

Mr Jonathan Amos
Ofgem
9 Millbank
London
SW1P 3GE

16 December 2013

Dear Mr Amos

Balancing and Settlement Code Modification Proposal 272 – draft impact assessment

Thank you for providing an opportunity to respond to this consultation document. This submission is entirely non-confidential and may be published on your website.

Consumer Futures' predecessor body Consumer Focus made a submission on this issue as part of the assessment of Modification Proposal 272 (P272) by the Balancing and Settlement Code Panel (BSC Panel) in 2012. In this submission we opposed the proposal in P272 to introduce mandatory half-hourly (HH) settlement for Profile Classes 5-8 (PC5-8).

It is important to emphasise that we support the principle of settling consumers with HH equipment on a half-hourly basis: we understand the theoretical benefits of real time measurement and ToU tariffs. However given the pressures on consumer energy bills, we wanted to see these benefits evidenced and – if demonstrated – acted on in an orderly fashion.

In preparing this response we have examined the extent to which developments since the P272 consultation process, and the new analysis conducted by Ofgem in this paper, should cause us to move from our previous position. For the reasons we set out below, we remain of the view that HH settlement should not be mandated for PC5-8.

It was asserted by industry participants in submissions to P272 that the requirement that distribution network operators (DNOs) bill consumers for use of system (DUoS) charges on a site by site rather than aggregate basis represented a major barrier to a voluntary transition from NHH to HH. Participants also identified increased costs to serve in relation to supplier agent costs, and the absence of the necessary retail products, as standing in the way of a voluntary transition.

This suggested to us that a mandated transition to HH metering could see additional costs passed through to consumers, potentially negating any benefits flowing from ToU tariffs. A wide range of outcomes in the cost-benefit analysis – with outcomes varying from a significantly negative NPV to significantly positive and a central case that was moderately positive – did not in our view represent a compelling case for mandated

London

Victoria House
Southampton Row
London
WC1B 4AD
Tel: 020 7799 7900

Glasgow

Royal Exchange House
100 Queen Street
Glasgow
G1 3DN
Tel: 0141 226 5261

Cardiff

Room 3.90, 3rd Floor,
Companies House
Crown Way
Cardiff, CF14 3UZ
Tel: 029 2078 7100

Belfast

Elizabeth House
116 Hollywood Road
Belfast
BT4 1NY
Tel: 028 9067 4833

HH. We therefore called for steps taken to address the barriers to consumers exercising this discretion before a HH mandate for PC5-8 was considered.

We do not believe that significant progress has been made on these issues since we made this assessment. The relevant modification that proposed to introduce new measurement classes to facilitate the aggregation of HH metering data for sub-100kw for DUoS purposes – P280 – was rejected by Ofgem on the grounds that it could not properly assess its merits before changes were made to the DUoS charging methodology. But work to make this happen through DCUSA had already reached a dead-end because the relevant modification DCP103 (that actually preceded P280), was withdrawn because it was felt the issues could be better addressed through the BSC. We do not therefore understand the reference on page 2 of this draft impact assessment to on-going work on DCP103.

The circularity that has characterised work in this area to date could be overcome by dealing with it as part of the broader Electricity Settlement Reform (ESR) process that is already underway. Given the smart roll-out is a long term reform, with costs and benefits calculated over a 20 year plus timescale, we do not understand the rush to mandate HH ahead of the conclusion of this ESR work. Indeed, a more holistic solution would line up with Ofgem's approach in its own assessment of P280, where it made an explicit link between the need to resolve undue incentives to settle sites electively on a HH basis and the work being undertaken by the BSC Panel on longer-term reform of settlement arrangements.

Although the cost-benefit analysis in this IA is more sophisticated than that undertaken as part of the initial BSC assessment, the results remain marginal and do not provide a compelling case for change given the issues we have identified in this submission.

Please do not hesitate to contact me by telephone on 020 7799 8043 or email at chris.alexander@consumerfutures.org.uk if you would like to discuss these issues further.

Yours,



Chris Alexander

Policy Manager