



SSE Airtricity Gas Supply Northern Ireland Ltd.

Price Control Submission 2023-2027

Draft Determination Response

August 2022

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Section 1: Overview

The Utility Regulator (UR) published its SPC23 approach document for consultation in November 2021. Since then, SSE Airtricity Gas Supply Northern Ireland (SSE Airtricity) has been engaging with the UR in the price control review process. SSE Airtricity made its initial submission to the UR for the allowances required to run the business in SPC23 period in February 2022. SSE Airtricity has engaged with the UR during the Draft Determination (DD) development stage seeking to ensure the regulator fully understands the requirements of the business and its objectives over the SPC23 period.

The UR published its consultation on SPC23 in June 2022 which set out its view and position on the costs being sought by SSE Airtricity. Having engaged with the UR in advance of this publication we are appreciative of the opportunity to provide further evidence to support our original submissions and furnish more up to date information, in particular noting that since the submission of our initial business case, the energy crisis has deepened and is recognised by key stakeholders, including the Utility Regulator to be sustained for the medium term.

Forward wholesale gas prices as at 26 August 2022 for FY '23 were trading at over 700p/therm with Summer '26 was trading at 248p/therm. With cheaper hedges, which have offset the full impact of wholesale gas price increases, being exhausted, there is still significant upward momentum for regulated tariffs in the years ahead, and there is no prospect of retail tariffs returning to pre-pandemic levels during the period of SPC23.

It is widely recognized that the tariff increases will have a devastating impact on many customers in the coming years, with fuel poverty levels forecast to exceed 70%¹. Customers will need a much higher level of engagement with SSE Airtricity as we fulfil our service and regulatory obligations. Against this background, it is vital that the UR support the delivery of the required service standards. The decisions taken by the UR for SPC23 will have a profound impact on gas consumers in Northern Ireland as they attempt to navigate through the biggest cost of living crisis in living memory.

We welcome the recognition of the requirement for additional resources already funded by SSE Group above and beyond any allowance permitted under SPC20 and the costs proposed to be allowed per the Draft Determination.

¹ Source: Prof Jonathan Bradshaw and the University of York. Note: 10% fuel poverty threshold. Household fuel poverty status in January 2023

1.1 Structure of Submission

There are three main areas of challenge based on the proposed allowances in the Draft Determination;

- Manpower,
- IT costs and
- Bad Debt

Each of these areas will be discussed in detail below as well as some of the individual cost lines in the submission. In addition, there are a number of supplementary aspects considered towards the final section of this paper.

Section 2: Price Control Context

2.1 Updated factors since original submission

Since our initial submission in April '22, SSE Airtricity along with other suppliers has seen a sustained period of volatility, which has not been experienced since the early 1970s. This volatility is permeating across the entire energy supply chain and includes both concerns over the security of gas supply as well as the volatility seen in markets. Wholesale gas prices have risen from 30p a Therm to over £7 a Therm in the space of 18 months. In turn this has led to five price changes within the SSE Airtricity Gas business, which require communicating with the entire regulated customer base each time, which in turn drives inbound call traffic on a range of customer concerns. For example, over summer 2022 as tariff prices increased, we have observed that customers cancelling Direct Debits have also risen sharply. For example, in June-August 1,900 customer cancelled Direct Debit amounts, which in summer months are often in credit and affords a customer a seasonal financial buffer heading into the higher winter consumption period.

In addition, a number of grassroots movements such as Don't Pay UK as well as local Northern Ireland groups have initiated campaigns urging customers across the UK to cancel Direct Debits. The delay in government supports in Northern Ireland has exacerbated the situation with customers across Northern Ireland lacking any government support at a time of record inflation with the Bank of England forecasting inflation will hit 13.3% in the fourth quarter of 2022, and Citi predicting inflation of 18%. In turn, it is expected (Goldman) that the UK economy will enter recession in Quarter 4 2022. SSE Airtricity's affordability schemes which run across our Northern Ireland electricity and Republic of Ireland customers is supporting thousands of customers and demonstrates that even before Winter 2022, customers are facing affordability challenges which SSE Airtricity expects will increase in the coming months and years.

It is against this backdrop of a significantly changing macro-economic environment that SSE Airtricity is responding to the UR's Draft Determination. Since our initial submission in February '22 SSE Airtricity has implemented three price changes in our regulated gas tariff and the resulting increase in customer contacts means we are confident that there will be a customer led need for an increase in customer support in the years of SPC23.

Section 3: Response to Draft Determination

3.1 Manpower

The original submission provided in February 2022 set out the business case for a change in methodology for manpower to focus on a KPI output-based approach. The change represented a move to a bottom-up build based on forecast activity to create a robust manpower requirement. During SPC20, the business has seen a substantial increase in activity as a result of enduring changes in customer behaviour, which has required a corresponding uplift in manpower to deliver service standards to these customers.

The forecast activity which was used to build our SPC23 was based on historic trends and forecast customer growth. Given what we have now seen a c.250% increase in regulated tariffs from the point of our submission in February '22, with further increases anticipated in 2023, there is a credible expectation of a surge in customer engagement and activities across both customer service and all Back Office operations, reinforced by stakeholder messaging, including the UR, for customers to contact their supplier where they are concerned about their energy bill.

The forecast requirements to provide an acceptable standard of service meant we required 118.8 FTEs, already incorporating efficiencies from higher overall headcount and the implementation of a new billing system.

	2023/24	2024/25	2025/26	2026/27
SSE Submission	118.8	118.8	118.8	118.8
Draft Determination	105.3	105.3	105.3	103.3
Variance	-13.5	-13.5	-13.5	-15.5


3.1.1. Customer Service

For each department within SSE Airtricity, we provided the corresponding outputs which could be expected from these required FTEs. Within Customer Service this focused on the four main KPIs which are monitored via a monthly submission to the UR. These are:

- Call Abandonment Rate (%)
- Average Call Answering Time
- Service Level (%)
- Average Handling Time

Since we began monitoring these areas, SSE has continued to invest in staff at our own cost and continues to see the impact of additional staff in the team, to the benefit of customers.

These FTEs provided a consistent level of service throughout the year, factoring in seasonal peaks from higher call volumes in winter. This relative uplift in allowances from SPC20 to SPC23 was focused on the Customer Services team and reflected the resources already in place as subsidised by SSE Group. We have provided details on Customer Services KPIs which show the impact for customers of adding these SSE Group funded FTEs.



It should be noted that this period included three price increases and additional call volumes during YTD Summer 22 similar to winter peaks levels, despite the forecasts of lower activity in spring/summer months, therefore evidencing the value of these customer services agents being in situ year-round.

For example, In July 22, we experienced over 50% increase in inbound calls compared to forecast. The 12.3k calls were the second highest received in any month in the last year. FY22 YTD, SSE Airtricity has already received 17% more calls than forecast, the forecast calls being the numbers previously submitted as part of SPC23.

Given the continuing cost of living crisis and escalating price of energy, we do not foresee any reduction in call volumes and customer contacts into the business in the next price control as efficiency gains are outstripped by the level of contacts from customers. Therefore, to achieve similar levels of KPIs into the next price control, the FTEs in the submission should be the minimum level required to meet acceptable standards.

3.1.2 Draft Determination Impact on KPIs

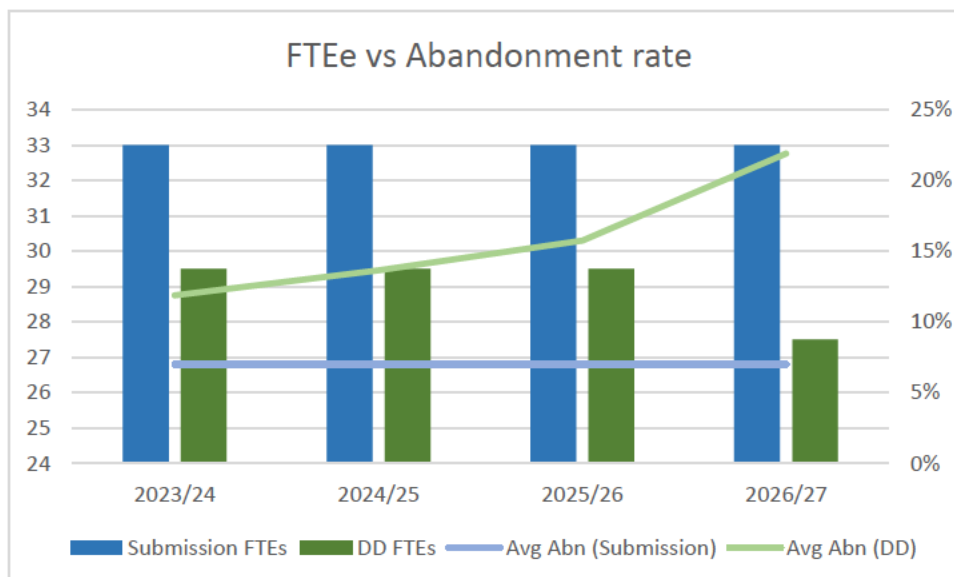
The Draft Determination allowances for Customer Service FTEs is based on the agents in place at end March 22. However, as demonstrated by the above KPIs, SSE continued to recruit to the required levels into July which meant that KPIs stabilised at an acceptable level.

The allowances in the Draft Determination would facilitate a total of 105.8, of which 29.5 would be Customer Service.

This is compared to 36 CS agents in place between April and July 2022, which is the amount we determined would be required based on the new methodology. With the requested FTEs in customer service of 36 plus 5 management FTEs we had modelled an annual average abandonment rate of 7%.

Based on the draft allowances of FTEs in the DD, we have projected corresponding abandonment KPIs on an annual basis for the relevant Customer Services team between 11.9% in Year 1, rising to 21.9% in Year 4.

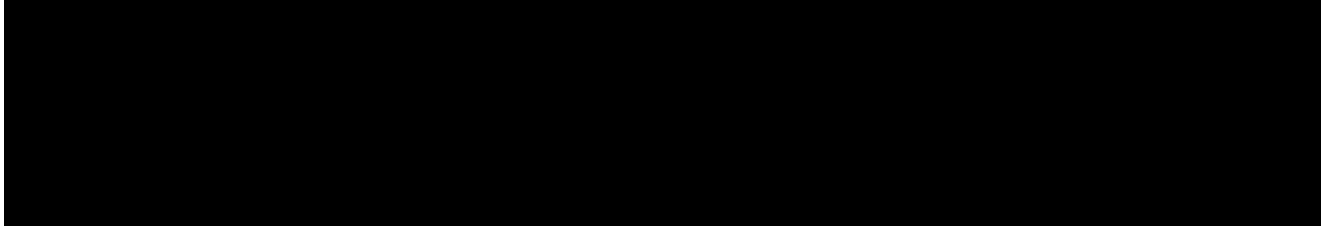
The below modelling is based on constant inputs used in the original submission such as customer number forecasts and contacts, and as noted above, it is likely that these substantially understate our revised expectations.



As evidenced above, if the FTEs required in the original submission are not granted, the above abandonment rates, at a minimum should be expected over the next price control period.

Seasonal Impact on Abandonment rates

The above is an average of the abandonment rate that can be expected over the course of the year. However, as SSE Airtricity customer activity is seasonal, we expect that this will be more pronounced in the winter months as contacts are higher. The below table identifies the Summer/Winter split of average abandonment rates.



Summer Impact

With the above forecast, using the DD FTEs, the Summer Abandonment rates will be greater than the targeted average we shared in our original submission of 7% over the year. Therefore, we forecast that the outcome service levels within customer service will become untenable once again.

It should also be noted that in Spring 2022, we have not seen any marked reduction in call volumes as we would have expected for this time of year, despite previous trends. This increase in customer contacts has resulted in 17% above forecast for YTD at 31 July 2022 – these levels are usually reserved for winter months. Given the ongoing macro-economic factors and continuing prevalence of energy costs in the headlines, we can reasonably expect higher contacts to continue well into the next price control. Therefore, if we are expected to resource a call centre with less than 30 CS agents, we can expect a summer abandonment rate of up to **12%**.

Winter Impact

The above winter abandonment rates are comparable to those we saw in 2020 which prompted the UR to intervene in the operations of the SSE Airtricity call centre.

As we witnessed in Winter 2020, high abandonment rates contributed to other areas of stress across all operational teams as customers become frustrated when they cannot get through to the call centre. This leads to higher complaint figures, which in turn take a longer time to process, create additional administrative load on the teams and increase overall call handling time. In addition, the higher levels of stress contributed to very high levels of sickness absence and attrition across the whole business. This in turn exacerbated the delivery of substandard service KPIs.

At this time of great anxiety from many customers, especially vulnerable customers, it is imperative that the UR supports the delivery of the required service levels, and that all required FTEs are allowed in the Final Determination by the UR.

3.1.3. Year Four Efficiency

Additional efficiencies in Year 4 have also been added to the Draft Determination, bringing the CS agents from 29.5 to 27.5 FTEs. This has further exacerbated the sub-optimal KPIs as shown above. When SSE Airtricity conducted our initial analysis to determine required FTEs, we incorporated an efficiency in Year 4, however this was against the backdrop of an overall 118.8 FTEs including 33 CS agents.

While an efficiency of two FTEs may have been possible with the full allowance per our submission, if we are limited to the 29.5 FTEs for Year 1-3, we will not have capacity to make the changes required to maximise efficiency by Year 4. Additionally, as set out above, if SSE Airtricity Customer Service is under-resourced in SPC23 compared to requirements we will see a larger impact on the administrative areas of the business and therefore any potential time for business improvements will be utilised for BAU activities e.g. complaints and call-backs. As noted above, we expect significant pressure on customer services as customers deal with record tariff levels and a cost of living crisis which drives engagement with us as their energy supplier. It is inconceivable that the impact of these issues will be fully resolved over the period of SPC23, and therefore it is imperative that resources continue to be available to deal with cumulative impact of the many issues that will be faced.

It is essential that the UR understand that any efficiencies that may be gained later in this price control are dependent on SSE Airtricity being granted the required FTEs of 118.5 to allow us to maintain service levels in a growing customer base and then deliver efficiencies as a secondary result.

3.1.4 Back Office Manpower

Within SSE Airtricity, we have multiple departments that make up the Back Office as a collective. These include back office, credit control, billing and other administrative teams. As per the original submission, we detailed the requirement for a fully resourced Back Office to support our business and deliver essential tasks mandated by regulatory requirements across SSE Airtricity.

We note the recognition from the UR of the work already completed by SSE Airtricity in resourcing staff at our own cost above the SPC20 allowances. This included seconding a number of employees from across our non-regulated Northern Ireland and Republic of Ireland businesses. These roles cover all tasks including billing, meter read management, vulnerable customer management, revenue protection, credit control, switching and business improvements. These roles also deliver one-off projects such as the new billing system transition, future regulatory project implementation and compliance reviews.

Requirements for the Back-Office team are built up based on the workload per customer, by the time required to complete these tasks and the number of BO agents required to complete these tasks. It is imperative that an allowance for shrinkage at 15% is included to cover holidays (10%), sick leave and attrition. We reiterate that in comparison to customer facing customer service roles, for Back Office our shrinkage rate is set significantly lower, which reflects the lower attrition and sickness levels we observe.

The below table indicates Back Office roles which were included in the SPC23 submission which have been removed in the Draft Determination.

Team	SSE Airtricity Submission	Draft Determination	Variance
Back Office Team	19	14	<ul style="list-style-type: none"> • 4 x Back Office Analysts • 1 x Back Office FTC switching
Credit Control Team	19	17	<ul style="list-style-type: none"> • 1 x Revenue Assurance Analyst • 1 x Credit Control Admin
Billing Team	9	7	<ul style="list-style-type: none"> • 1 x Assistant Manager • 1 x Billing Analyst
Central Services	2	1	<ul style="list-style-type: none"> • 1 x Quality Monitor

The Draft Determination has indicated that SSE Airtricity did not provide sufficient evidence to demonstrate a business need. We are surprised at this given the makeup of the roles was based on a methodology which took the available time per agent and divided this against the number of tasks to be completed.

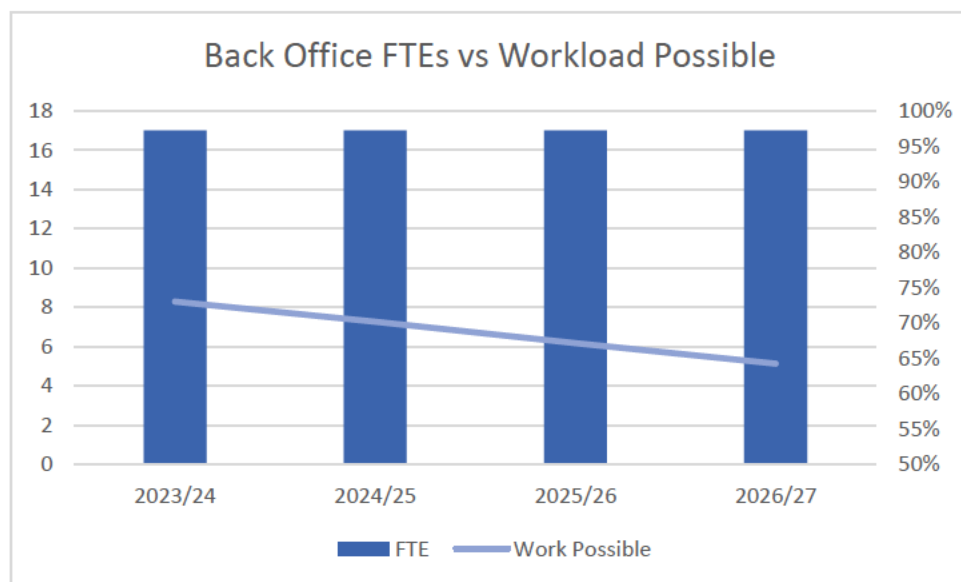
Should it be required, SSE Airtricity Operational leadership would welcome the opportunity to discuss our modelling approach with the UR, face to face, so that it made fully understand the evidence presented. The below section will detail the business and customer impact if these FTEs are not included in allowances for SPC23. As this is a bottom up approach taken to determining required FTEs, we note that this does differ from previous SPCs. However, we are of the strong view that a bottom up approach is integral to ensure a compliant and customer serving business that focuses on managing tasks effectively and in a timely manner.

3.1.5 Back Office Team (19 FTEs)

Team	SSE Airtricity Submission	Draft Determination	Variance
Back Office Team	19	14	<ul style="list-style-type: none"> 4 x Back Office Analysts 1 x Back Office FTC switching

Based on the new methodology, we have determined that the required FTEs for the back-office team is 19 including one Team Lead. The DD allowance is 14 including a Team Lead. Without these additional FTEs in the back-office team, SSE Airtricity will not deliver the key services required by the UR or our customers.

Using the allowed FTEs from the DD, we have recalculated the projected outputs of this team to determine if we can meet the required workload. The below chart details the percentage of tasks that would be possible with 13 operational FTEs in the back-office team. This ranges from 73% in Year 1 to 64% in Year 4.



To clarify, the above 'workload possible' is within each day therefore anything less than 100% will create a backlog of tasks which will accumulate day by day causing more and more work to build beyond a sustainable level.

Below we detail some specific task examples which are essential to be completed for our customers, and which would be significantly impacted with the current proposed DD allowances.

Meter Exchanges and Change of Tenancy

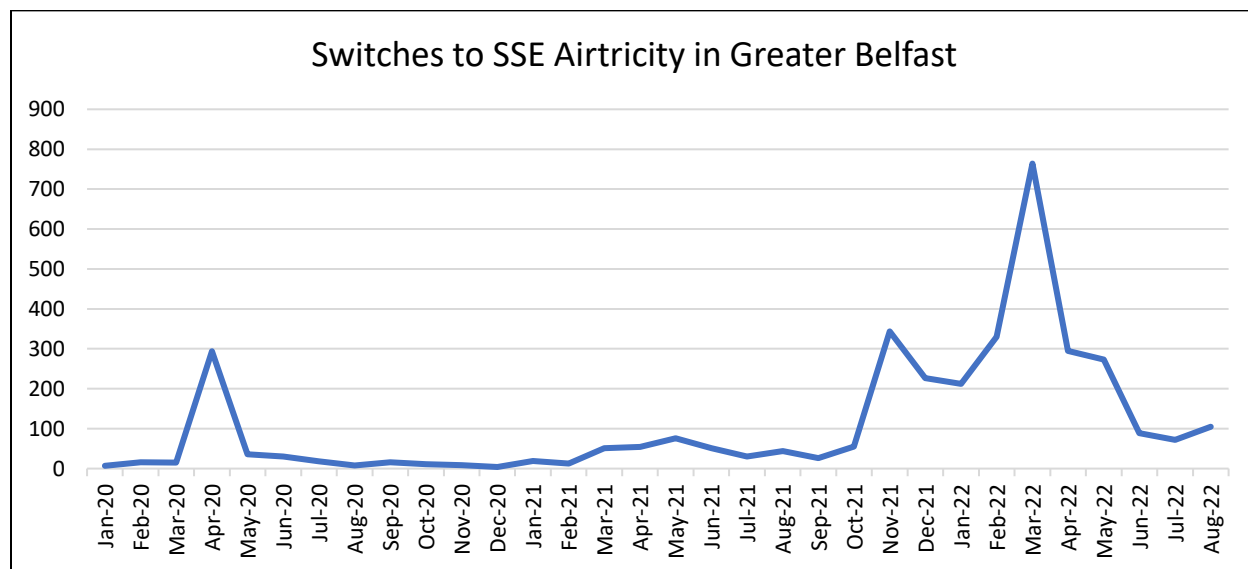
Meter Exchanges and Change of Tenancy will not be completed within regulatory timeframes based on the DD allowances. For each of these processes, the analyst must manually close off the accounts, coordinate with the customer, arrange and validate meter reads and issue final bills within a regulatory timeframe. These are essential services for the customer and must be processed in a timely manner, particularly where there is a credit to be returned.

Switching

A back-office task within SSE Airtricity which is cumbersome is switching which is a mostly manual process requiring the team member to push the switch through the DNO's system as well as set up on our billing system. As this is a Network Code prescribed process, each action must be taken on a specific day and therefore very few efficiencies can be made with processing.

PPM customers in particular rely on the supplier to push the switch message to the customer via PayPoint and monitor the uptake to ensure the switch is complete. A frequent occurrence is the customer not picking this message up within the correct window and therefore we have manual processes at designated intervals to ensure the customer completes the switch.

Each one of these steps requires monitoring and dedicated resource to ensure a complete switch. At the time of submission, we forecast a requirement for one extra FTE for Switching to manage ongoing customer growth. As energy prices continue to escalate, the Switching roles in back office are becoming overwhelmed with workload which will lead to customers unable to switch to SSE Airtricity and therefore continue to pay for energy at with an alternative supplier rate which may be more expensive.



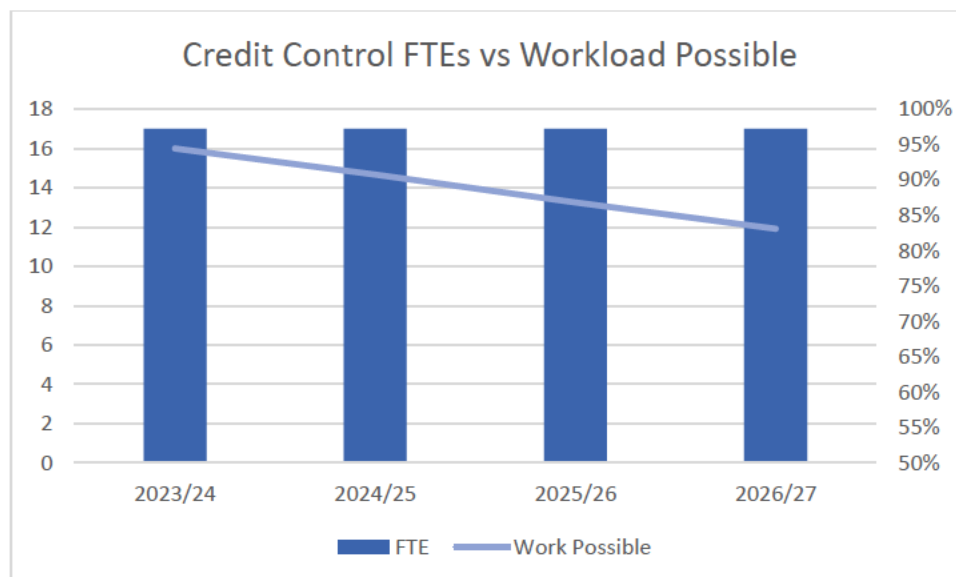
The analyst's role is also to facilitate ad-hoc analysis required by the rest of the business or industry. Some recent examples of back office analysis have contributed to AQ determination, debt monitoring, annual forecasting and hedging analysis. These analysts are also responsible for identifying and implementing improvements within the team and providing support to the administrators. In the absence of these new analysts, the team will not deliver the essential tasks.

Based on the forecast customer growth over the price control, it is impossible for essential tasks to be completed in line with expected regulatory requirements and customer expectations. Missing these tasks will generate complaints in SSE Airtricity and the consequent workload associated with processing these, which in turn causes further workload.

3.1.6. Credit Control team (19 FTEs)

Team	SSE Airtricity Submission	Draft Determination	Variance
Credit Control Team	19	17	<ul style="list-style-type: none"> 1 x Revenue Assurance Analyst 1 x Credit Control Admin

The forecast completed by SSE Airtricity as part of the initial SPC23 submission included a requirement for an additional Revenue Assurance Administrator and a Credit Control Administrator. Both these roles are required due to increased workload for the wider Credit Control team. Adjusting the original model to remove these two roles, we see a drop in corresponding workload completed to 94% in Year 1 and 83% in Year 4.



The tasks that will be impacted by this under-resourcing include additional phone support for customer payment plans and Revenue Protection investigations. It is our expectation that as we move towards integrating the requirements of the Best Practice Framework on Vulnerability in due course that this will necessitate a lengthier dialogue with customers; a requirement which will be exacerbated by cost of living crisis.

In accordance with the SSE Airtricity Gas Supply Licence² and Codes of Practice, we are required to provide a comprehensive and holistic approach to customers who are in debt and struggling with their energy costs. We have forecast the requirements for these FTEs based on the workload experienced by Credit Control in recent years and given the continued increased cost of wholesale gas we expect to see more and more customers falling into debt and therefore availing of this service. These customers require meaningful engagement from the team to deliver the bespoke approach that will help them manage their debt. In addition, referring to the UR's own audit recommendations from 2021, there was a clear need for customers to be offered repayment support which is tailored to their circumstances. We support such an approach, but this takes time for our agents to deliver to each customer on an individual basis. For example, the UR's audit spoke to the need for repayment percentages to be bespoke to each customer. For this to be realised, in particular in the coming years when the volume is likely to be higher necessitates a fully resourced workforce, a trend we are seeing an upward trajectory on as household circumstances change due to the cost of living crisis.

The ongoing UR consultation on Best Practice Framework suggests areas of further workload for Credit Control such as removing any time targets from affordability focused calls. The expansion of the definition of vulnerability which will now likely include those struggling to pay means that this will be 100% of the customer engagement in the CC team, which will make each interaction more comprehensive.

Furthermore, the disconnection process, for example, can be very lengthy and stretch over months or years with the CC team engaging at regular intervals to check in or re-arrange the plan. In advance of disconnection, we need to ensure we do not disconnect a customer who could be deemed vulnerable therefore we will engage extensively with the customer up until disconnection.

Revenue Protection investigations are a key aspect for the Revenue Assurance analyst which will not receive priority focus without the required FTE per the SSE Airtricity submission. RP is a critical process for SSE Airtricity given the increasing financial pressure on customers due to the cost of living crisis, leaving the gas industry vulnerable tampering and theft. The UKRPA (UK Revenue Protection Association) conference 2022 focused on an expected rise in RP related incidents across the UK as energy price rises are expected to impact household incomes.

As tariffs have increased throughout FY 2022-2023, we have already seen an increase in 60 day plus credit debt, and over 2,000 customers cancelling their direct debits. With further tariff increases in October 22, and a forward market suggesting further substantial increases in 2023, growing levels of debt are inevitable. Without adequate resourcing to deal with the expected increase in activity, and given that government support appears to be channelled through electricity, it is inevitable gas debt levels will increase, putting strain on the business, and ultimately leading to further requirements for customer funded bad debt allowances.

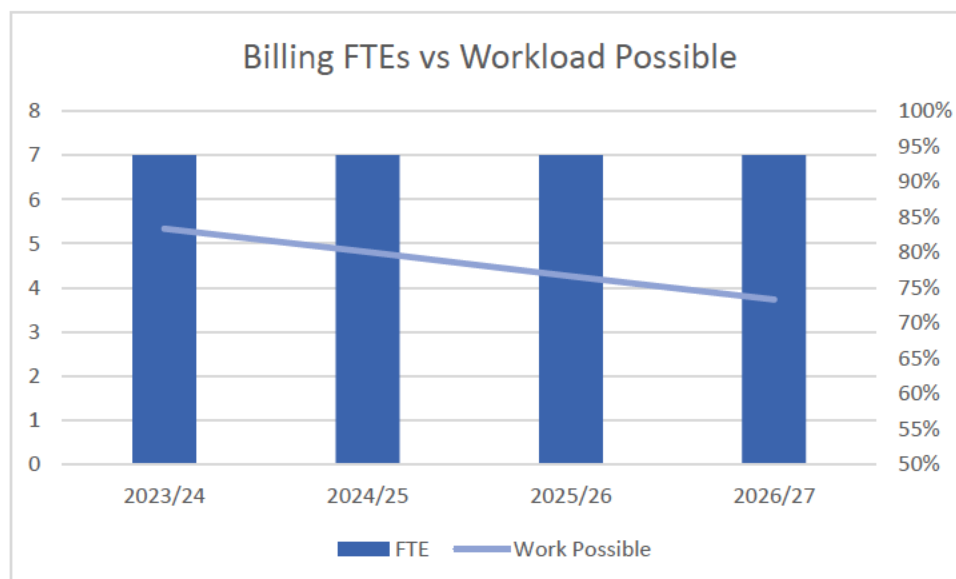
² Condition 2.12

3.1.7. Billing Team (9 FTEs)

Team	SSE Airtricity Submission	Draft Determination	Variance
Billing Team	9	7	<ul style="list-style-type: none"> 1 x Assistant Manager 1 x Billing Analyst

The SSE Airtricity initial submission forecast a requirement of 9 FTEs in the billing team including a new Back Office Assistant Manager and a Billing Analyst which the UR has indicated in the DD will not be allowed in SPC23.

In the absence of these roles, the overall productivity of the billing team will be impacted resulting in the workload levels illustrated below being completed. The team will be unable to process the level of work required to serve the forecast number of customers over the price control, ranging from 83% in Year 1 to 73% in Year 4, taking customer growth into account.



This means that an unacceptable number of tasks will not be fulfilled within customer expectation timeframes and result in extensive backlogs of workload that will only grow as the under-resourcing continues.

Working within the proposed allowances for billing would result in losing two billing Subject Matter Experts from the team. These roles are primarily responsible for supporting the team in the day-to-day effective operation.

The specific processes that these SMEs deliver include all areas of billing analysis, adjustment and reconciliation. This requires specific training and dedicated resources, particularly as we continue to receive an uplift in customer requests for bill validation and accuracy. If a customer receives an unexpectedly high bill, the first step we encourage is to contact us and validate their bill. This service is becoming increasingly busy as customers are more frequently contacting us as bills are at an all-time high and customers are understandably wanting to ensure that their costs are minimised.

The billing SMEs are critical to this service for customers and as this is reliant on individual analysis of a customer's account. There is no capability for SSE Airtricity to effectively mirror this online with Online Self Service (OSS).

Another key area of work for the billing team is complaint resolution for those customers who are querying their bills. SSE's internal policy dictates that once a customer raises a complaint or substantive query in relation to a bill, we will remove it from the bill cycle and pause any collection of the balance. This is a necessary step in the complaint as if there is any question over accuracy, we do not want to inconvenience the customer and take payment. This process of suspending the bills is another of the manual processes that the billing team is responsible for and requires an SME to investigate and calculate the reconciliation, if required.

As the UR will be aware, SSE Airtricity has an ongoing project to implement a new billing system (Junifer) in April 2023. The transition to the new system will create a better experience for the customer such as OSS, paperless billing and faster processing times across the business. In order to fully benefit from this new billing system, the team will need to contribute significant resource to a smooth transition for the customer. While we plan to have customers switched over to Junifer in Spring 2023, we should be mindful that it will take the customers and the billing team some time to adjust and full productivity cannot be expected from Day 1. The transition to a new system will result in different activities for the team including managing exception queues. While Junifer will provide automation for a large number of tasks, there will be inevitable manual monitoring and adjustments that require specially trained team members to complete.

As with any team, the billing team will reactively process customer requests and fulfil the regulatory requirements expected of a supplier however it is also important for each team to have capacity for reporting, management and training. Over and above the customer driven tasks, each team member must find the time to contribute to team tasks such as recurring reporting, ad-hoc reports and analysis as well as contributing to internal/external audits of customer accounts and interactions. These administrative tasks are essential to ongoing improvements within the business and will ultimately benefit customers as we deliver a more customer focused and compliant service.

3.1.8. Quality Monitor (QM)

Department	SSE Airtricity Submission	Draft Determination	Variance
Central Services	2	1	• 1 x Quality Monitor

As part of the audits completed in line with the Alternative Resolution agreed with the UR, we identified the need to increase our Quality Monitoring function in SSE Airtricity Gas, noting that we do have such a function in our non-regulated Republic of Ireland and Northern Ireland businesses.

Currently in position, we have 1 FTE, this is partially funded by SPC20 allowances and the remainder is provided by SSE Group. We recognise the UR has included one full FTE for this role in SPC23 DD however this will only match the resource we have in place today and for the work that is completed by this function this is not sufficient.

As customer numbers and contacts continue to grow, the QM in place is struggling to provide a robust service across the business. Currently we are only targeting the QM to listen to 5% of calls, by comparison best practice in the other areas of SSE Airtricity target 10% of calls to conduct a robust audit. To date, this role has focused on customer service calls however, as we continue to receive more contacts into the Back Office the QM should also be monitoring those lines for billing, credit control etc. for service levels and treatment of customers in debt. This is particularly important as the UR has suggested further expansion of the vulnerability definition and the focus on suppliers to identify any indicators of vulnerability and adjust their interaction accordingly.

We have extensive training for all our call handlers to deliver an exceptionally high level of service however QM is an essential facet of this training especially given the high attrition rates we see in SSE Airtricity, particularly in the call centres. The QM acts as a final safety net for these team members and the customer to ensure that nothing is missed, so we can quickly resolve issues for the customer and re-train the agent as needed.

Furthermore, given the expected increase in vulnerable customers contacting SSE Airtricity, there is a higher need to monitor calls to ensure agents are dealing appropriately with the customer's enquiry. A single QM resource will not give sufficient coverage required to ensure the required support is provided by our agents

With only one person spending 100% of their time on QM, there is also no recognition for the need for breaks and annual leave. This Quality Monitor role is a 37 hour per week full time responsibility and on the days when this person is absent, the role is not completed as there are no back-up resources with capacity to fulfil the tasks. This results in at least one month of the year when the SSE Airtricity calls are un-monitored and we are at risk of the customers being under-served. Another FTE for QM is essential for the business going forward to cover the existing requirements of increased task load, cover and future customer growth.

3.2.1 IT – Billing system

As part of the SPC20 consultation, it was agreed that a new billing and CRM system was a legitimate cost which would benefit SSE Airtricity customers and assist in delivering regulatory assurance for the business. Procurement of a new provider commenced in 2020 and an audit of this process was completed by Gemserv in January 2021. At the time of the review with Gemserv, SSE Airtricity had completed a competitive tender for the services and chosen Gentrack to deliver the new Junifer system, to come into effect in April 2023.

Upon receipt of a Letter of Approval from the UR confirming the legitimacy of the project, we were in a position to appoint Gentrack and move to the contract negotiation phase.

It was at contract negotiation that additional costs came to light including those associated with liabilities for GDPR. Given that the new system is a cloud-based SaaS³, this creates the inherent risk of hosting substantial amounts of customer data outside the SSE PLC Group i.e. within the cloud. In line with GDPR obligations and risk, SSE required a level of liability cover to protect its business and its customers.

The vendor was not prepared to offer that level of liability cover for the price it offered in the tender response and required additional costs for it to purchase additional insurance to meet required liability cover. Without the increase in liability cover, there was a high probability that contract negotiations would have broken down and SSE would have had to incur the additional cost of going to retender. In order to progress with the preferred bidder, we were required to agree these additional costs which are integral to the delivery of the system.

We would now reiterate that the costs of these insurances are essential for any organisation procuring such a service and are therefore legitimate and should be recovered as part of the price control. It was not possible for SSE Airtricity or Gemserv to include this cost in the original submission for approval due to the timing of the approval by Gemserv in the overall tender timelines and therefore SSE Airtricity should not be expected to absorb this cost due to circumstances beyond our control.

³ Software as a Service

3.2.2. IT - Capex

Within the original submission, we had included a total of £219k of IT capex which the UR has determined in the DD to be classified as an overspend as this money was to be ringfenced specifically for the new billing system. However, it is our position that these capex items, could not have been known at the time of SPC20 due to them being associated with Covid-19 or upgrades to existing platforms in preparation for the new billing system.

Additional CAPEX costs	
WFH IT Hardware	106,434
SFA Dev (PSI Mobile)	52,354
SFA Licence cost Shortfall	11,010
Development of AMM&M downloadable ebill portal	7,500
Ebill portal annual costs	1,380
Simply Zesty SSE Airtricity Website redevelopment	66,000
Internal SSE Group costs for SSE Airtricity Website redevelopment	13,000
SSE Airtricity utilisation of allowances	(257,678)

3.2.3. Work from Home set-up

As the pandemic was declared in March 2020, SSE Airtricity needed to mobilise quickly and move to Work from Home which required significant Capex for staff equipment. We relied on the 'unspent' SPC17 allowances in this instance as this was a legitimate, unavoidable cost for suppliers and the alternative was to treat as Et item would have caused unnecessary delay and risk of not being able to provide continuity of service to our customers through the early days of the pandemic. At every opportunity, we sought to protect our staff and follow the government guidance. In addition, as part of the SSE Group for us to not have moved our SSE Airtricity staff to working from home would have been an incomprehensible group position to take.

Working from home for our workplace activities entered NI Guidance on 28 March 2020, although WFH in our workplace type was not directly prescribed by regulation, the NI Executive stated at that date *'Where a business is failing to observe the Department for the Economy guidance and breaching the legal duty on health and safety, the statutory authorities will take robust action, which may include prosecution for criminal offences'*.

Failure to apply the guidance could also potentially have been enforced through the risk assessment requirement, by the Management of Health and Safety at Work Regulations (NI) 2000 and under the Health and Safety at work Order 1978. This remained the situation until 7th October 2021 when the guidance changed to *'While the message to work from home where possible and appropriate remains, the Executive would encourage employers to plan for a return to the workplace with consideration of mitigations to control the spread of the virus and engagement with employees and their representatives on the beneficial use of flexible working where appropriate.'*

In early March 2022 the guidance changed again to *'Employers should consult with their employees to determine who needs to come into the workplace'* and the specific Coronavirus Legislation was lifted in NI on 24th March 2022.

We are now seeking acknowledgement from the UR of the legitimacy of the c.£105k spent on hardware to continue to operate within the NI Guidance at the time. This cost was unavoidable IT Capex cost which was directly related to the Health and Safety of our staff and the continuity of provision of services to our customers of an essential service. SSE Airtricity acted in the best interests of our staff and customers, following the well-publicised government advice, and believed that our staff should have placed at avoidable additional risk by not supporting the funding of this equipment to enable working from home.

This unavoidable cost was essential to the continuation of service for customers and therefore must be allowed as a legitimate cost within the SPC20 allowances.

3.2.4. Other Capex Projects

There were various other costs incurred over SPC20 which contributed to an improved customer experience, these costs included SFA, eBill portal and website redevelopment. These were essential to the continuing delivery of service to customers through the pandemic, supported SSE Airtricity's improvements in its regulatory compliance journey and will endure as we transition to the new billing system.

These are legitimate costs that customers will benefit from and essential in the preparation of SSE Airtricity in advance of transition to Junifer. If we had not repurposed these remaining allowances from SPC17, we would have included them in the Junifer system project cost request, as they are necessary elements to deliver the overall range of benefits, externally facing to the customer.

SFA investment delivers improvements including OSS for customers making Change of Tenancy and Change of Payment Methods requests which also contribute to call handling time efficiencies and regulatory compliance with Codes of Practice.

The collective impact of SFA installation (both relating to the Junifer system & the dampening of headcount need) over the last 12 months to July 2022 has been c.7,100 online forms completed by customers meaning a reduction in calls of 7,100 calls to the call centre as customers have channel shifted.

We have noted this investment previously to the UR in our detailed paper sent 9th April 2021 detailing our call centre challenges and associated remedial actions we undertook to remedy the situation. As the UR is aware, as SSE Group we invested at our own expense in additional headcount to remedy the situation and in our view it was wholly efficient to invest this Capex in projects such as SFA which ultimately had a tangible customer facing positive impact.

Specifically, in relation to the ebill portal investment, this was implemented in response to a regulatory audit recommendation to provide an automated ebill solution to customers. Previously e-bills were distributed manually by a member of staff emailing individual bills which was highly inefficient and resulted in a high GDPR security risk for the business and a poor customer experience. The investment in the platform was a bridging solution until Junifer comes into operation and currently has over 11,000 customers utilised the service after c18 months since go live.

We expect this to grow in demand as customers continue to monitor their usage and bills as costs remain elevated.

The cost savings of this investment can already be seen in the reduction of paper bills being posted to these customers, and as billing and postage costs are retrospectively adjusted the reduction has already been passed to the customer base. We hope to see a wider uptake in the ebill platform during the course of the next price control, further bolstering the return on investment for all customers.

In the 21st Century, customers expect a supplier to have a strong online presence which delivers information as needed on demand and an element of self-service for management of bills. The SSE Airtricity website is built on old architecture and so in advance of Junifer go-live we are required to make upgrades to accommodate the future interfaces similar to the benefits of Junifer which SFA unlocks in a customer facing capacity. The website development costs are essential to meet customer experience expectations and to maximise the investment made in Junifer so customers could access the OSS portals. When benchmarked against both the SSE Airtricity's non-regulated entities websites and other competitors it is apparent that our website should be delivering a higher calibre website that has higher levels of interactivity that customers expect.

The above costs have been spent (or will be in the case of the website) to deliver a better service to SSE Airtricity customers and therefore form an essential element of legitimate Capex that delivers customer-based outcomes. It is our position that they must therefore be treated as within the granted allowances from SPC17 rather than an overspend as the UR has indicated in the DD. As noted above, if we had been aware that the UR would disallow their costs from the SPC17 unspent allowances, SSE Airtricity would have included the funding in our billing system Capex requests.

3.3 Bad Debt

SSE Airtricity, as part of the SPC23 submission, had proposed a new methodology for calculating Bad Debt Provision as a percentage of tariff turnover.

	SPC20 Provision	22/23 Forecast	23/24 SPC23	24/25 SPC23	25/26 SPC23	26/27 SPC23
Actual write offs (current BDP)	0.47	0.65	0.65	0.65	0.65	0.65
Live debt	n/a	0.32	0.30	0.29	0.27	0.25
SSE Submission (Feb 22)	0.47	1.03	0.95	0.94	0.92	0.90
Draft Determination	n/a		0.60	0.60	0.60	0.60

We proposed this change to take account of the increasing trend in live customers accumulating debt without suppliers being able to write this off. SSE Airtricity would ask the UR to reconsider a revision of the BDP methodology for the upcoming next price control.

Retrospective Adjustment for Bad Debt

Bad Debt provision can be extremely difficult to predict year to year and even more difficult across a multi-year price control. We therefore suggest that the cost of bad debt should be treated as a retrospective adjustment.

This will be of particular importance in the next few years as we expect to see the value of debt increase exponentially as customers struggle to pay elevated energy prices as well as the overall increase in cost of living.

Under the current methodology, SSE Airtricity can only receive a Retrospective Adjustment allowance for bad debt for customers which have left SSE Airtricity and are no longer supplied gas, either through COTs, personal insolvency, or death. However, this limited approach does not recognise the cost to suppliers of live debt resulting from customers who continue to consume gas but are either unable or unwilling to pay. It is normal accounting practice for all debt for both live and closed customers to be provided against depending on aging of debt and likelihood of recoverability. The UR's current methodology fails to follow this established accounting practice.

SSE Airtricity believe a workable solution could be established using agreed percentage provisioning of aged debt as per debtor's ledger. On 31 March each year the provision required based on the debtors ledger at that point could be calculated and the moment year on year on the provision, whether positive or negative, could be rolled into the annual K factor reconciliation for the financial year. This approach would be transparent and address the UR's concerns around double counting, as closed debt balances would be removed from the live debt numbers, and therefore out of any provision calculation. Likewise, any recovery of balances would reduce the subsequent provision required on any particular account.


Note that first year of implementation would require the calculated provision to be fully applied to k factor with the year on year movement applying in subsequent years. SSE Airtricity would agree with the UR the percentage provisioning required for each age bucket, with the older balances requiring a higher level of provisioning to reflect the higher risk of non-recovery.

The UR should consider making this item retrospectively adjusted, ensuring that suppliers are able to recover Bad Debt and any savings could be passed to customers through the annual reconciliation.

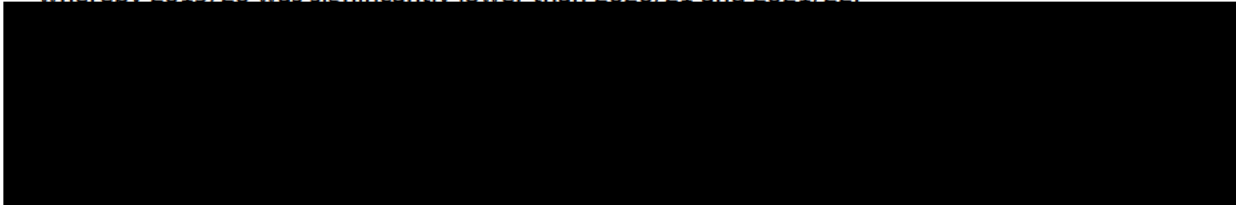
Interim Proposal for SPC23

As noted in the DD consultation paper, the UR seeks to remain consistent across all suppliers regarding methodology for BDP, and therefore has indicated they will not be granting a change for SPC23. While we acknowledge the UR's preference for consistency between suppliers, our projections for Bad Debt in SPC23 indicate that the current calculation of 0.6% of Tariff Turnover in the DD will be insufficient as it does not recognise the growing level of live debt which we will struggle to recover from live customers who continue to consume gas but are unable or unwilling to pay their bills.


While we ask the UR to reconsider our request for a live debt provision allowance, SSE Airtricity proposes that for the existing methodology closed account bad debt allowance, the UR considers a two-year average, rather than three. This would give a BDP of **0.73%** of turnover for SPC23. Note the BEQ for 2021/22 has been updated to reflect actual credit turnover and actual closed debt write off. This increased the actual write off % to 0.85 % as credit revenue had been over-estimated in SPC submission as a result of a milder spring reducing consumption.



We make this recommendation based on the marked variance in bad debt write offs across SPC20, whereby 2019/20 was significantly lower than 2020/21 and 2021/22.



A two-year average, based on actual write offs, is more reflective of the current levels of debt experienced in SSE Airtricity.



This increase could not have been predicted when the allowances for SPC17 of 0.47% were set and SSE Airtricity has far exceeded this allowance across the current price control period, at its own expense. As we continue to deal with the aftermath of the Covid-19 pandemic and subsequent cost of living crisis, we should be using the most accurate actual write-off periods to predict the future and that should be FY21 and FY22.

We know that repeated price increases will force more customers into debt to levels we have not seen before. We can already identify trends in our aging debt where the value of the 60+ days has increased by almost 50% for domestic customers in the last three months and fuel poverty is expected to be above 70%.

Debt will take several months from announcement of price change to being evidenced in debt figures. Therefore, we can reasonably expect this trend to continue into the next price control period and therefore we must at a minimum use the most recent years of Bad Debt to predict the future requirements.

Given that this is an evolving situation we would be happy to discuss treatment of Bad Debt further with the UR as part of this or future consultations.



3.5 Customer letters for Redwing

To maximise the benefits of the new billing system Junifer, we had included a cost for informing customers once the system is live. This communication would encourage customers to avail of the interactive elements of OSS and sign-up to access their bills online. We will endeavour to promote customers accessing their accounts online and therefore minimise the costly postage for bills and other regulatory mailings.

The UR has indicated in the Draft Determination that they do not see the proposed £150k costs as being value for money. This is despite a direct cost saving from a reduction in future printing and postage which in turn reduce our RA expenditure.

Taking account of the UR's DD, we have reviewed how we can most cost effectively communicate to customers. Therefore, we propose that rather than a standalone letter we would instead include a 1-page leaflet to all customers with tariff change notifications. This would achieve a similar result but over a longer period at a reduced cost. Our estimated cost for this is £23,500, a reduction of £126,500.

3.6 SMS costs

In paragraph 6.55 of the Draft Determination, the UR has indicated the allowance for text messages would not be increased beyond customer growth, however it is essential for SSE Airtricity to increase the number of text message we issue, to properly maximise the benefits of new functionality available in Junifer. As we transition to a more digital customer experience, we intend to utilise the more cost-efficient methods of communication such as text messages rather than postage where possible. This will be mostly seen in areas such as Meter Read reminders and appointment confirmations, including LTNA, to customers, and in credit control where gentle overdue balance reminders can be sent. The increase in text message costs is to reflect the upturn in processes using text messages and volume of text messages sent. Therefore, an increase based entirely on customer numbers is completely insufficient for SPC23 and will jeopardise the deployment of these efficient communication initiatives.

Section 4: Conclusion

In conclusion, SSE Airtricity welcomes the opportunity to respond to this consultation on the SPC23 Draft Determination. The indicated allowances for the upcoming price control while an increase on the current SPC20 allowances still fall short of the required forecasts over the next four years.

SSE Airtricity has set out the factors which are affecting customers in this cost of living crisis, which we expect to continue into SPC23 and the impact this will have on the operation of the gas business. We have already since our submission in February seen an increase in customer contact, reduction in ability to pay and age of debt, which we can reasonably expect to continue. The forecasts included in the initial submission in February for tariff, debt levels and customer contacts have since become the best case scenario for the business and therefore we reemphasise the importance of the UR allowing SSE Airtricity to recover costs submitted in the original BEQ.

Where we do not have our requirements met by this price control, we will begin to see a detrimental effect on our staff, leading to further burnout and attrition and subsequent drop in the service we can provide for our customers.

IT Capex costs already incurred by SSE Airtricity which we have detailed above must be seen as legitimate as they have been both necessary and to the benefit of customers.

We can expect Bad Debt to increase over the next few years, already evidenced in the increases in FY22. Therefore, the overall methodology should be considered by the UR either as part of this consultation or a future standalone project.

As we transition into another price control period, we have endeavoured to forecast all known elements of the business but recognise that this can be extremely difficult especially given the unprecedented macro-economic factors affecting the market and customers. We therefore wish to indicate to the UR that should we see further impacts, which we have not incorporated into forecasts, then we intend to engage further with the UR on these matters as further resources may be needed. As a customer facing business operating in a highly volatile environment, it is integral that we have the ability to be able to react and ensure our staffing and resources are optimised to support customers.

We look forward to continuing our engagement with the UR on this and again make ourselves available for discussions on the points raised within this paper.