Balancing and Settlement Code Modification Proposal 272 – draft impact assessment Consultation TMA Data Management Ltd Response

CHAPTER: Three Approach to assessment

Question1: Do you agree with our approach to assessing the impacts of P272?

TMA's response:
The Ofgem approach to assessing the impacts of P272 has been thorough and balanced.

The impacts are rightly identified as the changes in the ability of the Suppliers to buy and sell energy efficiently; changes in Supplier costs in managing settlement data and changes in costs that DNO incur in billing Suppliers. More importantly of all, P272 is the only way to break out of the cross subsidy of profiling customers. Profiling is cushioning Suppliers from the real costs of supplying NHH customers and in particular customers in PC5 to 8. Small and Medium non domestic customers will have the ability to manage their energy use more effectively.

Ofgem has correctly identified the changes that P272 will bring and the impacts these will have on consumers and on competition as detailed in table 2 in the consultation. We also agree with the quantification of the impacts as set out in table 3.

For the consumer, P272 will remove the cross subsidy of profiling and allow consumers to react to price signals and manage their demand using the HH data they already have access to. If P272 is not implemented then the consumer benefits of the AMR mandate cannot be realised; without ToU tariffs businesses have no incentive to act on the data they already have and are paying for (as well as the AMR metering) as part of their bill. P272 will give consumers access to greater supply competition in the HH market and more innovative products.

P272 will increase competition between suppliers and therefore better facilitate BSC objective (c) as the removal of profiling will expose suppliers to the actual costs of supply for these customers, as well as putting them in direct competition with the greater number of suppliers in the HH market.

We agree that P272 will also better facilitate BSC objective (d) as it will lead to more accurate settlement, less complex processes, better data quality and increased efficiency in forecasting and the Balancing Mechanism.

This Modification will also have wider system benefits such as increased sustainability and security of supply through the load shifting and reduction it will promote. It will also remove barriers to future system innovations such as smart grids and shorter settlement timeframes.

We agree with the assumptions around the counterfactual; without the mass transfer of P272 the momentum will not be there to reduce the financial barriers to HH settlement of higher costs to serve and DNO charging issues.

Question 2: Are there any additional, material impacts that we should consider?
TMA's response:

Yes. OFGEM have noted the potential improvements in competition P272 offers. However we would emphasise the following:

1. There is strong evidence that there is more competitive activity in the HH market, to the benefit of consumers.
2. Competition between Suppliers in the HH market is characterised , now, by more competition between the larger Suppliers *and* more extensive and effective participation by the growing number of independent Suppliers
3. Supporting effective competition the Change of Supplier process works much more efficiently in the HH market.
4. Customers in PC 5-8 have already met (or are about to), directly or indirectly, the costs of an AMR meter, which is HH capable. It seems most unlikely those customers will gain the full benefits of the invested costs of that metering unless P272 is mandated.
5. Doubling the size of the HH market will produce economies of scale, especially in terms of Agent costs, a benefit which will filter down to consumers in the form of lower costs for all HH customers.
6. Accurate, timely billing based on Actual data is a significant benefit to businesses – the removal of estimation would be valuable.

The mandate for installing AMR in PC 5-8 did not address interoperability so market participants have installed metering systems that are not interoperable i.e. they cannot be transferred from one NHHDC and MOP to another. Many PC5-8 customers with AMR installed will have borne the cost already but now may find they cannot affect a Change of Supplier (CoS), or have limited choices, or have to pay again to have the meter changed.

These issues have been raised under Issue 46 but mandating P272 would fix the problem. The AMR mandate without a P272 mandate will effectively have the unintended consequence of reducing competition and choice for consumers.

There is a further issue raised as part of Issue 46 about accuracy standards. In HH there are high standards for data validation, through BSCP 601 and the requirements of BSCP 502. No such standards were introduced with the AMR mandate, so the opportunities for accuracy standards applicable to automated remote meter reading have been missed; mandating P272 would de facto introduce the appropriate standards and ensure accuracy in both settlement and billing.

Many of the interoperability issues raised as part of Issue 46 have been categorised as 'commercial' and BSCCo does not have the vires to tackle these.

CHAPTER: Four Impacts from changes to how suppliers buy and sell energy
Question3: Do you agree that P272 would drive suppliers to encourage DSR among their customers?

TMA's response: We agree that P272 would drive Suppliers to encourage Demand Side Response among their customers as the cushion from profiling would be removed. Suppliers will be exposed to the actual cost of energy consumption of larger non-domestic customers. Demand Side Response tariffs or incentives will enable Suppliers to manage their energy costs and offer customers with more innovative tariffs adapted to their needs. We note that Supplier may behave differently, especially in the early stages of this change.

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?
TMA's response: Yes, we agree, quantifying the primary benefits of load shifting from peak to off-peak but not secondary benefits such as increased sustainability and security of supply is the right approach to ensure robust and conservative quantification. The load shifting at critical period will be a much valued benefit of P272.

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?
TMA's response: No comment.

Question 6: Do you agree with our approach to quantifying the value of improved forecasting, including the assumptions we made?
TMA's response: Yes.

It is right to consider hedging within the forecasting 'error' and a simple but sensible method is used to assess the hedging proportion. The use of 1-3 day ahead prices is justified, as is the use of NGET balancing costs. Ignoring lower imbalance charges is correct as imbalance charges are recirculated by RCRC. However, better forecasting and better balancing should reduce the imbalance prices themselves as fewer balancing actions will be needed. These reduced prices means part of the risk (the cost impact) involved in being out of balance decreases; this should feed through into lower forward prices (this is the same argument being used in the Electricity Balancing Significant Code Review where higher imbalance prices would increase forward prices). This effect should be noted but may not be quantifiable.

Currently NHH customers' load is attributed to settlement periods in a predictable way through profiling. Suppliers value this aspect of the NHH market so we may see some suppliers offering innovative products to incentivise customers to be predictable in their usage, aiding suppliers to forecast effectively.

Question 7: Could the costs of investing in forecasting capability for HH demand impact disproportionately on smaller suppliers or on new entrants?
TMA's response: Demand forecasting is a key element of Suppliers managing their costs, no matter their size or experience in the market. Small Suppliers and New Entrants might not have the disadvantage of legacy systems and procedures that can make adapting to change challenging. Small Suppliers have a significant presence in the HH market, demonstrating that they are able to manage their demand effectively. They have made the most of the opportunities offered by competition and have offered new options to HH customers. P272 would simply widen the potential for economy of scales and innovation. Small Suppliers have shown that they are the drivers in terms of new product offerings .The inertia by some parties should not be allowed to negate the realisation of benefits from mandated installation of Advanced meters for larger non domestic customers.

The credit cover issue relates to cash flow; the current settlement timescale of fluctuating charges over 14 months and in some cases 28 months is not conducive to stable cash flow and this can also be a barrier to new entrants and smaller players. A

move to HH settlement opens the door to shorter settlement timeframes to be adopted in the future, giving quicker certainty about these cash flows.

CHAPTER: Five Cost savings in managing the settlement process

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

TMA's response: Yes. The Settlement Process is long and provides uncertainty to Suppliers on their final energy costs; this is more of an issue for Small Suppliers and is y one of the more significant barriers to new Entrants. Shortening the Settlement Process and removing some of the profiling requirements would reduce cost and complexity. We agree that the cost savings that Suppliers could realise in managing the settlement process have been correctly identified, namely lower HH agent costs due to increased competition as the market becomes more attractive for new entrants and economy of scales and innovation; improved data quality, faster settlement and lower administration charges as profiling for PC5 to 8 would no longer be required if P272 is implemented.

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

TMA's response: Yes

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

TMA's response: We see extensive evidence that many AMR meters are being interrogated every day, already (at least every working day.) There maybe is a requirement for Suppliers to obtain readings at the end of each month to bill, as there may be a time where Suppliers continue to bill PC5-8 new HH sites on NHH tariffs. However the legacy billing arrangements are unlikely to last long.

CHAPTER: Six Implementation costs

Question 11: Do you agree with our approach to quantifying the costs of P272 for suppliers and DNOs? If not, we encourage respondents to suggest alternative approaches.

TMA's response: Yes

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

TMA's response: Non domestic customers will benefit from P272 in the form of increased accuracy in billing, as bills will be based on actuals. The risk of back billing will be reduced, providing some certainty to Non Domestic Customers, which currently can face significant costs from back billing. In the Half-Hourly market, the change of Supplier process is straightforward with few objections, providing non-domestic customers the opportunity to switch Suppliers with ease and fully engage in the market by using competition to obtain the best energy contract possible.

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.
TMA's response: No comment.

Question 14: Would consumers incur costs from termination of contracts with Supplier Agents? If so, we welcome information that could help us to assess these costs.
TMA's comments: To an extent this is rather the point of a P272 mandate – it will force contractual changes. However we expect Agents to act in their commercial self-interest and make arrangements that will preserve their assets.

CHAPTER: Seven Results of quantitative analysis
Question 15: Do you have any comments on the results of our quantitative analysis?
TMA's comments: The Monte Carlo analysis work undertaken with 20000 runs and different scenarios provides a robust quantitative analysis. We agree that the input data is conservative and that results in under-estimating the benefits that P272 can deliver. We also agree that Suppliers are unlikely to move large numbers of PC5 to 8 sites to HH electively.

CHAPTER: Nine Assessment against decision-making criteria
Question 16: If P272 is approved, would it be possible to implement the modification in less than fourteen months?

TMA's response: In 13 months, Suppliers will have enough detailed data from customers in PC5 to 8, from the installed Advanced Meters to build profiles to be included for Demand Forecasting purposes. In most cases AMR meters have long memories and historical HH data is available. The meters are installed. The main difficulty with the Change of Measurement Class process is associated with the need for a physical meter change, in this case there is no need for a change of meter, and the change is a simpler - merely logical COMC process.