

December 23, 2013

Response to BSC Modification Proposal 272 (“Mandatory Half Hourly Settlement for Profile Classes 5-8”) Impact Assessment Consultation

Dear Sir,

Please find Co-Operative Energy’s response to the above impact assessment consultation below.

Chapter Three

Question 1: Do you agree with our approach to assessing the impacts of P272?

This seems appropriate.

Question 2: Are there any additional, material impacts that we should consider?

We are unable to suggest any at this time.

Chapter Four

Question 3: Do you agree that P272 would drive suppliers to encourage DSR among their customers?

This remains to be seen and will depend on the appetite of each individual customer for this. However, the fact that each customer’s offtake will be half hourly metered should provide a stronger incentive and capability than at present for DSR provision, particularly if this is coupled with Ofgem’s proposals under the Electricity Balancing Significant Code Review which are likely to result in sharpened cash out prices during tight network periods.

Question 4: Do you agree with our approach for quantifying the value of load shifting and load reduction, including the assumptions we made? Is there any evidence we have not identified that could inform our analysis?

We feel that this is extremely difficult to accurately quantify. However, load shifting is likely to result in some benefits as regards higher value as opposed to lower value plant being called on through the balancing mechanism and flattening load profiles for generating plant thus allowing these to run more efficiently and with a lower risk of unplanned outage. Sharper cash out prices resulting from Ofgem’s Electricity Balancing SCR are likely to lead to stronger incentives for suppliers to provide (and for customers to sign up for) DSR and this will potentially result in a degree of load reduction across peak demand periods although, again, this is difficult to accurately quantify.



Question 5: For those impacts stemming from suppliers reducing the costs of supplying energy (for example, by promoting DSR) that we did not quantify, do you have any suggestions on how we might do so?

These are difficult to quantify but we are firmly of the view that implementation will result in associated definite benefits to competition, please see our more detailed answers below.

Question 6: Do you agree with our approach to quantifying the value of improved forecasting, including the assumptions we made?

While it seems logical to assume that half hourly metered data will result in increased forecasting accuracy, it is again difficult to assign a financial value to this. However, as well as contributing to more accurate billing for customers and hedging for suppliers, half hourly settlement in this profile class is also likely to contribute to more accurate allocation of industry charges which will benefit competition.

Question 7: Could the costs of investing in forecasting capability for HH demand impact disproportionately on smaller suppliers or on new entrants?

We do not believe so as the investment should pay for itself within a reasonably short time period in terms of the more accurate billing and allocation of industry costs that will result.

Chapter Five

Question 8: Do you agree that we have correctly identified the cost savings that suppliers could realise in managing the settlement process?

We agree that, logically, HH Supplier Agent costs should reduce on a unit basis as the market expands should Ofgem implement the proposal. In addition, and as discussed above, using half hourly metered data will result in more accurate billing and hedging and more accurate allocation of industry charges to involved parties. This will facilitate greater competition as will faster settlement due to the fact that this will reduce the cashflow implications for smaller suppliers under the current timescales. Lower administration charges resulting from freezing load profiles for customers in the affected profile classes will also benefit consumers.

Question 9: Do you agree with our assumption regarding the typical size of data quality teams employed by suppliers?

While this estimate may be true of the Big Six we think it is far too high to be reflective of the situation at other suppliers, most of whom probably have several or fewer people employed in this area.

Question 10: Do you agree that meters of consumers in Profile Classes 5-8 are mostly read at the end of each month?

In general, yes.

Chapter Six

Question 11: Do you agree with our approach to quantifying the costs of P272 for suppliers and DNOs?

This seems reasonable.

Question 12: We welcome evidence from smaller suppliers of larger non-domestic consumers on the costs they could incur if P272 is implemented.

We regret that we have too few non-domestic customers to be able to provide meaningful data in relation to this.

Question 13: We welcome information from suppliers on (1) how many consumers would need to move electively for them to incur upfront costs and (2) the costs that would be incurred, broken down by the cost categories listed in this chapter.

Please see our answer to Question 12 above.

Question 14: Would consumers incur costs from termination of contracts with Supplier Agents?

This is possible, however, it is difficult to quantify as it will depend on the contractual terms each individual supplier has agreed with its agent.

Chapter Seven

Question 15: Do you have any comments on the results of our quantitative analysis?

Although we note that the net positive NPV is relatively low at £0.4m, we appreciate that Ofgem has been conservative in its modelling and analysis and agree that the DSR benefits may be underestimated. We also feel that the competition benefits likely to derive from implementation are significant although these may be difficult to quantify in financial terms.

Chapter Nine

Question 16: If P272 is approved, would it be possible to implement the modification in less than fourteen months?

This may be difficult due to the significant changes that will be required to systems and processes at each supplier as well as hardware changes at each customer. However, we would also be interested to hear any views suggesting ways in which this can be achieved more quickly.

Please do not hesitate to contact me should you have any questions or require further information.

Yours faithfully,

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