



Inveralmond House  
200 Dunkeld Road  
Perth  
PH1 3AQ

Urszula Thorpe  
FIT Compliance Manger  
Ofgem  
9 Millbank  
London  
SW1P 3GE

Telephone: 01738 512909  
Email: Claire.Ratthey@SSE.com

Date: 15<sup>th</sup> March 2011

Dear Urszula

**Feed In Tariff (FIT): Guidance for Licensed Electricity Suppliers**

Thank you for providing SSE with the opportunity to comment on the above consultation. We have detailed our responses to the consultation questions and have provided comment on the some of the changes not covered by the questions, in the attached annex. However, we would like to also take the opportunity to reiterate our high level views.

We welcome the publication of this consultation and the open communication Ofgem has maintained with industry throughout the establishment and the first year of the FIT scheme. As the FIT scheme evolves, we appreciate that additional requirements may need to be placed upon FIT Licensees, and others may need to be removed, in order to prevent fraud, and ensure the scheme is operated in the most economic and efficient manner. For example, it is now clear that it is necessary that Ofgem introduce a standard process for biennial meter reading verification and meter reading tolerance checks.

However, it is vital that any additional requirements are targeted at the correct stakeholder/s. The only new requirement in the revised Guidance document which we strongly oppose the introduction of, is the requirement for FIT Licensees to check every Export Meter MPAN number against the Electricity Central Online Enquiry Service (ECOES) database before they are registered on the Central FITs Registry. We believe this requirement should be removed as: it goes beyond the requirements laid out in the Feed In Tariff Order 2010 and Supply Licence Condition; and imposes an additional unnecessary cost upon FIT Licensees, and ultimately customers.

Instead, we believe the Microgeneration Certification Scheme (MCS) should be asked to introduce a requirement into their scheme, that all of their registered installers only install export meters that meet the metering requirements laid out in the Feed In Tariff Order 2010. We believe this would be the most efficient option to ensure compliance, as the MCS installer would be best placed to verify at site that the meter is in place.

It must also be recognised that the introduction of any additional requirements may increase the costs faced by FIT Licensees, and subsequently the costs faced by customers. As stated by Chris Huhne on 24<sup>th</sup> February in his Feed in Tariff Article, it vital to remember that "the money for FITs comes from you and I, it's a cost which is added to energy bills". It is therefore key that Ofgem only introduce additional requirements if they are absolutely necessary, and that they are implemented in the most economic and efficient manner.

We note that some of the requirements proposed in the Guidance document could result in a significant increase in the level of costs faced by FIT Licensees. However, the level of cost faced by FIT Licensees will be highly dependent on how the requirements are implemented. In order to avoid DECC having to revise the Year 2 Qualifying FIT Costs, in our attached annex we have proposed methods for each of the requirements to be implemented in the most efficient manner.

We hope you find this information useful. If you would like to discuss any of the points raised in more detail, please do not hesitate to contact me.

Yours sincerely

Claire Ratthey  
**Regulation**

## Annex: Consultation Questions & Additional Comments

### Chapter 3

1. Views are invited on whether our proposal for managing switching of installations sharing the same meter is appropriate (paragraph 3.92).

We support the proposed approach.

#### **Additional Comment - Non Fossil Fuel Obligation (NFFO) Sites**

We note that the introduction of paragraph 3.8 in the Guidance document which states that “sites subject to a NFFO arrangement are ineligible to join the FIT scheme”. We would like to request clarification from Ofgem in regards to the following:

- Are sites subject to a Scottish Renewable Obligation (SRO) arrangement are also ineligible to join the FIT scheme;
- Are sites which have historically been subject to a NFFO (or SRO) arrangement, but that arrangement has now expired or opted out of, also ineligible to join the scheme; and
- What role Ofgem expect FIT Licensees to play in ensuring that installations on sites subject to NFFO arrangements do not participate in the FIT scheme.

When deciding who should hold responsibility for ensuring that this exclusion is complied with, it is important to note the following points:

- There only 295 NFFO and SRO arrangements in place today;
- As the administrator of the NFFO and SRO arrangements, Ofgem hold up to date details of the existing arrangements; and
- Due to the nature of sites subject to NFFO (or SRO) arrangements, generally only installations larger than 50kW will be located on these sites i.e. their FIT registration will be processed via Ofgem’s ROO-FIT accreditation process, rather than the MCS process.

In regards to the role FIT Licensees are expected to play, one option available to Ofgem would be to require FIT Licensees to include a declaration that the installation is not located on a site subject to a NFFO arrangement in the FIT Statement of Terms. However, if FIT Licensees were required to do so, as the inclusion of this term could be deemed to be a material change in the contract, FIT Licensees may be required to reissue and agree the revised FIT Statement of Terms with all existing generators. This would place an enormous administrative burden on FIT Licensees and would increase the level of costs faced by FIT Licensees. Consequently, as the costs faced by FIT Licensees would increase, the Year 2 Qualifying Administration Cost Level recently published by DECC would need to be revised to take this additional requirement into account.

Instead, in the interests of proportionate and efficient regulation we believe that Ofgem should hold responsibility for ensuring that no installations located on sites registered for NFFO (or SRO) arrangements are registered on the Central FITs Registry. Ofgem could do so by writing to all parties registered under the NFFO (and SRO) to notify them of the exclusion and/or by carrying out spot checks on the Central FITs Registry.

#### **Additional Comment - Generation Tariff**

We note the introduction of paragraph 3.9 of the Guidance document which states that “if an installation exports all its electricity generated to the National Grid, it does not have to have a Generation Meter in place”. We would like to request confirmation from Ofgem that in this scenario, FIT Licensees can register the Export Meter reading as both the Generation Meter reading and the Export Meter reading, on the Central FITs Register. If this is the case, section 4.27 must amended to reflect the change.

As the current wording may lead to confusion, we also request that sections 4.31 and 4.32 are altered to clarify that:

- When installations of different technology types are connected to the same Generation Meter, FIT Licensees are required to allocate a proportion of the overall electricity generated to each installation; and
- When two installations of the same technology type are connected to the same Generation Meter, the lower of the two or more tariff rates applies to the overall electricity generated.

#### **Additional Comment - Switching**

Although it is not highlighted in the Guidance document, currently only Central FIT Registry Users which are registered as Super Users are able to process a switching Generator. In the interests of

efficiency, we would encourage Ofgem to alter the process to enable all registered Users to process a switching Generator.

#### Chapter 4

##### **Additional Comment – Meter Check**

The only new requirement included in the revised Guidance document which we strongly oppose the introduction of, is the requirement for FIT Licensees to check every Export Meter MPAN number against the ECOES database before they are registered on the Central FITs Registry. We believe this requirement should be removed as: it goes beyond the requirements laid out in the Feed In Tariff Order 2010 and Supply Licence Condition; and imposes an additional unnecessary cost upon FIT Licensees, and ultimately customers. Instead, we believe the MCS should be asked to introduce a requirement into their scheme, that all of their registered installers only install export meters that meet the metering requirements laid out in the Feed In Tariff Order 2010. We believe this would be the most efficient option to ensure compliance, as the MCS installer would be best placed to verify at site that the meter is in place.

#### Chapter 6

- 1. Comments are invited on whether the proposed enhancement to the switching process to capture the date when the meter reading was last verified is suitable in mitigating fraud (paragraph 6.14).**

In regards to meter reading verification, it is important to distinguish between: ongoing verification via tolerance checks; and biennial verification. We do not believe the current Guidance document is clear enough in this respect.

We believe no benefit would be gained by requiring FIT Licensees to provide the date upon which the meter reading was verified via a tolerance check, as FIT Licensees are required to complete this form of verification each time a meter reading is provided by the Generator or nominated recipient.

We support the proposal to capture the date on which the biennial verification of a Generator's Generation and/or Export Meter occurred, as doing so should prevent fraudulent Generators from being able to switch FIT Licensees to avoid the verification. Although, we believe the date of the biennial verification should be held on the Central FIT Registry, rather than shared via communication between FIT Licensees during the switching process. We believe placing the information on the Central FIT Registry would also assist Ofgem's compliance auditing.

- 2. Consultees are invited to comment on an alternative framework for verifying Generation and/or Export Meter Readings that would allow FIT Licensees to access meter readings without a site visit (paragraphs 6.16 to 6.17).**

To date, we are not aware of any measures, other than a site visit, that we believe would be sufficient to satisfy compliance with the biennial verification requirement.

If a FIT Licensee is prevented by the Generator from carrying out a biennial verification at site i.e. meters have been located in an unsafe or inaccessible place, or access has not been granted to the site, we believe that payments to that Generator should be suspended until the verification at site has been conducted. If after 60 working days (roughly one periodic levelisation period), the verification has not been completed, we believe Ofgem should remove the installation from the Central FIT Registry.

##### **Additional Comment - Fraud Prevention**

##### Industry Standard Compliance Procedures

We believe that it is vital that consistent fraud prevention measures are used across all FIT Licensees, both Mandatory and Voluntary, to ensure potentially fraudulent Generators are not incentivised to register for FIT services with a FIT Licensee that is viewed as having less stringent measures in place.

We understand that there may be concerns that potential Voluntary Licensees may be reticent to participate in the FIT scheme if the required processes are viewed as being too costly or complex with regard to the scale of their customer base. However, it should be remembered that Voluntary Licensees are compensated for this via the differential in the Qualifying FIT Cost level they are able to claim per Generator.

#### Ongoing Tolerance Check Verification

We note that FIT Licensees are required to use tolerance checks to verify meter readings each time one is provided by a Generator or nominated recipient. We are confident that the tolerance checks we have in place are fully compliant with the requirements outlined in the revised Guidance document. However, we are concerned that due to the lack of detail provided in the Guidance document, there may be a large variance in the processes FIT Licensees have in place. We are concerned that there is a risk that: the processes which are put in place may not be as comprehensive as Ofgem expect; and FIT Licensees may unknowingly have differing levels of compliance.

We would urge Ofgem to either: set specific technology and size related tolerance levels for FIT Licensees to use consistently; or publish more comprehensive details in the Guidance document on the process Ofgem expect FIT Licensees to follow.

#### Biennial Verification

We note that FIT Licensees are required to take all reasonable steps to verify Generation and/or Export Meter Readings at least once every two years from the Installation's Eligibility Date. We understand through verbal communication with Ofgem that FIT Licensees are expected to meet this requirement by visiting the site of the Generation and/or Export Meter associated with the installation and taking a meter reading from each. If this is the case, this must be clearly explained in the revised guidance document to ensure a consistent approach is taken across FIT Licensees.

If our understanding is correct, we also believe Ofgem should publish an industry standard process for such site visits. We believe it may be appropriate to base the process used for the Biennial verification, on the Gas Supply Licence Conditions 12.8 to 12.16. If this process were to be followed, we believe it would be appropriate to improve the functionality of the Central FIT Register to enable it to send notification to the FIT Licensee when the Biennial verification is required, as the Gas Transporter is required to do so under the Gas Act.

If the FIT Licensee were unable to access to the Generation and/or Export Meter at the meter reading appointment, for any reason within the Generator's control i.e. meters have been located in an unsafe or inaccessible place, or access has not been granted to the site, we believe that the FIT Licensee should be allowed suspend all payments associated with that installation, and then notify Ofgem.

#### **Additional Comment - Biennial Verification**

There may be instances in which a Generator chooses to switch FIT Licensee close to the date by which the biennial verification is required, but before it is carried out. For example, a Generator may choose to switch FIT Licensee 1 year and 11 months after the Eligibility date of their Installation. In these instances, we believe it would be appropriate for Ofgem to allow the new FIT Licensee a grace period in which the FIT Licensee must conduct the biennial verification if not prevented by the Generator.

As highlighted above, we believe that if the FIT Licensee were unable to again access to the Generation and/or Export Meter at the appointment, for any reason within the Generator's control, the FIT Licensee should be allowed suspend all payments associated with that installation, and then notify Ofgem.

### Chapter 7

#### **1. Respondents are invited to comment on whether the quarterly levelisation process is the most appropriate or whether there should be a move to a more frequent process (paragraphs 7.14 to 7.20).**

At this early stage of the scheme's existence, we continue to believe that quarterly is the most appropriate period for levelisation. We believe a move to a more frequent levelisation process i.e. a monthly levelisation would be inappropriate for a number of reasons:

- (i) As only 3 periodic levelisations and no annual levelisations have occurred to date, we believe that it is vital that both Ofgem and FIT Licensees are able to focus their attention on ensuring that all processes associated with these levelisations are allowed to fully establish and evolve before any alteration to the period were introduced.
- (ii) If the levelisation period were to move to a monthly basis, the electricity supply data submitted would have to be data forecasted by FIT Licensees, as the actual data would not be available. As this data would not have been settled, the reduction in accuracy may lead to a more onerous annual levelisation process.

- (iii) Moving from a quarterly to a monthly periodic levelisation would involve a substantial increase in the costs associated with meeting the levelisation requirements. As all of the processes used by FIT Licensees to create, verify and submit the required levelisation data are administered manually, a move from a quarterly to a monthly levelisation period would require each FIT Licensee to either: significantly increase the number of staff involved in the levelisation process; or create of a new information system capable of processing the levelisation data electronically. As highlighted above, we estimate that the additional costs associated with putting either of these in place could exceed £100,000.

We strongly believe that for the FIT scheme to offer value for money, any unnecessary increase in costs should be avoided. If a monthly levelisation process were introduced, the Year 2 Qualifying Administration Cost Level recently published by DECC would need to be revised to take the additional requirement into account.

- (iv) **Consultees are asked to present evidence on the costs and benefits to their organisation of a more frequent Periodic Levelisation process (paragraphs 7.14 to 7.20).**

As highlighted above, we estimate that the additional costs associated with putting in place the necessary measures to process a monthly levelisation could exceed £100,000. We believe any benefits which could be reaped from moving the process from a quarterly to a monthly basis, would be by far outweighed by the costs of doing so.

We recognise that some FIT Licensees have raised concerns that if they were to have a FIT market share which exceeded their market share responsibility, their cash flow could be negatively impacted by the fact the levelisation only occurs once a quarter, rather than monthly. However, we believe that this concern is unwarranted due to the FIT Licensee's current ability to submit their 'anticipated' FIT costs for the relevant levelisation period into the data submitted.

- (v) **In the absence of a more frequent levelisation process, is there scope for FIT Licensees to align FIT Payments to all FIT Generators with the quarterly levelisation process (paragraphs 7.14 to 7.20)?**

We believe that there is scope for FIT Licensees to align FIT Payments to all FIT Generators with the quarterly levelisation process. However, unless a FIT Licensee provides services to only a very small number of Generators, requiring FIT Licensees to do so would require the simultaneous processing of hundreds or, in our case, thousands of payments, and the submission of the levelisation data within a very limited period of time. Consequently, the introduction of such a requirement would result in a very significant increase in the costs faced by FIT Licensees.

As we strongly believe that any unnecessary increase in costs should be avoided, we would urge Ofgem to avoid the introduction of this as a requirement. We believe it should be left as it currently is - an option for a FIT Licensee, rather than a requirement.

- (vi) **Respondents are asked to suggest any alternative way to carry out the levelisation process that would not be so administratively burdensome, but would achieve some of the benefits of the monthly process (paragraphs 7.14 to 7.20).**

We support Ofgem's intention to improve the levelisation process. However, as only 3 periodic levelisations and no annual levelisations have occurred to date, we believe it is vital that both Ofgem and FIT Licensees are able to focus their attention on ensuring that all current processes associated with these levelisations are allowed to fully establish before any alterations are made. We suggest that it would be more appropriate and efficient to review the potential for any enhancements to the process after the Year 2 annual levelisation has occurred, rather than at this early stage.

- (vii) **If the frequency of Periodic Levelisation were to change, how much time would Licensed Electricity Suppliers need to adapt to this change (paragraphs 7.14 to 7.20)?**

As all of the processes used by FIT Licensees to create, verify and submit the required levelisation data are administered manually, a move from a quarterly to a monthly levelisation period would require each FIT Licensee to either: significantly increase the number of staff involved in the levelisation process; or create of a new information system capable of processing the levelisation data electronically.

If FIT Licensees were to opt to recruit and train additional employees, this process would take at least 6 months. If FIT Licensees were to opt to create a new information system, this process would take at

least one year, as it would be need to be capable of interacting with existing billing and other systems.

As both of these options would involve a significant increase in costs faced by FIT Licensees, DECC would need to revise the Qualifying FIT Cost level before any of these process could be started. Therefore the timeframe associated with the review of the Qualifying FIT Costs would also need to be taken into consideration.

If Ofgem are minded to increase the frequency of the periodic levelisation, we believe a full Impact Assessment of doing so should be conducted, and the results consulted upon.

- (viii) To align with the principles of better regulation, it may be appropriate not to increase the frequency of Periodic Levelisation until the amount of money levelised reaches a certain level. Respondents are invited to comment on what the appropriate level should be (paragraphs 7.14 to 7.20).**

In the interests of proportionate regulation, we believe that the review should be conducted if the following two conditions were both met: if a review is requested by a FIT Licensee; and if that FIT Licensee's market share of the FIT market were at least 5% above the market share they hold responsibility for. For example, if a FIT Licensee held responsibly for 17% of the FIT market, but their market share was 23%, they could submit a request to Ofgem to review the period of periodic levelisation.

- (ix) Comments are invited on whether the timetable we have in place for processing Periodic Levelisation Reports is appropriate. We welcome views on what an alternative timetable should be (paragraphs 7.22 to 7.30).**

We believe that the timetable in place for processing the periodic levelisation is appropriate overall. However, we would like to suggest a change in the number of days provided for specific functions to allow for a more appropriate allocation of time. We would like to suggest that the number of days allocated to Ofgem to invoice FIT Licensees be reduced from 10 days to 5, and that that those extra 5 days be allocated to the timeframe allocated to FIT Licensees for submitting the levelisation data. To clarify, we expect the FIT Licensee invoicing payment period to remain the same. It should be noted that this change would not impact the overall time allocated to the levelisation process.

- (x) We welcome views on whether a more frequent levelisation process would create any difficulties with this reporting timetable (paragraphs 7.22 to 7.30).**

A more frequent levelisation would create difficulties with the reporting timetable. As highlighted above, as all of the processes used by FIT Licensees to create, verify and submit the required levelisation data are administered manually, a move from a quarterly to a monthly levelisation period would require each FIT Licensee to either: significantly increase the number of staff involved in the levelisation process; or create a new information system capable of processing the levelisation data electronically.

- (xi) We welcome views on whether Ofgem should require FIT Licensees to provide additional information in their Annual Levelisation Report to ensure that FIT Generators have received FIT Payments they are entitled to (paragraphs 7.36 to 7.37).**

We believe that the complaints procedure will capture any Generators who have concerns regarding their payments. Therefore, introducing an additional requirement for FIT Licensees to provide such additional information in their Annual Levelisation Report would be unnecessary and unduly onerous.

#### **Additional Comment - Qualifying FIT Costs**

##### Consultation Process

As Ofgem will generally only reach a decision as to whether the introduction of additional requirements are necessary after a consultation process on the additional requirements has taken place, we believe it would be more efficient in future to carry out the consultation process at least 6 months advance of the beginning of the scheme year i.e. in October. This would then allow Ofgem's final decision on the implementation of any additional requirements to be published in advance of the date by which FIT Licensees are required to submit their Qualifying FIT Costs forecasts to DECC. Consequently, it would allow the Secretary of State to make a fully informed decision in regards to the Qualifying FIT Cost levels.

## Year 2

We note that sections 7.9–7.13 have been added to the Guidance document to provide clarity with regard to the circumstances under which a FIT Licensee is able to claim Qualifying FIT Costs in Year 1. As DECC have now published their Determination on Year 2 Qualifying FIT Costs, this section will need to be updated to reflect the changes introduced.

We understand that if Ofgem wish to publish the revised Guidance document in advance of Year 2 i.e. before 1<sup>st</sup> April 2011, there may not be enough time to publish a formal consultation on Ofgem's interpretation of the Year 2 Determination. However, we would urge Ofgem to conduct at the very least an informal consultation with both DECC and FIT Licensees, to ensure an informed decision is made.

### **Additional Comment - Auditing of Annual Levelisation Data**

We note paragraph 7.23 of the current Guidance document states that "Data provided by FIT Licensees in the Annual Levelisation Process should be fully audited by an **independent organisation**". However, the revised Guidance document states that "it is a requirement that data regarding FIT Payments made to FIT Generators submitted in the Annual Levelisation process is fully audited by a **third party**".

When deciding upon the scope of the audit and who may conduct it, it is vital that Ofgem take the cost of each option into consideration in order to ensure that the FIT scheme is being operated in the most cost efficient manner. If the requirements included in the revised Guidance document were more onerous than FIT Licensees were led to believe they were when they submitted their cost forecasts to DECC, the Year 2 Qualifying FIT Cost levels would need to be revised to reflect this change.

We had understood from the previous Guidance document that as long as internal auditors employed by the parent company, were capable of acting independently of the FIT Licensee, they were able to conduct the audit. However, the change of wording within the revised Guidance document could be interpreted as now requiring the audit to be conducted by a party unrelated to the FIT Licensee and the parent company.

We also note that the only guidance which has been provided by Ofgem regarding what the audit of the annual levelisation data is to encompass is as follows: "It is a requirement that data regarding FIT Payments made to FIT Generators submitted in the Annual Levelisation process is fully audited by a third party." However, Ofgem have deemed it necessary to include 2 pages of detail on what Ofgem's audits will encompass. Without further guidance from Ofgem as to what the audit must encompass we are deeply concerned that FIT Licensees will be unable to comply with this requirement.

We would like to urge Ofgem to provide clarification as soon as possible in regards to:

- What the objective of the audit is i.e. whether the audit is to examine: that all due payments have been made to the Generator or the nominated recipient; if any incorrect payments have been made, and if so are they rectified; or if the correct tariff levels have been attributed to Generators;
- Whether all FIT Payments are to be audited or only a sample; and
- If only a sample, what size would the sample need to be i.e. 10, 100 or 1000 payments;

As highlighted above in regards to meter reading verification, we are concerned that due to the lack of detail provided in the Guidance document, there may be a large variance in the audit processes FIT Licensees put in place. In order to mitigate the risk that the processes which are put in place may not be as comprehensive as Ofgem expect and ensure equal compliance across all FIT Licensees, we would urge Ofgem to explicitly state whether internal auditors employed by the parent company which are capable acting independently of the FIT Licensee, are able to conduct the audit or not, and what the audit is required to encompass.

## Chapter 8

1. **Comments are invited on whether Ofgem's auditing suggestions are appropriate and whether they will address potential compliance issues in the FIT scheme (paragraphs 8.4 to 8.6).**

The proposed auditing measures appear to be appropriate.