

## **SSE: RESPONSE TO THE PREPAYMENT CHARGE RESTRICTION NOTICE**

### **1. Introduction**

- 1.1.1 This document provides the response (the *Response*) of SSE plc (*SSE*) to the consultation on the proposed Prepayment Charge Restriction Order (the *Order*) issued on 11 October by the Competition and Markets Authority (*CMA*).
- 1.1.2 SSE has previously set out its concerns regarding this remedy and does not intend to revisit these here. This Response is therefore focused on the practicalities of implementation of the Order. At this stage it is important to set the remedy in the most effective and practical manner. SSE welcomes the changes to the price cap remedy which were presented in the Final Report and are incorporated into the Order. Most notably:
- (a) the recognition that dual-fuel caps added unnecessary complexity;
  - (b) the simpler definition of each cap based on a standing charge and a maximum bill at typical consumption; and
  - (c) the formulation of a wholesale price index which makes it possible for suppliers to manage the price risk more effectively than the more volatile method proposed in the PDR.
- 1.1.3 The issues detailed in this Response are discussed in order to assist the CMA in ensuring that the remedy is implemented in the most efficient and practicable manner possible, whilst retaining the clarity of purpose of the CMA's original policy intention.

### **2. Industry Systems**

- 2.1.1 SSE has a number of contracts in place with individual third party service providers providing the systems and processes to manage the gas and electricity prepayment end-to-end service. The drafting of the current Order (particularly the timescales afforded to parties to deliver any required price changes) coupled with the number of parties and processes involved in delivering prepayment services will present challenges for industry.
- 2.1.2 Following publication of Benchmark Maximum Charges, suppliers will have an opportunity to assess whether or not compliance will be achieved based on the current rates that their Prepayment (*PPM*) customers are charged through the Unit Rate and Standing Charge. Consequential price changes (whether increases or decreases) by a number of suppliers will lead to a significant impact on third party service providers. Each suppliers' price changes will be required on the same date; this is not a scenario which the providers (PayPoint, Post Office, Payzone, Siemens and Itron) have faced previously and therefore there is uncertainty over whether this can be delivered in practice.
- 2.1.3 The current contractual arrangements between service providers and suppliers require that notification of any price change is provided at least 30 days in

advance of the change taking effect. The requirement for Ofgem to publish the Benchmark Maximum Charges on the fifth working day (of February or August), coupled with the requirement in SLC 23.4 to provide consumers with 30 days advance notice of any price increase, means that the timescales involved are very tight.

- 2.1.4 In light of these practical difficulties, SSE urges industry, service providers and regulators to take a pragmatic approach to these challenges to ensure that the final solution will work in the best interests of consumers and limit any unintended consequences.

### **3. Flexibility in SLC 23.4**

3.1.1 SSE is concerned that under standard condition 23.4 of current electricity and gas licences (collectively *SLC 23.4*), suppliers are required to provide customers with notice of any price increases at least 30 days in advance of the change taking effect. Following a change to the Benchmark Maximum Charge, suppliers may decide to increase the cost of a tariff from the first day of the next Charge Restriction Period. SSE (and other suppliers) would have approximately 25 days after the publication of the Benchmark Maximum Charges to manage pricing strategy for the next Charge Restriction Period, including sending letters to those customers affected to inform them of the new rates.

3.1.2 SSE welcomes the CMA's commitment to providing as much notice as possible of any change to the Benchmark Maximum Charges for each Charge Restriction Period. However, Ofgem must consider relaxing the requirements of SLC 23.4 in relation to those accounts covered under the Charge Restriction Period.

3.1.3 Failure to provide further flexibility in relation to SLC 23.4 for those accounts covered under the Charge Restriction Period will compound the issue highlighted within Section 2. This will be particularly acute given the (approximately) 25 days that suppliers are afforded on which to develop their pricing strategy for the forthcoming Charge Restriction Period.

### **4. Flexibility in the price cap calculation**

4.1.1 SSE notes that the calculation set out in the draft licence conditions is very prescriptive and contains a number of detailed indices. SSE considers that changes in regime or changes in government schemes which impact bills could result in manifest errors in the operation of the formula. SSE suggests that there should be an acknowledgement that Ofgem may need to make changes to the formula to take account of any manifest errors.

### **5. Reporting Requirements**

5.1.1 SSE remains concerned that reporting requirements related to the introduction of new tariffs risk reducing innovation in the prepayment segment. This issue was highlighted in our previous response to the initial consultation on the draft Price Cap Order issued on 15 August 2016 by the CMA. It is primarily an

issue for electricity tariffs but, when considered in the context of all of the wider reporting requirements under this remedy, the overall impact is to create an incentive for suppliers not to innovate in terms of new tariff offerings of any kind for the prepay segment. SSE considers this unintended consequence as a serious risk and, in order to mitigate this, would welcome simplification or rationalisation of the detailed reporting requirements proposed in the Order.

- 5.1.2 SSE also remains concerned at the overly prescriptive reporting requirements in relation to the Compliance Statement. SSE notes that Part 3 of the Order continues to require that a supplier provides a Prepayment Charge Restriction Compliance Statement to the CMA no more than 30 days after the end of each Charge Restriction Period. This approach to compliance monitoring may be standard for the CMA, particularly where remedies are applied in unregulated markets. However, in this case, the suppliers operate in a regulated market and must comply with the associated licence conditions. The Prepayment Charge Restriction is underpinned by new conditions in the Gas and Electricity Supply Licences, which are binding on suppliers. SSE's view is that the proposed declaration of compliance with the Order is a duplication of process and is therefore unnecessary in this case
- 5.1.3 SSE notes that a Compliance Statement is required no more than 30 days after the end of each Charge Restriction Period. This will provide a particularly tight timescale should a supplier be required to inform the Authority that a Relevant Customer has been charged an amount in excess of the Relevant Maximum Charge and to pay the required rebate within the same 30 day period

## **6. Restricted Hours Tariffs**

- 6.1.1 SSE remains concerned with the current proposal to assess compliance for all Multi-Register Prepayment Tariffs will be determined on the basis of the Benchmark Metering Arrangement values for Economy 7 Metering Arrangements.
- 6.1.2 SSE continues to believe that tariffs for restricted hours meters should be assessed for compliance with reference to the charge restriction level for unrestricted tariffs. This issue was highlighted in our previous response to the initial consultation on the draft Price Cap Order issued on 15 August 2016 by the CMA. SSE considers that clause 28A.4 in the electricity licence should be revised to refer to Relevant Maximum Charge for Single-Rate Metering Arrangements.

## **7. Impact on Smart Rollout**

- 7.1.1 The Prepayment Charge Restriction has the potential to dis-incentivise domestic consumers to install smart metering equipment within their premises. The Draft Explanatory Note accompanying the Order states “...*should a customer refuse to have a SMETS 2 smart meter installed, the customer will remain protected by the Prepayment Charge Restriction*”. SSE firmly believes that if consumers refuse SMETS2 metering equipment in favour of protection

afforded by the Charge Restriction, this could lead to significant challenges for the smart rollout programme. This risks creating a paradoxical situation whereby the lifetime of Prepayment Charge Restriction could be further extended due to a lack of SMETS2 metering installations, and a delay to customers receiving the benefits of smart meters and innovative tariffs.

- 7.1.2 Similarly, there may be also be a risk that credit meter customers might opt for a legacy PPM over a smart meter, in the belief that the PPM price cap is more beneficial to them. Again, this could lead to significant challenges for the smart rollout programme as well as a potential increase in costs (due to an increase in legacy credit meters to legacy PPMs).