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**13<sup>th</sup> September 2019**

Dear Anna,

**SSE response to paper 3 – having regard for carry forward balances**

We welcome the opportunity to respond to this working paper. It is positive to see Ofgem has provided more clarity on its justification and original policy intent in respect of a correction mechanism for the SMNCC. However, we remain concerned the efficient level of costs within the SMNCC model have been set too low. We have provided a summary of our views below. Please refer to the Annex for our full response.

**Summary of SSE Response**

- It is positive to see Ofgem has provided more clarity on its justification and original policy intent in respect of a correction mechanism for the SMNCC. We strongly caution that for this to be implemented accurately, it must be underpinned by a robust assessment that scrutinises all cost elements of the rollout.
- We agree that in theory the difference between the rollout profile in the allowance and individual suppliers' rollout should net-out if the cost assumptions involved are in line with those incurred. However, some assumptions in the current SMNCC were more ambitious than reality, some assumptions were too low.
- We welcome Ofgem's recent efforts to capture additional data to inform this important review.

We would be happy to discuss any questions you may have on the matters we raise in this response.

Yours sincerely

Cher-Rae Fairlie  
**Policy and Regulation**

## **Annex – having regard for carry forward balances**

### **The use of correction mechanism must be underpinned by robust analysis of all cost elements to ensure accuracy**

It is positive to see Ofgem has provided more clarity on its justification and original policy intent in respect of a correction mechanism for the SMNCC. We strongly caution that for this to be implemented accurately, it must be underpinned by a robust assessment that scrutinises all cost elements of the rollout. This is important in ensuring that any underpayments to suppliers are accounted for as well as any overpayments. It would be entirely unacceptable for suppliers to be left without enough funding to invest in the rollout of smart meters for cap periods four onwards. SSE firmly believes that on balance, the rollout has thus far been underfunded and we expect this to be reflected in any correction mechanism taken forward by Ofgem. SSE has consistently advocated for the cap methodology to be cost-reflective so that efficient operators can fully recover their costs and we believe this is of paramount importance when considering a correction mechanism. We look forward to assessing the inputs and mechanisms of the revised SMNCC model in the Disclosure Room in due course.

### **SSE believes the efficient level of costs has been set too low**

We agree that in theory the difference between the rollout profile in the allowance and individual suppliers' rollout should net-out. While some assumptions in the current SMNCC were more ambitious than reality, some assumptions were too low. For example, the cost spent per meter is likely to be higher than originally forecast, meaning the allowance per meter has historically been set too low. On balance, we believe that the rollout has thus far been underfunded and would expect this to be reflected in any correction mechanism introduced by Ofgem. As we have continuously stated throughout this process, a robust and market-wide analysis is crucial in ensuring an accurate and cost-reflective outcome for consumers and the market. We therefore welcome Ofgem's recent efforts to capture additional data to inform this important review.