



Ofgem
Metering & Market Operations
Consumers & Markets
10 South Colonnade
Canary Wharf
London
E14 4PU

SSE Energy Services
No.1 Forbury Place
43 Forbury Road
Reading
RG1 3JH

Sent by email to: smartmetering@ofgem.gov.uk

Patricia.hall@sse.com

26 November 2019

Dear Cecilie

SSE Energy Services response to Ofgem consultation on post-2020 smart rollout supplier reporting requirements

We welcome Ofgem sharing its intended reporting framework for the post 2020 obligation, which is currently being developed by BEIS. Early visibility is important to ensure that stakeholders get the best opportunity to scrutinise and consider proposals. Overall, we welcome Ofgem's ambition to reduce the reporting burden for energy suppliers and Ofgem, and to improve transparency. To fully achieve these aims, however, we believe the proposals require some revision. We have sought to provide constructive suggestions to this end. Please see our full response in Annex 1 and a summary below.

Summary of SSE response

- We welcome Ofgem's ambition to strike the right balance between suppliers providing the required information and not being too onerous and burdensome for energy suppliers and Ofgem but disagree that the proposals in relation to the Beginning-of-Year report achieve this balance. We would suggest that Ofgem removes the Beginning-of-Year narrative requirement and uses the supplier bilateral mechanism to gather the necessary insight on key dependences, risks and mitigating strategies.
- We recommend that Ofgem retains the seven-day submission window that is currently in place for Rollout Plan resubmissions (SLC 44.6 electricity; SLC 38.6 gas) so that Beginning-of-Year reports are submitted slightly later than End-of-Year reports.
- We strongly oppose the publication of supplier data. Ofgem has failed to share underlying assumptions or evidence that inform this proposal and we therefore cannot effectively scrutinise what appears to be a high-risk proposal with little benefit.
- We welcome Ofgem's commitment to consider the Government's final decision on policy design before making its own decisions and would encourage Ofgem to re-engage stakeholders in consultation at this point.



- We fully support Ofgem’s proposal to reduce the large supplier threshold to 150,000 customers as this better ensures a level playing field and should drive more momentum across a larger segment of the market in achieving the ambitious post-2020 rollout targets.
- We are unable to provide comment on legal drafting. Doing so before Ofgem and BEIS have concluded the policy development phase would be inappropriate and risk prejudicing the outcome of that policy.

We would be happy to discuss any of these points in more detail.

Yours sincerely

Patricia Hall
Policy and Regulation

Annex 1: SSE Energy Services response to Ofgem consultation on post-2020 smart rollout supplier reporting requirements

1 Overarching principles

Considering Government policy design: We welcome Ofgem’s intention to take into account the Government’s final decision on policy design before making its own decisions and believe that Ofgem should re-consult upon the conclusion of Government’s policy design to ensure alignment.

Reducing large supplier threshold: We fully support Ofgem’s proposal to reduce the large supplier threshold to 150,000 customers and to require all suppliers to having binding targets. This better ensures a level playing field and should drive more momentum across a larger segment of the market in achieving the ambitious post-2020 rollout targets.

Timing for reporting: We recommend that Ofgem retains the seven-day submission window that is currently in place for Rollout Plan resubmissions (SLC 44.6 electricity; SLC 38.6 gas). Under the new proposals, suppliers will receive End-of-Year data on 31 December and then have one month – falling during festive holiday season – to quality assure an End-of-Year report and a Beginning-of-Year report. We disagree with Ofgem’s view the proposed arrangements reduce the burden of data quality assurance. This is not the case; the burden of quality assurance is unchanged by Ofgem’s proposals, which request largely the same End-of-Year data as the current framework and require more data for Beginning-of-Year reporting (the current arrangements gave the *option* of a resubmission, and an extra seven days to submit the report). Furthermore, these two reports cannot be produced simultaneously because one report informs the others. We therefore recommend a later deadline for the Beginning-of-Year report of at least seven days, as per the current framework.

Wider monitoring: We firmly believe that the justification for reducing the large supplier threshold applies to the wider monitoring RFI as much as to the Beginning and End-of-Year reporting. Ofgem should confirm that suppliers captured under the new definition of large supplier will be required to complete and submit the wider monitoring RFI.

2 Beginning of Year Reporting

We disagree with Ofgem’s proposal for suppliers to set out as part of the Beginning-of-Year report their key dependences, risks and mitigating strategies and would suggest Ofgem considers using the bilateral engagement framework instead. There are several reasons for this.

2.1 The proposal does not achieve the desired outcome of reducing the reporting burden on Ofgem and suppliers

Key dependencies, risks and mitigating strategies are vast in nature, subject to regular change, and are complex to describe. This is especially true when the objective is to provide confidence to the regulator in our ability to deliver comply with milestones and to provide context for Ofgem’s End-of-Year performance assessments. The length and complexity of supplier Rollout Plans submitted under the current framework, and the frequency of licence changes made by Ofgem to facilitate repeated

resubmissions, are evidence of this complexity. Ofgem must acknowledge the cost and resource invested in the development and quality assurance of this type of submission. This proposed requirement will therefore represent an increased reporting burden, and cost, for both suppliers and Ofgem.

2.2 As a standalone submission, the proposal will not achieve the desired outcome of furnishing Ofgem with insight that will allow it to publish information on market-wide issues

Ofgem suggests in its consultation that this Beginning-of-Year narrative will allow it to share key observations on market-wide issues via its annual Open Letter. As set out above, key dependencies, risks and mitigating strategies are complex and subject to regular change. For Ofgem to have confidence in what it is publishing, we would expect it to discuss, investigate, and verify 'market-wide' issues. This takes time and is dependent on interaction with suppliers. It would be unlikely that Ofgem could grasp the complexity of issues, or account for their volatility and any changes to suppliers' strategies in addressing them, simply through a Beginning-of-Year narrative, particularly if this narrative is 'high-level', as Ofgem has verbally indicated it would be¹.

2.3 The proposal will create duplication of effort and avoidable cost increases

Under the current framework, Ofgem meets with obligated parties at least twice per year to discuss progress towards targets, key dependencies, risks and mitigating strategies. These forums facilitate discussion around complex issues and supplier responses to the challenges these issues present to their rollout progress. This forum also enables valuable interaction between Ofgem and suppliers and therefore provides a robust mechanism through which Ofgem can identify market-wide issues that need to be communicated to industry. As Ofgem intends to continue with this engagement, it is likely that in practice it will make the effort and cost involved in producing the Beginning-of-Year narrative, as well as the narrative itself, redundant. This raises concerns for us around duplication of effort and the creation of avoidable cost increases. This is incompatible with the current environment within which we operate, where suppliers are under increasing pressure to reduce our costs and to maintain our level of investment in the smart rollout beneath the amount allowed for under the Default Tariff Cap.

2.4 The proposed format of narrative will not enable suppliers to comply with the purpose of the submission

Ofgem has verbally communicated² that it intends for the narrative of the Beginning-of-Year report to be high-level and brief. It also states that the purpose of the submission is give Ofgem confidence in suppliers' ability to comply with milestones and to provide context against which suppliers' performance will be assessed at the end of the year. We disagree that such an informal, condensed format is an appropriate manner in which to request what is essentially a vast and complex risk management framework, underpinning the delivery of a high-profile regulatory obligation. The format of the request is therefore misaligned with the complexity of the request and will penalise suppliers by not allowing them the appropriate format or forum to present our positions. It would be entirely

¹ Energy UK teleconference with Ofgem; 20 November 2019; 10:30 – 11:30 am

² Energy UK teleconference with Ofgem; 20 November 2019; 10:30 – 11:30 am.

unreasonable for Ofgem to restrict what suppliers could provide as part of a submission that will effectively form part of a later defence (should supplier fail to meet its milestone).

2.5 The proposal is misaligned with the general assertion that suppliers have commercial autonomy in how they deliver their plans and that Ofgem will not be approving plans

Ofgem makes the important acknowledgement in its consultation that the new framework enables suppliers to make their own commercial decisions in how they manage their rollout and their compliance, and that Ofgem will not be approving or rejecting plans. It seems contradictory for Ofgem on the one hand to respect suppliers' autonomy in designing commercial strategies and taking the position that it will not be approving plans, while on the other hand making it mandatory that suppliers include those plans in their annual regulatory submissions.

Alternative option

Given all the above, and that Ofgem's objective is to reduce the administrative burden on suppliers, we consider that an alternative approach would work better. In practice, the supplier bilateral mechanism is more likely to furnish Ofgem with the information it requires to a) gain confidence that suppliers are in a good position to be compliant; b) gain insight that enables Ofgem to share key observations on market-wide issues; and c) provide useful context for Ofgem in assessing End-of-Year performance reporting.

Our suggestion would therefore be that Ofgem uses this forum to gather the information it needs – potentially bringing the first meeting forward in the year – rather than request written submissions at the beginning of each year. We believe this would provide Ofgem with the information it needs, while also reducing the reporting burden on Ofgem and suppliers by avoiding the introduction of a new reporting mechanism. It has the added benefit of avoiding duplication and associated increases in the cost of the rollout.

3 End of Year Performance Reporting

Our key concerns with End-of-Year reporting relate to the publication of data. We have made these points in Section 4 below.

4 Publication of information

While SSE is supportive of ensuring transparency is maintained within the energy industry, we consider that the minded-to positions requiring suppliers to publish rollout data online has been insufficiently evidenced. We strongly oppose the introduction of this proposal. The risks and benefits have not been quantified, shared, or consulted upon by Ofgem to allow external scrutiny.

4.1 The benefits case for publishing data is unjustified

It is unclear exactly why a consumer would benefit from knowing what a supplier's smart annual milestones are or whether those milestones have been met. This provides no context around whether

that consumer is eligible to receive a smart meter or whether they are available in their area and has no bearing on whether that suppliers offers a suitable tariff.

Requiring suppliers to publish the number of meters installed with no further context does not allow for customers to make informed choices when reviewing the market. These numbers will not, for instance, reflect certain technical constraints that may only affect certain geographical areas, or meter types³. A customer, therefore, cannot make an informed choice as to whether they can obtain a smart meter simply by reviewing this information alone.

If Ofgem has evidence to support this proposal or is making assumptions that might be helpful to stakeholders in considering Ofgem's proposals, we would encourage Ofgem to make this available at their earliest opportunity.

4.2 Publishing granular information about supplier performance without transparent and balanced explanations will mislead consumers and increase negative sentiment

We are concerned that the publication of targets sub-divided into meter type could be construed by the media and the public as binding targets, or voluntary obligations, and as such if a supplier deviates from these forecasts they will be penalised in the public eye. This information is being requested by Ofgem purely for information purposes and forms no part of a binding or enforceable obligation; it has no grounding in licence or legislation.

A supplier's ability to meet its targets, or to install in line with meter type forecasts will be largely dependent on external factors beyond a supplier's control; furthermore, the status of a customer's meter type i.e. based on payment mode is subject to unplanned and potentially frequent change. Unless Ofgem provides supporting narrative to explain the sorts of issues or technicalities that may affect a supplier's deviation from these forecasts or performance to annual targets, consumers will be left to draw their own conclusions. Based on experience to date in the media, it is likely that those conclusions will be negative and that they will negatively impact customer behaviour to the detriment of the supplier, or suppliers, under consideration.

We remind Ofgem that many of the reputational issues that have blighted the programme to date have been driven by the pressure suppliers have been under to deliver to unrealistic and immovable timescales despite technical constraints and lower than expected customer demand. Adding to this pressure with the above proposals could exacerbate this risk. Ofgem should be very wary of taking such a blunt approach to what is a complex programme that relies heavily on groundswell public support. As we have set out in our response to the BEIS consultation, we firmly believe that now is the time for smart meter policy to extend into other areas of Government so as to help normalise smart and improve customer uptake, rather than reduce it.

³ This is noted in the context of ongoing technical issues with both the Data Communications Company's Northern Communication Service Provider, and the ongoing constraints around rolling out SMETS2 Prepayment Meters, factors which are beyond the control of individual suppliers.

4.3 Ofgem should reconsider this proposal and consult more fully with stakeholders

Ofgem has not shared its evidence that rules out the potential for unintended outcomes or justifies the benefits case. We therefore consider these proposals unjustified and high risk. Introducing a proposal like this that risks increasing negative attention on suppliers and the programme as a whole is entirely counter-productive to the aims of Government and we strongly oppose it. Furthermore, by encouraging consumers to make decisions based on incomplete data, these proposals will mislead customers. This is an irrational decision for a regulator to take, particularly with the objective of improving transparency. We believe Ofgem should consult more fully on their assumptions and evidence that justify these proposals, before taking them any further.

5 Regulatory Framework

Licence condition amendments

We disagree with Ofgem's decision to consult on the drafting of SLCs before the underlying policy has been defined by BEIS and before Ofgem itself has consulted on the proposals of its framework.

We welcome Ofgem providing early visibility of its plans for the new reporting framework, which is very helpful at this stage as it allows for early scrutiny of proposals and for the opportunity to make timely amendments to the benefit of consumers, suppliers, and the programme. We have provided constructive feedback where we consider proposals will introduce avoidable cost and resource increases for suppliers, and where we consider they introduce risk of increasing negative sentiment around the programme and thus reducing consumer uptake.

We have made suggestions where we think objectives could be more effectively achieved and we hope they will be duly considered by Ofgem. We note that if changes are made following external review of the proposals, then Ofgem's SLCs will be subject to change. Ofgem has also been clear that it will re-consult if BEIS's policy development necessitates it. Thus, it is therefore too early for industry to provide comment on legal drafting. Doing so before Ofgem and BEIS have concluded the policy development phase would be inappropriate and risk prejudicing the outcome of that policy.