE?

Gregor: Earnings per share, on the adjusted basis we use. We've always said we look at EPS to monitor financial performance over the medium term and it's the fairest measure because it defines the amount of profit after tax that has been earned for each ordinary share in the company. The 4.1% increase in EPS in 2013/14 was a solid result in a challenging year.

You said in March 2013 that increases in earnings per share are subject to greater risk in 2015/16 and 2016/17. Why is that the case?

Gregor: Difficult market conditions in thermal generation, possible legislation on freezing retail energy prices, the electricity distribution price control process and other regulatory, political and constitutional developments could all have an impact. On a more positive note, our balanced range of businesses means we're not over-exposed to any single risk and the action we're taking through our value programme to simplify the business through disposals and secure operational efficiencies means we're in good shape to withstand some of the difficult challenges we could face.



Watch the video

Alistair and Gregor talk about SSE's full-year results.
www.vimeo.com/sseplc

With all of those challenges, why is SSE so strongly committed to the dividend?

Gregor: It's a matter of fairness. Shareholders have either invested directly in SSE or, as owners of the company, enabled it to borrow money from debt investors. That's allowed investment in things like power stations and electricity networks that help provide the energy people need. In return for this, we pay shareholders dividends – and although dividend growth will be slower in the future than it has been in the past, we're still strongly focused on delivering annual increases that at least match RPI inflation in the next few years.

SSE has announced its own energy price freeze in Great Britain through to 2016, saying it was worried about the impact of bills on households under financial pressure. Has affordability now 'trumped' climate change in the energy 'trilemma'?

Alistair: As the term implies, the 'trilemma' is about three issues – security of supply, decarbonisation and affordability. Our decision-making, in both operations and investment, aims to reflect all three of these issues. That means, for example, that while we strongly support action to address climate change, we also think such action should not make energy unaffordable for the most vulnerable electricity and gas customers. That's why we believe social and environmental policies should be funded by the tax-payer, not the bill-payer. As far as climate change is concerned, SSE has put its money where its mouth is, spending around £3bn on hydro electric schemes and wind farms in the last five years alone.

The third part of the 'trilemma' is security of supply. Should people be worried that the lights might go out?

Alistair: Security of supply should never be taken for granted and Ofgem has said for some time that electricity generation capacity margins will be lower than they were in recent years due to difficult market conditions and EU regulations closing down older plant. The Energy Act 2013, which enjoyed broad support across the political spectrum, effectively gives the UK Department of Energy and Climate Change clear responsibilities and tools for security of supply, including the creation of a mechanism to support generating capacity. We'll play our part by working with DECC and National Grid and by making sure our generation plant, where practicable, is available to produce electricity when demand is highest.

The lights did go out for many of SSE's electricity network customers following the spells of bad weather in the autumn and winter. How do you feel about some of the criticisms that network companies have come under?

Alistair: I think constructive criticism is helpful, because we want to make sure that our ability to handle the consequences of bad weather gets better and better each year. That's why

we launched our own consultation in January, looking for views on what else we can do to meet and exceed customers' expectations when power supplies are lost. Until recently, networks have had a relatively low profile, and despite the difficulties of last winter, power cuts have fallen by 30% and network costs have fallen by 60% since electricity privatisation. That's a good record, but the experience of last winter shows why we need to build on it.

SSE also came under heavy criticism at the start of the 2013/14 year after being fined by Ofgem for the way it had gone about selling electricity and gas. Do you think that damage has been put right?

Alistair: As we said a year ago, the test of whether an organisation can live up to the standards expected of it is in making sure that mistakes are put right and not repeated. In terms of putting the mistakes in sales right, we applied our sales guarantee all the way back to 2008, making payments totalling around £3m to customers who may have lost out through switching their electricity and gas supply to us. In terms of not repeating the mistakes, we've totally changed our approach to sales and the processes underpinning it. We also have a new management team in this area, and I am confident we have done, and are doing, the right things with regard to sales.

To what extent should investors be worried by political and regulatory interventions and uncertainties in the GB and Ireland markets?

Gregor: Electricity and gas are privatised industries and so political and regulatory interventions have always been, and will always be, a fact of life. Part of the way we manage that risk is by having a clearly-defined market focus, concentrating on the UK and Ireland. We also try to be constructive in all of our dealings with governments, politicians and regulators – just as we have a job to do, so do they. On the whole, I think political and regulatory decision-making in the UK and Ireland has been better than elsewhere in Europe but the extent of the intervention has been increasing and, as Alistair said, the CMA study should provide a good opportunity to achieve a new, lasting settlement on the energy market in GB.

The energy market in GB may change if there is a 'Yes' vote in the Scottish referendum. How does SSE feel about that?

Gregor: Our position on this has been clear since shortly after the last Scottish Parliamentary elections. We strongly believe that constitutional arrangements are matters for voters, and so remain neutral on the question. A 'Yes' vote would clearly lead to the governments for an independent Scottish state and a remaining UK undertaking extensive negotiations on arrangements for the energy sector and everything else. We've said before that this could result in changes to the single electricity

market in GB. We've put in place arrangements to make sure we take account of this uncertainty in our decision-making and have a clear view of the issues that would arise should there be a 'Yes' vote. Whatever the outcome of the referendum, we'll continue to work constructively with the Scottish and UK governments, with the aim of making sure that we continue to meet the needs of customers and of investors in the energy industry.

In addition to managing political and regulatory uncertainties, what are SSE's key priorities for 2014/15?

Alistair: The safety of everyone who works for or with SSE, and of the people who come into contact with SSE, has to be our top priority. We made good progress last year, with a lower 'Total Recordable Injury Rate'. Behind jargon like that, however, is a list of people who got hurt in the course of their working day and until that stops happening I won't be satisfied. Injury-free working has to be our goal. Beyond that, we need to make sure that the quality of service we deliver to our retail and networks customers is of the highest possible standard at a time when their expectations of companies like SSE are, quite rightly, increasing significantly.

You said in March 2014 that you expect adjusted earnings per share in 2014/15 to be around or slightly greater than that in 2013/14. Are you confident that you can deliver this?

Gregor: Confident, yes; but certain, no. As always, there are many things that could affect EPS during the course of a year, from general market conditions and how much electricity we generate from renewable sources to how much energy customers need to use. At the same time, we have a good, balanced range of businesses and assets and our renewed focus on simplifying and streamlining the business should help us deliver solid results in the 2014/15 financial year.

After almost a year in the job of Chief Executive, how do you see the next few years shaping up for SSE?

Alistair: I took on this job knowing there would be big operational, investment, political and regulatory issues to deal with but knowing also that the company has strong values, a well-defined strategy, a straightforward financial objective and an excellent team of employees. We've been building on that, with initiatives for customers, like our price freeze in GB, re-defined investment plans and a focus on what is really central to our purpose of providing energy to customers. I think this puts us in the best possible position to deliver for customers and for investors in the years ahead.