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Dear Anna,

SSE response to Ofgem working paper 2 - Data gathering

We welcome the opportunity to respond to this working paper. It is positive to see Ofgem is taking a wider approach in considering additional data, both through this response paper and the Request For Information (RFI) on Premature Meter Replacement Costs (PRCs) and additional net advertising costs in setting the allowance for smart metering costs in the default cap. While we are generally supportive of Ofgem gathering additional data, we do have some concerns as summarised below. Please refer to Annex 1 for our response.

Summary of SSE response

- We are pleased to see Ofgem is taking a wider approach to gathering additional data as this will help ensure the cap is more cost-reflective and accurate.
- We continue to believe that suppliers should have earlier and direct access to the SMNCC model and would welcome transparency on the work carried out by BEIS (i.e. where Ofgem has decided to not to duplicate data gathering by BEIS, or considers the data already collected by BEIS is robust) for our consideration.
- There have been instances where significant investment in smart consumer engagement tools haven't aligned with the categories provided in Ofgem's template. We believe that they must be included to ensure the cap methodology accurately reflects the costs we have incurred as an efficient market operator.
- We disagree with Ofgem's decision to **not** review the cost-to-serve of customers with prepayment meters and would strongly recommend Ofgem undertake this review as soon as possible.

Yours sincerely,

Cher-Rae Fairlie
Regulation Analyst

Annex 1: SSE response to Ofgem working paper 2 - Data gathering

SSE continues to believe that suppliers should have earlier and direct access to the SMNCC model

We remain concerned by the lack of transparency at this stage. As highlighted in our previous responses, we believe suppliers should have earlier and direct access to the SMNCC model. We believe Ofgem's consultation process would benefit from more constructive input if stakeholders were given better access to underlying data.

Within this paper we note a number of exclusions due to work already carried out by BEIS. While we broadly agree with Ofgem that it is sensible to not duplicate efforts (in areas which BEIS has already collected additional data that is both considered sufficient and robust). We would, again, welcome sight of this data and/or anonymised data in October's consultation.

It is positive Ofgem is taking into consideration Premature Replacement Charges

We are pleased to see Ofgem are examining this point in detail and are supportive of accurately reflecting the potentially changing PRC cost as the roll out continues. As the replacements have been distributed in line with the age of the meter stock we believe that the PRC charge is unlikely to change, however appreciate the opportunity to engage and ensure it is set at an appropriate level.

Non-SEGB costs of consumer engagement should be accounted for in the SMNCC

<u>Increasingly sophisticated efforts are expected by Ofgem to engage customers and demonstrate 'all reasonable steps'</u>

As Ofgem's Retail Price Protection team will be fully aware, there is an explicit expectation that suppliers will invest in – and continuously develop – their customer engagement activity, which Ofgem describes as being a critical element in being able to demonstrate 'all reasonable steps' at the end of the rollout[1]. Ofgem's Open Letters from the Smart Metering team make consistent reference to the need for suppliers to engage all customers, develop recontact strategies, use multiple channels of engagement, use customer segmentation, tailored messaging, offer incentives[2], and, importantly, that Ofgem expects suppliers to ensure their activity complements the broader engagement of SEGB[3].

Therefore, we welcome Ofgem consideration of a wider view of marketing costs and are pleased to see Ofgem address this through their recent RFI on Premature Replacement Charges and Additional Advertising Net Costs.

<u>Costs will not be captured through current definitions</u>

We note that due to the definitions of the RFI template, there needs to be some flexibility to what stakeholders can include for the assessment of advertising costs, so we very much welcome Ofgem's constructive dialogue to ensure all the relevant costs can be captured. Unfortunately, there have been

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[1] https://www.ofgem.gov.uk/system/files/docs/2018/05/2018.05_open_letter_-_observations_from_rollout_plans.pdf
[2] https://www.ofgem.gov.uk/system/files/docs/2018/05/2018.05_open_letter_-_observations_from_rollout_plans.pdf
[3]https://www.ofgem.gov.uk/system/files/docs/2017/12/2017.11_open_letter_on_smart_meter_rollout_-_dcc_user_mandate_tolerance_2019_submissions_and_energy_efficiency_advice.pdf

instances where significant investment in smart consumer engagement tools (necessary to meet the requirement to take all reasonable steps to install smart meters) haven't aligned with the categories provided in Ofgem's template. SSE has clearly set these out in the covering letter to our RFI response and we believe that unless they are included the cap methodology cannot accurately reflect the costs we have incurred as an efficient market operator.

In carrying out any review, we encourage Ofgem to be sensitive to the fact that the BEIS Annual Supplier Report does not prescribe how smart installation costs are to be captured by suppliers and therefore there is a risk that BEIS is treating the same costs in different ways for different suppliers. SSE for example categorises certain costs as "smart marketing", meaning that BEIS has rejected them. It is possible that other suppliers may have included some or all of these costs within appointment setting, therefore gaining ASR inclusion.

SSE believe Ofgem should revisit supplier IT costs

We disagree with Ofgem's decision to not review supplier IT costs. We note that Ofgem highlight BEIS has information on suppliers' upfront IT costs, through an RFI from 2010 and therefore will not be gathering any further information on this. Since 2010, IT costs will have increased substantially and will be higher than forecast due to the pace of the rollout and additionally complexities not originally accounted for. Additionally, due to the delay of SMETS2 and continued rollout of SMETS1 meters, costs will have increased significantly in this area.

We strongly oppose Ofgem's decision to not review cost-to-serve of Prepayment customers

We note that Ofgem does not plan to review additional data in relation to cost-to-serve for customers with traditional prepayment meters at this time. While we understand that these meter types are not currently covered by the DTC, we believe that now is the ideal time to gather such information and would recommend that Ofgem does so as a matter of importance.

Following the CMA decision to utilise DTC calculations within the latest Safeguard Cap (with the exception of full SMNCC and retaining the previous prepayment payment method uplift) they have stated that the preferred route is for Ofgem to take on the full responsibility towards the end of the statutory period. Their specific recommendation being:

Ofgem should consider providing protection for prepayment meter energy customers after the expiry of the CMA's prepayment meter charge restriction in line with its objectives and duties and further, to give consideration to any future changes of circumstance in light of the original aims of the PCR when setting the level of any replacement charge restriction.

As per our previous submissions through prior consultations, we are in general agreement with the calculation of payment method uplift for Direct Debit and Standard Credit used by Ofgem. The current level of prepayment payment method uplift is significantly lower than our internal view and we believe that this should be reviewed as soon as possible in advance of any potential changes (such as if Ofgem bring customers covered by the Safeguard Tariff under the coverage of the DTC).

While Ofgem may support social policy reasons to under-recover the additional cost of legacy prepayment meters in the cap, it should also ensure that this under-recovery is socialised across customers through an allowance in the DTC. As the number of traditional prepayment meters is set to reduce due to the increased levels of SMETS2 deployment, the cost-to-serve will increase, therefore the longer the payment method uplift does not fully reflect the costs incurred, the less attractive this market will be.