SCOTTISHPOWER

CMA ENERGY MARKET INVESTIGATION

SCOTTISHPOWER'S RESPONSE TO THE CONSULTATION ON THE RESTRICTED METER ORDER

1. INTRODUCTION

1.1 The CMA issued an initial consultation on the proposed restricted meter order on 12 September 2016, following publication of its final report on 24 June 2016. It then issued a formal consultation on 11 October comprising a draft order (incorporating draft additions to the electricity supply licence) and a draft explanatory note.

1.2 We note that the CMA has made a number of changes since the initial consultation, including the exclusion of prepayment meters from the single-rate tariff obligation, clarification of the definition of Economy 7 meters and an explanation of what it would expect suppliers to do in circumstances where for technical reasons there was a delay in their ability to offer single rate tariffs.

1.3 We welcome the above changes but in certain respects we do not think they go far enough. Our response to the formal consultation therefore focuses on three remaining issues:

(a) the need to amend the definition of Economy 7 meters in the Order (section 2);

(b) the deadline for implementation (section 3);

(c) the potential need for a temporary derogation from cheapest tariff messaging obligations in circumstances where for technical reasons changes to billing systems cannot be made in time (section 4).

2. DEFINITION OF ECONOMY 7 METER

2.1 Article 2.1 of the draft Order (and the licence conditions in the schedule to the Order) define 'Economy 7 Metering Infrastructure' as:

> 'one or more Electricity Meters installed in the same premises whereby, in each period of 24 hours, the peak electricity consumption level is recorded during seventeen 'day/normal' hours and the off-peak electricity consumption level is recorded during seven 'night/low' hours'

2.2 We raised a number of concerns about this definition in our response to the initial consultation, and the CMA has responded to these concerns through paragraph 24 of the Explanatory Note.

> "24. For the avoidance of doubt, as regards the categories of metering infrastructure that are excluded from the obligations in Article 3, the CMA makes the following observations:
>
> (a) Economy 7 Metering Infrastructure. The definition of Economy 7 Metering Infrastructure:
>
> - excludes (i) meters with a third (electric heating) register, in addition to the 'day/normal' and 'night/low' registers (eg Economy 7 Plus Weathercall), and/or

(ii) meters where part of the off-peak period occurs between 1200 and 1630 (with the remained (sic) of the off-peak period occurring during a night-time period) (eg TwinHeat A & B); and

- includes meters where peak electricity consumption is recorded during 15.5 day/normal hours and off peak electricity consumption is recorded during 8.5 'night/low' hours (eg White Meter No 1 in the South Scotland PES area)."

2.3 We welcome this response but we remain concerned that the definitions in the draft Order and draft licence conditions have not been amended. Legally, these definitions take precedence over the explanatory note and the intended modifications to the definitions in the order (eg, in the case of the first bullet above, from 7 'night/low' hours to 7 or 8.5) cannot be made through the explanatory note.

2.4 We suggest the definition of 'Economy 7 Metering Infrastructure' be amended as follows:

"One or more Electricity Meters installed in the same premises whereby, in each period of 24 hours:

- the peak electricity consumption level is recorded during seventeen 'day/normal' hours and the off-peak electricity consumption level is recorded during seven 'night/low' hours'; or

- if the meters is in the South Scotland PES area and the peak electricity consumption level is recorded during 15.5 'day/normal' hours and the off-peak electricity consumption level is recorded during 8.5 'night/low' hours'

but in each of the above cases excluding (i) meters with a third (electric heating) register, in addition to the 'day/normal' and 'night/low' registers and/or (ii) meters where part of the off-peak period occurs between 1200 and 1630 (with the remainder of the off-peak period occurring during a night-time period)."

3. DEADLINE FOR IMPLEMENTATION

3.1 As indicated in our response to the initial consultation, we have concerns about our ability to comply with the single rate tariff obligation by the 1 April 2017 deadline.

3.2 Although the changes required to ScottishPower's billing system are conceptually simple (adding new tariff and meter type combinations), our current understanding (supported by previous experience of changes) is that these will require significant software development. The reasons for this are broadly as follows:

- The new tariff and meter type combinations will substantially increase [✂] the number of such combinations in the billing system.

- Many of the processing functions carried out by the billing system (such as comparing tariffs for cheapest tariff messaging) are [✂] but (without software optimisation) will scale with the number of tariff combinations.

- Furthermore, there are a large number of processing steps which may or may not be affected but all would need to be reviewed and tested.[1]

[1] These include, for example, meter reading process, industry flow process links, billing process, unbilled revenue calculations, price change process, maturity process, customer bill and annual statement correspondence (including cheapest tariff comparisons), welcome cycle communications, quote and apply process, agent interface, website/apps.

- These processing constraints can be alleviated by introducing new logic steps into the processing which reduce the volume of calculations that need to be performed – but introducing such logic steps requires software and systems development, not simply adding new tariffs or meter types.

3.3 [✂]

3.4 If the necessary changes to our IT system are delayed, this will not only prevent us accommodating customers who have opted for single rate tariffs on our billing system, but it may also affect our ability to comply with cheapest tariff messaging (see section 4 below) and constrain our ability to provide tariff advice through our call centre agents. We understand that a number of other suppliers are facing similar challenges and that Energy UK is therefore suggesting that implementation of the remedy is delayed beyond 1 April.

3.5 Whilst we welcome the suggestion in the explanatory note that some flexibility may be allowed to suppliers facing technical challenges, we believe that an appropriate delay, as suggested by Energy UK would also be prudent, particularly if a number of suppliers are affected by these issues.

4. DEROGATION FROM CHEAPEST TARIFF MESSAGING OBLIGATION

4.1 As noted above, we welcome the CMA's acknowledgement (para 28 of the explanatory note) that for technical reasons (such as the need to make changes to billing systems) suppliers may be unable to make single rate tariffs available to restricted meter customers within the timescales specified in the Order, and that suppliers may in these circumstances retrospectively apply the tariff to the customer:

> 28. The Order and Licence Conditions require Relevant Retail Electricity Suppliers to make the Relevant Tariffs available to Relevant RMI Customers immediately. We recognise that there may be circumstances where a Relevant Retail Electricity Supplier is unable, for technical reasons, to make the Relevant Tariffs immediately available to RMI Customers or within a reasonable period of time. In such circumstances, we expect Relevant Retail Electricity Suppliers to make arrangements which mean that, once the tariff is available, the supplier will retrospectively apply the tariff to the customer as from an earlier date which corresponds to the period of delay in making the Relevant Tariff available.'

4.2 The same technical reasons may also prevent suppliers complying with cheapest tariff messaging obligation in the supply licence.[2] In ScottishPower's case the cheapest tariff messages displayed in a number of communications including bills and annual statements are generated by the billing system. Until details of the single rate tariff variants that are available for restricted meter customers have been loaded on the billing system, we may be constrained in our ability to include them in the cheapest tariff message calculations. This would potentially mean that until the tariffs were available on the billing system, customers on restricted meter tariffs would be shown alternative multi-rate tariffs but not alternative single rate tariffs.

4.3 We therefore believe that in circumstances where para 28 of the explanatory note applies, it may also be necessary for suppliers to be given some flexibility around their compliance with the various licence requirements to display the cheapest tariff messaging, including for example SLC 31A.2(e), until such time as the single rate tariffs have been made available in the billing system.

4.4 The supply licence already provides for Ofgem to grant derogations from the cheapest tariff messaging requirements.[3] We therefore think it would be sufficient for the CMA to clarify in the explanatory

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[2] For example, SLC 31A.2(e) requires suppliers to provide on every domestic bill or statement of account the customer's (i) Relevant Cheapest Tariff information and Estimated Annual Savings; and (ii) Alternative Cheapest Tariff information and Estimated Annual Savings.

[3] For example, SLC31A.6A states that 'The licensee is not required to comply with section A of standard condition 31A to such extent and subject to such conditions as the Authority may from time to time direct.' Similar conditions exist within the standard licence conditions covering the other relevant communications where the cheapest tariff messaging is required to be displayed.

note its expectations of suppliers in these circumstances, and an expectation that Ofgem would use its existing powers to grant derogations as appropriate.