

P272 Regulatory Impact Assessment – SSE Response

Appendix 1 – Consultation Questions

Question 1: Do you agree with our approach to assessing the impacts of P272?

SSE do not disagree with the overall approach to the impact assessment, both principles and findings, but have some specific points of concern that are highlighted in the answers to subsequent questions. We would also observe that the range of potential outcomes remains very wide and uncertain and could be much improved by addressing associated structural issues in the market.

In principle SSE agree that mandating the use of half-hourly data in Settlement will realise industry and consumer benefits that outweigh costs, particularly when considered as part of a wider package of policy reform.

In practice, however, we remain concerned that structural issues within the market associated with the lack of appropriate DUoS tariffs and an inability to aggregate data for billing purposes remain unresolved and create a barrier to delivering the full benefits perceived. The lack of a co-ordinated package, at least initially, will dampen the uptake of assumed market innovations and responses, thus reducing benefits. It will also result in considerably greater administrative cost than is necessary or efficient, as DNOs are forced to bill Use of System costs on a site specific basis for all PC 5-8 consumers and Suppliers are forced to handle and process a much larger number of bills than seems necessary. It is uncertain whether the assessment has wholly captured the additional cost.

It is our understanding that whilst it is hoped that DUoS tariff issues and an appropriate means of aggregating data for billing purposes are resolved to coincide with the implementation of P272, Ofgem's impact assessment and draft decision is not predicated on this. We also understand that Ofgem take the view that P272 will correct a cross-subsidy that domestic consumers are currently paying for within profiling.

As noted by the IA, all PC 5-8 consumers would have to be billed on a site specific basis under the current DUoS tariff structure. It should be clearly understood that this will necessitate all such consumers to have site specific charge items applied, in particular items such as Available Capacity charges, including whole current metered customers. This would seem to result in an overcharge for some consumers (particularly whole current metered), who have paid for a less secure supply, cross-subsidising CT metered consumers' use of system charges. It is not clear from the analysis which cross-subsidy is deemed to be greater or how such consumers might be targeted and reimbursed for any DNO over-recovery.

SSE would urge Ofgem also to be very clear in its final policy decision to spell out the implied increase in costs for these groups of consumers and set out the

rationale for the increase, in order to enable Suppliers to be able to respond to the inevitable questions that will follow with regard to price rises.

Question 2: Are there any additional, material impacts that we should consider?

Please see Question 1 above.

Question 3: Do you agree that P272 would drive suppliers to encourage DSR among their customers?

SSE believe that P272 will certainly act as an enabler to facilitate DSR. We do not agree that it will in itself drive Suppliers to encourage DSR amongst customers. Take up of DSR will be driven by the consumer buying into the concept and seeing value in the commercial structures developed to sell the product. Half-hourly data better supports the development of viable commercial structures by Suppliers and/or emerging DSR actors in the market. But ultimately if suitable value cannot be created for both consumers and DSR Suppliers/Aggregators through price differentials, then the product will not sell. Current DUoS tariff structures, unless reformed in tandem with this change, will limit the market's ability to develop an effective proposition for large numbers of these customers.

Furthermore the consumer group targeted by this proposal (PCs 5-8), are a relatively small part of the market both in terms of numbers of customers and proportion of energy consumed. Each end point consumer will offer smaller returns relative to the current DSR market, and a much more limited change in usage patterns. It is very uncertain therefore whether the DSR benefits assumed by the model will materialise in actuality.

Question 4: Do you agree with our approach for quantifying the value of load shifting and load reduction, including the assumptions we made? Is there any evidence we have not identified that could inform our analysis?

Please see Question 3 above. We are unconvinced that the perceived level of volume and benefit will in fact materialise as it is a small part of the market and returns will be far less substantial than the current DSR market.

Question 5: For those impacts stemming from suppliers reducing the costs of supplying energy (for example, by promoting DSR) that we did not quantify, do you have any suggestions on how we might do so?

SSE have no obvious quantification techniques to suggest other than to encourage Ofgem to ensure that the experience of international markets have been referred to, considered and accommodated.

Question 6: Do you agree with our approach to quantifying the value of improved forecasting, including the assumptions we made?

Broadly the approach seems reasonable, although it should be noted that an increase in short-term response would make forecasting more unpredictable. But it is assumed that the impact of this unpredictability should be dealt with through energy balancing arrangements, e.g. through an equivalent ABSVD term for Suppliers within imbalance cost calculations.

Question 7: Could the costs of investing in forecasting capability for HH demand impact disproportionately on smaller suppliers or on new entrants?

Theoretically, if smaller Suppliers have no resources to invest in improved HH forecasting, then they may not be able to realise benefits. However, whilst small suppliers are likely to need to further invest to improve, it is still in itself likely to be a small component part of overall costs to serve, and it is beneficial for overall system balancing efficiency to encourage all Suppliers to forecast as accurately as possible. We do not consider therefore that the impact is likely to be disproportionate.

Question 8: Do you agree that we have correctly identified the cost savings that suppliers could realise in managing the settlement process?

Whilst the IA is keen to highlight the potential for HH agent costs to decrease, the differential between NHH and HH agent costs could negate this saving. Not all NHH agency costs are likely to reduce with a decreasing customer base and therefore whilst HH costs per consumer may reduce, NHH costs per consumer may rise. Sites moving from NHH to HH could potentially incur increased costs, even for "HH light" customers. The costs and benefits do not appear to have been separated clearly enough in the IA to understand whether this has been properly assessed.

It may also be incorrect to assume that HH costs will reduce to a great extent. It would be true to say that "HH light" agency costs should reduce when compared to full HH costs, as the obligations will be different. However, they are still likely to be greater than AMR only/NHH costs, thus increasing the cost to PC 5-8 consumers. The extent to which full HH costs can reduce for >100kW consumers will depend upon the ability to share common systems, processes and obligations between HH full and HH light and thus spread those costs across a wider customer population.

Additionally, we are not sure that the assessment identifies and assesses additional performance assurance costs (or possibly benefits) that are likely to

arise in managing a HH site compared to managing a NHH site. It would be helpful for the IA to clarify what assumptions have been used in this respect.

Question 9: Do you agree with our assumption regarding the typical size of data quality teams employed by suppliers?

SSE are uncertain that the reduction of FTEs in NHH data quality teams has been fully offset by the increase in FTEs to deal with HH processes. We can see that the IA has made some allowance but are unsure that it is sufficient. For example, increased HH sites will result in increased dial failures to deal with and back-up meter reading processes to deploy; increased granularity of data will result in greater scrutiny of consumption by consumers, Suppliers and DNOs and will increase customer service and dispute resolution interaction with both consumer and settlement arrangements; increased granularity and number of HH sites is likely to increase the costs of administering and delivering the performance assurance framework. It is not inconceivable that FTE could increase overall.

Question 10: Do you agree that meters of consumers in Profile Classes 5-8 are mostly read at the end of each month?

Most Profile Class 5-8 consumers are read following the month end, i.e. at the start of the following month, in the first few days after the end of the period intended to be billed. We assume that Ofgem intended this in their question, but clarify here for certainty.

However, read cycles are and will continue to be driven by customer needs. As such, there are large portfolio customers that prefer to stagger the reading profile of the sites to reduce their administrative burden in managing invoices from and payments to Suppliers.

Question 11: Do you agree with our approach to quantifying the costs of P272 for suppliers and DNOs? If not, we encourage respondents to suggest alternative approaches.

Broadly, the approach seems reasonable.

SSE believe that some allowance should be made within modelling for an increased cost in managing the customer experience. More granular data will generally create a greater level of interaction with the customer, as the customer becomes more familiar with their own usage patterns and more curious about options to manage their energy costs. This is to be welcomed, but will result in a greater cost to serve as additional resource is required to manage these increased interactions.

Additionally, we are not sure that the assessment identifies and assesses additional performance assurance costs (or possibly benefits) that are likely to arise in managing a HH site compared to managing a NHH site. It would be helpful for the IA to clarify what assumptions have been used in this respect.

Question 12: We welcome evidence from smaller suppliers of larger non-domestic consumers on the costs they could incur if P272 is implemented.

No comment.

Question 13: We welcome information from suppliers on (1) how many consumers would need to move electively for them to incur upfront costs and (2) the costs that would be incurred, broken down by the cost categories listed in this chapter.

No comment.

Question 14: Would consumers incur costs from termination of contracts with Supplier Agents? If so, we welcome information that could help us to assess these costs.

SSE consider it likely that some consumers will bear some direct cost as a result of contract termination, but as we are not a party to contracts between consumers and Agents we are not in a position to provide any meaningful quantitative assessment. This is a matter that should be taken up with consumers directly.

Question 15: Do you have any comments on the results of our quantitative analysis?

There is a large span around the results of the modelling, with an average close to 0. Therefore whilst the model and simulation appears to be robust, it seems to reinforce the conclusions drawn by the BSC Panel that the potential outcome is highly uncertain.

Formulating a package of policy reform that mandates HH settlement, addresses structural DUoS tariff issues and facilitates aggregation of data to support efficient billing would in SSE's view reduce a number of the cost drivers associated with the change, result in a better range of potential outcomes and greatly improve the cost/benefit case for consumers.

Question 16: If P272 is approved, would it be possible to implement the modification in less than fourteen months?

No. The scale of the change is too significant to accelerate the timescale, particularly when viewed in the context of an unprecedented level of reform and change currently ongoing within the industry.

SSE are also concerned that there will be insufficient time to evenly and sensibly migrate customers from non-mandatory to mandatory arrangements with the "big bang" implementation date of 1st April 2015 proposed. The P272 change in isolation could reasonably be planned for in advance. However the whole scope of the suite of change required is as yet uncertain because DUoS tariff change proposals remain ongoing, but aim to be implemented in line with P272 on 1st April 2015. This uncertainty, unless addressed sufficiently early, will almost certainly result in either nugatory cost that has not been factored into the IA model or introduce risk of error as too much change is required for too many customers in too short a space of time. A co-ordinated decision for P272, DUoS tariff changes and any appropriate modification to support aggregated billing for appropriate customers would be highly beneficial, increasing certainty of benefit and decreasing risk of error.