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Dear Bart,

Consultation – Smart prepayment for a smarter market: our proposals

Thank you for providing SSE with the opportunity to respond to the above consultation. This response is on behalf of SSE Energy Supply Ltd and Southern Electric Gas Ltd.

SSE supports Ofgem's focus on smart prepayment as a key area of its Consumer Empowerment and Protection project. SSE is keen that all customers, including those who prepay for their energy, are able to fully enjoy the convenience and options which smart metering can bring.

Broadly, Ofgem's proposed changes and areas for action seem sensible. SSE does however seek additional clarity and guidance on the proposed changes to regulatory reporting. SSE welcomes Ofgem's pragmatic approach to identifying areas where existing regulatory arrangements, consumer protection and incentives on suppliers remain appropriate.

SSE is keen to engage further with Ofgem directly and through industry discussion to ensure that industry arrives at the optimum outcome for smart prepayment customers.

SSE's responses to the specific questions asked are set out in **Annex 1**. This response is **non-confidential**.

If you would like to discuss further anything within this response, then please do not hesitate to get in contact with me.

Yours sincerely,

Fiona Casey
Regulation, Markets

CONFIDENTIAL

ANNEX 1: SSE response to Smart prepayment for a smarter market: our proposals

Chapter: Two

Question 1: Do you agree with our assessment of the Change of Supplier solution as developed by industry, including in terms of its potential unintended consequences and its applicability to all smart meters irrespective of consumer type (domestic and non-domestic)? If not, please:

- **explain why**
- **put forward suggested alternative(s) to this solution**
- **if relevant, suggest and explain any other action we should take**

SSE agrees with Ofgem's assessment of the Change of Supplier (CoS) solution for prepayment meter (PPM) customers. SSE recognises that the solution, developed by industry and DECC, has been determined as the most fail-safe solution, but that there are potential unintended consequences. SSE notes that Ofgem has not pursued how to manage these unintended consequences; SSE agrees that this is an area for further industry discussion under various fora (including Energy UK groups and the Electricity Prepayment Forum – Smart Metering Subgroup).

To ensure that customers receive a reliable, robust and positive CoS outcome it is important that all suppliers adopt the same solution. To this end SSE supports the use of industry governance (in the MRA and SPAA) to achieve this aim. Without standardisation across the industry, suppliers could use different solutions which are incompatible with one another, potentially resulting in a detrimental customer outcome.

Industry discussion, under Energy UK, has discussed how to handle CoS scenarios where technical problems arise. Further discussion is required in order to finalise the arrangements for resolving these situations. SSE supports the use of standardised solutions which are set out in industry governance.

SSE notes the HSE's recommendation that a site visit is carried out prior to switching a gas smart meter from credit to prepayment mode. SSE takes its responsibilities towards safety very seriously, thus understands the concerns. However, SSE considers that a requirement to carry out a site visit undermines a key benefit of smart metering and will cause unnecessary inconvenience for customers. SSE is keen that an alternative solution, which takes account of any safety concerns but which still allows customers to benefit fully from smart, is agreed upon. SSE is supportive of the technical valve solution (the requirement for gas smart meters to detect uncontrolled gas flow when the supply is enabled following a gas valve closure). SSE is hopeful that this solution will address the HSE's concerns and will receive support in ongoing discussions.

Question 2: Do you agree with our proposal to monitor suppliers' offerings of key smart prepayment functionalities through our Social Obligations Reporting? If not, please:

- explain why
- suggest and explain any alternative(s)

SSE understands the rationale behind Ofgem’s proposals to revise the SOR to include additional reporting on smart PPM functionalities. SSE is keen to work with Ofgem to reach the optimal changes to the reporting requirements. SSE notes the importance of agreeing final changes and guidance well in advance of the reporting start date.

Question 3: Do you agree with our proposed data points for inclusion in the SOR (on the availability of key smart prepayment functionalities), the frequency with which we propose to collect them, and the starting point for collecting them? If not, please:

- explain why
- suggest and explain any alternative(s)

The proposed data points seem reasonable. To fully appraise the proposed data points, SSE would need to understand exactly how Ofgem proposed to use the data.

The proposed frequency (annual) for collecting the data on smart PPM functionalities seems appropriate.

SSE is unable, at this point, to make a robust statement on whether the proposed starting point for collecting this data will be achievable but is keen to engage further with Ofgem on this matter. SSE notes that there is a considerable amount of regulatory change (both current and in train) for which its Business Intelligence and Information Technology teams are necessary and that this will impact when the amended reports can be delivered.

Question 4: Do you agree with our assessment on those areas where we do not propose to take any further action. If not, please:

- explain why
- suggest and explain any action we should take

SSE welcomes Ofgem’s identification of areas for no further action. Ofgem’s assessment of these areas is sensible and SSE agrees that existing protections and incentives are satisfactory to ensure suppliers develop appropriate and customer-friendly outcomes. SSE notes that, even without policy change, these areas will continue to remain a particular focus for Ofgem (and other organisations, including Citizens Advice) and that this provides an additional incentive for suppliers to deliver robust and customer-friendly solutions.

Recording meter location

SSE understands Ofgem’s reluctance to impose a burdensome change to installation data at this late stage, especially given the limited benefit that this change would bring. SSE agrees with Ofgem that it is appropriate to allow industry to decide whether to take further action.

'Perfect storm' scenario: No WAN and no access

SSE agrees that the UTRN solution and the Safe & Reasonably Practicable guidance, combined with existing arrangements such as the Guaranteed Standards, provide necessary protections. SSE agrees with Ofgem's assessment that no further regulatory intervention is required.

Self-disconnection

SSE agrees that it is sensible not to take action at this stage, owing to the fact that self-disconnection is already a priority for industry. Furthermore, as Ofgem acknowledges, once the smart roll-out has progressed, suppliers will be in a better position to analyse and act on the information gathered through smart meters.

Change of tenancy

SSE agrees that adequate incentives exist for suppliers to engage with customers and that smart meter technologies will help to mitigate some of the issues associated with the change of tenancy process. SSE recognises that challenges will still exist, but considers that these can be tackled by industry without the need for additional regulation.

Customer communications

SSE agrees that no further Ofgem action is required: the smart meter installation process provides an invaluable opportunity for suppliers to engage with customers and provide information on how to use their meter; and existing licence conditions will ensure that suppliers provide appropriate information to their PPM customers.

Chapter: Three

Question 5: Do you agree with our assessment that the existing regulatory arrangements are fit-for-purpose for a smarter market, and that they pose no undue barrier to innovation? If not, please:

- **explain why**
- **suggest and explain any action we should take**

SSE notes the work already carried out by Ofgem to ensure that existing arrangements are appropriate for a smarter market. At this point, SSE agrees that the existing arrangements are not incompatible with smart meters.

In terms of arrangements which may limit innovation, SSE considers that the current tariff restrictions (including the tariff cap; standing charge and unit rate requirements; bundling rules; and discount restrictions) restrict suppliers from offering innovative tariffs, including innovative time of use (ToU) tariffs. This prevents customers from benefitting fully from their smart meter.

On the two points of clarification:

- 7-day notification period: SSE agrees that the 7-day notification requirement continues to be relevant where a supplier moves a customer to prepayment for non-payment of bills.
- Payment differentials: As discussed in SSE's response to question 10, SSE is not of the opinion that smart metering will necessarily reduce cost to serve. However, SSE does feel that savings – should they materialise – should be passed through to customers where practicable.

Question 6: Do you agree with our proposal to update the Safe & Reasonably Practicable Guidance? If not, please:

- explain why
- suggest and explain any alternative action we should consider.

SSE agrees that it is appropriate to update the Safe & Reasonably Practicable Guidance to reflect the introduction of new payment methods. SSE agrees that Ofgem's proposed amendments to the guidance seem sensible.

Question 7: Do you agree with our proposed amendments to the Safe & Reasonably Practicable Guidance? If not, please:

- explain why
- suggest and explain any alternative amendments we should consider.

The existing (non-amended) guidance does necessitate that suppliers ensure that customers are able to access a physical top-up point. SSE does therefore agree that amendments should be made to take into account the range of alternative payment methods which will enable customers to choose prepayment even where they do not have easy access to a physical top-up outlet.

The amendments seem broadly reasonable in that they provide comparable protections for customers who cannot pay by cash as per the protections currently offered for customers who do pay by cash.

SSE does question the use of "actively ask(ed)". SSE intends make available a range of payment methods to all customers on all smart prepayment tariffs; it will not be necessary for customers to ask for the ability to use certain payment methods.

Question 8: Do you agree with our proposal to monitor, through our Social Obligations Reporting, the number of smart prepayment consumers who have actively asked for alternative top-up methods so as not to require cash as a payment option? If not, please:

- explain why
- suggest and explain any alternative amendments we should consider.

As per the other proposed reporting changes in this consultation, SSE re-states that it is keen to work with Ofgem to reach the optimal changes to the reporting requirements. SSE notes the importance of agreeing final changes and guidance well in advance of the reporting start date.

SSE has concerns over the feasibility of reporting these figures and whether the proposed amendments will accurately reflect customers' use of the various payment channels.

SSE questions the use of the words "actively asked" as this is open to interpretation and could exclude instances where the customer has been advised that alternatives are available (then subsequently chosen this as the best option for their circumstances), rather than actively requesting to pay by a method other than cash.

It is also not clear whether Ofgem intends for this to capture only customers who cannot pay by cash (customers for whom the alternative payment channels offered by smart metering have opened up the possibility of using prepayment) or whether it intends to also capture customers who choose not to pay by cash.

Customers will be free to switch between payment methods; therefore an indication from a customer that they intend to pay via alternative payment methods does not exclude them from paying by cash in a shop. The proposed amendment does not appear to take this into account and will not reflect actual usage of the various payment methods.

Therefore a report of the number of customers who have asked to pay by alternative payment methods will not provide Ofgem with an accurate picture of either: the actual take-up and usage of alternative payment methods; or the number of customers for whom alternative payment methods have enabled them to use prepayment.

Question 9: Do you agree with our proposed data points for inclusion in the SOR (on cash as a payment option and smart meter consumers on prepayment), the frequency with which we propose to collect them, and the starting point for collecting them? If not, please:

- explain why
- suggest and explain any alternative(s)

Please see response to question 8. SSE is not confident that the proposed changes will provide Ofgem with an accurate representation of: the actual take-up and usage of alternative payment methods; or the number of customers for whom alternative payment methods have enabled them to use prepayment.

Further to this, the requirement to report on the number of customers who have "asked" for an alternative payment method would require a new field to be added to SSE's customer service system. This is a rather onerous change for (as noted in the response to question 8) very limited benefit.

SSE is keen to understand the outcome Ofgem is aiming for and would be happy to explore alternative data points which would better reach the desired outcome.

The proposed frequencies for collecting the data on smart PPM functionalities seem appropriate.

SSE is unable, at this point, to make a robust statement on whether the proposed starting point for collecting this data will be achievable but is keen to engage further with Ofgem on this matter. SSE notes that there is a considerable amount of regulatory work (both current and in train) for which its Business Intelligence and Information Technology teams are necessary and that this will impact when the amended reports can be delivered.

Question 10: Please provide any views on the risks and merits of differentials between smart and traditional prepayment tariffs. Please also provide views on mitigating actions that could be taken by parties, including by Ofgem, to address any perceived risks.

When discussing payment differentials, SSE seeks clarity on whether Ofgem is referring solely to payment differentials within a tariff (adjustments for payment methods) or whether it also includes payment differentials between smart and legacy tariffs (for example, smart meter specific tariffs which incorporate a discount).

Cost to serve

At present, SSE aligns the prices paid by PPM customers with those paid by quarterly credit customers (PPM customers have a higher cost to serve which SSE socialises across the wider customer base).

The move to smart meters will change the cost to serve for prepayment and credit meters. The cost of providing meters will be levelled (with meter costs overall being higher than at present), whilst opening up a range of alternative payment methods for prepayment will add costs. Other aspects are likely to change, including the proportions of customers paying through prepayment and customer service costs.

Adjustments for payment methods

SSE currently offers a payment method adjustment to customers who pay by direct debit which equates to £40 per year per fuel.

In terms of payment adjustments for smart prepayment, the costs of providing each alternative payment method will differ. This would suggest that payment method adjustments would be appropriate; however, SSE envisages that customers using smart prepayment will move freely between payment methods (eg, mobile app payment, cash payment in shop, PayPal payment, credit card payment). This unpredictability makes it more complex to provide a payment method adjustment to a customer (compared to direct debit whereby a customer signs up to pay solely by that single payment method).

In addition, the frequency with which a customer tops up their meter will have an impact on their cost to serve; a customer who tops up infrequently through a higher cost channel might actually have a lower cost to serve than a customer who tops up small amounts each day through a lower cost channel.

The flexibility (in terms of payment channels and transaction frequency) offered by smart prepayment means that it is more complex to determine whether payment method adjustments will be appropriate.

Smart meter specific tariffs

SSE recognises that innovative tariff offerings (which may offer savings to customers) will be a key incentive for many customers in choosing to have a smart meter. It would be detrimental to the success of the smart meter roll-out if customers were prevented from accessing beneficial smart tariffs.

Chapter: Four

Question 11: Do you agree with our proposed approach to micro-businesses? If not, please:

- **explain why**
- **provide any evidence to support your position**
- **provide details on which existing arrangements we should consider extending to micro-business consumers, and why**

At present, SSE is not particularly active in the non-domestic PPM arena, so cannot provide comments from its own experiences however from the available evidence SSE does agree that Ofgem's approach to micro-businesses seems sensible.

SSE does consider that a subset of micro-business customers, who do not currently use a PPM, may be interested in using smart prepayment due to the added flexibility and functionality smart offers. It may be appropriate in future to reassess whether changes should be made, in light of any micro-business customer feedback.

Chapter: Five

Question 12: Please provide any general views on phasing out the traditional prepayment infrastructure

As a long-standing supplier, SSE has been involved with the phasing out of previous PPM infrastructures. SSE is open to, wherever possible, using this experience to inform the future phasing out of the traditional PPM infrastructure.

From experience, SSE notes that phasing out the traditional PPM infrastructure will involve many practical and commercial issues to be addressed by industry. It will be crucial to the



success of smart prepayment rollout that industry carefully co-ordinates and manages the customer experience.

SSE considers that an industry working group will be pivotal in addressing the complex issues associated with phasing out the legacy PPM infrastructure. Such a group should comprise of experts from a wide range of parties including: suppliers; meter manufacturers (both gas and electricity); consumer bodies; and other interested organisations. This would be akin to the Electricity PPM Forum operated by Gemserv during the transition from token to key meters. A dedicated working group would enable co-ordination across the industry, essential to a successful transition. Alternatively SSE would welcome the opportunity to meet bilaterally with Ofgem to discuss this matter.