



## **Ofgem Open Letter - Half Hourly Settlement the way forward**

### **Response from E.ON**

#### **General Comments**

We appreciate the pragmatic approach that Ofgem have suggested for the expansion and potential eventual mandation of half hourly (HH) settlement for all customers.

There is much speculation that the imposition of accurate HH settlement arrangements for all customers will unlock innovation in the energy market. Much of this is overly simplistic and doesn't recognise the associated requirements. A key example is the need for this innovation to be driven by a customer interest. This is likely to be driven by an evolution of products and technology that provide value and benefits for customers.

HH settlement requires appropriate metering to be available to capture the granularity of information needed. These types of meters are being deployed to customers via the smart meter roll out but will not be available in sufficient numbers to mandate HH settlement for some time.

We therefore believe that an approach to mandating the expansion of HH settlement needs to recognise these issues when considering any potential future timescales.

A mandated implementation of HH settlement will have implications for the costs that Suppliers incur for all their customers. Some customers may benefit from a move away from a profiled approach whilst others may see their costs increase.

An assessment of these social implications has been missed from the work undertaken to date on the implications of mandated HH settlement. This has tended to focus on the practical implications and the benefits to the accuracy of the settlement process for Elexon.

Initially assessing any barriers to Suppliers moving to an elective HH approach is we believe the right approach. It will allow early adoption and innovation in this area to be driven by Suppliers and customer need. We have contributed to the work undertaken by Ofgem and Elexon in this area in the past, most recently via Elexon's Settlement Reform Advisory Group (SRAG), and will continue to support work in this area.

This is the approach that has been taken in gas market with the revisions to the central settlement systems with Project Nexus. These are scoped to allow all customers to be daily metered in their settlement but there is no accompanying mandate for this to happen. This approach to removing barriers whilst permitting the market to deliver the right solutions for customers seems pragmatic.

Whilst these existing barriers in the electricity market are assessed and removed in the first phase of this project it should allow for a more detailed assessment of the implications, barriers and appropriate timescales to mandate HH settlement to be undertaken. A robust and thorough



analysis of this is needed to ensure that the mistakes of the P272 project to mandate HH settlement for larger business customers are avoided.

The approach suggested to use the Significant Code Review (SCR) process seems sensible. Strong commitment, leadership and engagement from Ofgem will be needed to ensure that this process works well.

For these reasons we are supportive of the approach set out in this Open Letter.

There are several positive claims made in the open letter that we are not sure are accurate. The statements that HH settlement would "...help suppliers to forecast demand more accurately..." and will "...make the settlement process itself faster and more efficient.." are open to challenge. One of the tests for all Suppliers from HH settlement will be forecasting demand for their customers in an environment where profiles are no longer used. The consequences for costs and risks that Suppliers face together with the resulting impact upon competition in the market is something that Ofgem should consider.

We therefore recommend that Ofgem's forthcoming SCR regarding mandating HH settlement examines these issues to be understand the consequences and to see how many of the current assumptions can be substantiated.

### **Responses to consultation question:**

***Question: We are keen to make progress to deliver cost-effective elective HHS for small sites. We welcome views from stakeholders on the barriers to cost-effective elective HHS, which they they think we should address as part of our work. In particular, we are interested in those barriers which are not being considered by the SRAG (for example any barriers from other industry codes). If you have examples of barriers, please respond before 29 January 2016.14?***

The work to date by Ofgem and by Elexon in exploring the barriers to customers moving to elective HH settlement has been thorough although it has focused on aspects of the existing arrangements that can be changed quickly. It hasn't assessed some of the broader issues that may influence why elective HH services haven't been more widely taken up to date (e.g. it hasn't assessed the implications of centralising HH agent data processing functions to mirror the arrangements seen in the gas market)

We are not aware of any issues that have not already been brought to the attention of Ofgem during its assessment of HH settlement in its Smarter Markets work from the past few years.