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Sent via e-mail: half-hourlysettlement@ofgem.gov.uk

Dear Rob,

Half-hourly Settlement (HHS): The Way Forward

British Gas supports the principle of cost reflectivity and we agree that demand reduction and demand shifting can deliver significant benefits. Therefore we support the rationale for considering HHS of domestic and smaller business customers.

We can see that removing barriers to elective HHS is a low cost option, which can be implemented relatively quickly. However, HHS should not be mandated unless Ofgem can be sure that the costs outweigh the benefits. Any mandatory change must also be implemented in a sensible timescale that does not cause undue cost or disruption to industry or consumers.

There is a large amount of industry change underway. Programmes include: smart metering rollout, Project Nexus, and faster and more reliable switching. The scope of transformational change in progress means that industry change capacity is already being tested.

The design and implementation of mandatory HHS will be a large and resource-intensive programme. Therefore there is a risk to customers of adding further transformational change to an already stretched capacity. If the benefits case for mandatory HHS is positive, then the scope of change, costs and risks required to implement it must be taken into consideration when deciding the appropriate timeframe.

Elective HHS

Removing barriers to elective HHS may facilitate the introduction of innovative new tariffs. In particular it should reduce the barriers to creating attractive dynamic time-of-use tariffs.

The main barrier to elective settlement is the cost of data requirements placed on elective half-hourly settled meters. Supplier agents have to adhere to stricter requirements on how frequently they provide data into industry settlement. The Supplier agent costs are passed through to suppliers and ultimately customers. The pass through of costs can negate the customer benefits of HHS.

The Supplier agent costs can be decreased by relaxing the time requirements for entering meter reads into settlement for HHS meters. This relaxation has already been carried out for profile classes

5-8 through P272. Therefore it should be relatively simple to extend to elective HHS for profile classes 1-4 as well.

We agree with the findings of Elexon's Settlement Reform Advisory Group (SRAG). The SRAG's suggested changes all seem positive and relatively low cost to implement.

It is important however that an elective HHS regime does not detrimentally impact customer choice. A customer should be able to switch supplier and also switch easily from a non-half-hourly (NHH) settled product to a half-hourly (HH) settled product, and vice versa. To facilitate switching the change of measurement class process will need to be streamlined. If switching between HH and NHH products is not a smooth process for suppliers and customers, then customer choice may be limited and that could be detrimental to competition.

Mandatory HHS

HHS is the most cost-reflective way to allocate the costs of balancing the electricity system to customers. However, the initial and ongoing cost to industry and suppliers of implementing mandatory HHS is likely to be large and the long-term benefits must justify this cost. It is vital that a robust cost-benefit assessment is carried out before deciding whether and when to proceed with mandatory HHS.

Some factors that should be considered when carrying out this cost-benefit analysis are:

- How much of the potential benefits will have already been realised by removing barriers to elective HHS?
- What is likely to be the customer uptake of the products that require HHS, e.g. dynamic time of use tariffs?
- What benefits are there to static time of use customers beyond what can be achieved using the current settlement regime? Static time of use customers can receive many of the benefits of HHS through the use of time pattern regimes (TPRs) and standard settlement configurations (SSCs). The use of TPRs and SSCs is possible within the current settlement regime. British Gas has used them for a three rate tariff in the Customer Led Network Revolution project.
- What are the distributional impacts on all customers? Greater cost-reflectivity will result in winners and losers. There will be customers who are currently favoured by estimated profiling and could lose out if they were HH settled.
- What lessons can be learnt from P272? P272 is an example of what happens to a market when mandatory HHS is introduced. The impact of P272, on the market as a whole and on customers, should be thoroughly analysed before proceeding to mandatory HHS for all customers.

The removal of barriers to elective HHS will erode a large part of the benefits case for mandatory HHS. If those customers who stand to benefit from settlement reform move across to elective HHS, the remaining customers on non-half hourly settlement are unlikely to realise significant benefits from a move to HHS.

It is important that ample opportunity is provided for customers to take advantage of elective HHS before mandatory HHS is introduced. This will ensure that any benefits of introducing mandatory HHS are additional to those achieved by the introduction of elective HHS. We are uncertain whether Ofgem's target of completing a significant code review for mandatory HHS by 2018 will allow sufficient time for customers to realise the full benefits of elective HHS.

If you have any questions, please contact Tabish Khan on Tabish.khan@britishgas.co.uk.

Yours Sincerely,

Sharon Johnson
Director of Regulatory Affairs