

Aine Higgins Ni Chinneide
Ofgem
9 Millbank
London
SW1P 3GE

Haven Power Limited
The Havens
Ransomes Europark
Ipswich
IP3 9SJ

Sent via email to half-hourlysettlement@ofgem.gov.uk

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Dear Aine,

Half-hourly settlement (HHS): the way forward

I am writing in response to the above open letter, which asks for views on Ofgem's proposals for elective, and ultimately mandatory, half-hourly settlement for domestic and smaller non-domestic electricity customers.

Haven Power is a Drax Group company and is a non-domestic electricity supplier that has been supplying Small Medium Enterprises (SME), including microbusinesses since 2007. In 2009, we entered the Industrial & Commercial (I&C) sector and have been steadily growing our customer base in both areas and currently supply ~29,000 and ~9,600 MPANS in the SME and I&C sectors respectively. We have participated in a number of Ofgem workshops covering settlement reform and will continue to engage.

We support Ofgem's ambition to simplify the arrangements for migrating customers from NHH to HH settlement. The current process is over-complicated and involves costly labour-intensive procedures which have multiple points of potential failure leading to the risk of poor customer service and settlement errors.

We strongly support the approach of encouraging *elective* HHS so that customers and suppliers have the choice whether and when to migrate. We have reservations on mandating HHS, set out below, and would urge you to carry out a full impact assessment on the financial implications for different types and classes of customers.

Barriers to cost-effective elective HHS

- Significant system and process changes are required to migrate customers to HHS. For example, different pricing systems are used for NHH and HH contracts and for accurate pricing HH contracts require reliable HH data which

is not always available, particularly for new customers. HH settled and billed contracts require significantly greater data handling and storage, necessitating new system development and hardware investment at suppliers and data collectors. There may also be cost implications for industry central systems operated by, for example, Elexon and DCC. The sheer volume of data involved in HH settlement calculations requires large increases in computing and data processing power.

- Movement of contracts mid-term - i.e. customers gained as NHH who require moving to HH once on supply. HH customers are managed differently in pricing, demand forecasting, contract management and billing. Therefore new process and system changes are required to facilitate the migration. Although much of the work has been done in preparation for the HHS of PC 5-8, this was resource intensive and the same approach would not be sustainable for smaller customers. Further changes would be required for PC 1-4. (In addition the number of MPANs involved would be significantly higher). For business customers, in order to minimise obstacles, and to ensure customers have complete transparency of the cost impacts of migration to HHS, we suggest migration takes effect at customer contract renewal or gain. This is the model adopted for PC 5-8 under P322 and we believe is a sound basis of migration for all business customers and the most cost effective solution.
- The use of readings in billing – the current form of half-hourly billing is based on HH settlement and does not include meter readings in the traditional sense. If the same approach was used for domestic customers, it would be difficult for consumers to check their bills and this could lead to further disengagement in the market.
- Your comments about the need to review the distributional effects of HH settlement are concerning. These imply that you might introduce some form of cross subsidy between lower and higher cost customers. This introduces a new risk for any supplier who wants to bring products to market to take advantage of elective settlement. This risk will result in lower sales activity and less innovation as Suppliers will be concerned that their initiatives may be nulled or reversed if they are subject to extra costs on these lower underlying cost customers.

Moving from elective to mandatory HHS

The case for mandatory HHS of all consumers has not been made. We believe that it should be set out fully, with qualification of costs and benefits, before the decision to implement mandatory HH settlement for all domestic, and smaller non-domestic customers is made. All factors must be taken into account, ensuring decisions are made on an informed basis.

The current profile coefficients are an average shape, therefore customers are priced against this i.e. they receive average wholesale costs. Pricing customers on a finer granularity will mean their prices will be reflective of their actual wholesale costs, so some will benefit and some will be subject to higher charges. At a simple level, if the current profile shapes are representative of the PC 1-4 as a whole, there will be as

many losers as winners. We are concerned this may have a disproportionate impact on some customers.

It is not compulsory for smaller non-domestic and domestic customers to have smart meters installed. They can refuse, and there is enough negative media coverage to assume that a significant number will. There will also be cases where it is simply impractical to fit a smart meter. It is important to remember that there will be a rump of NHH customers to settle as a result. This will mean that the costs of running the NHH settlement systems will be spread over a much smaller group of customers. You have said you need to consider the distributional effects of higher cost load shapes. Do you also need to consider how the costs of continued NHH settlement are recovered?

Ofgem's letter acknowledges the volume of concurrent regulatory change the industry is undergoing. Major reforms are being undertaken in parallel, including the smart meter rollout, faster switching reform and a new centralised registration service. Suppliers are already wrestling with the challenges posed by these projects often with limited resource. The huge complexity of this whole process should not be underestimated. The movement to HHS for PC 5-8 is a very difficult process in terms of cost, internal and external resourcing. Around 155,000 customers were impacted by P272. Mandatory HHS would affect 29 million customers and in our view it would not be possible to deliver this in the proposed timeframe along with all the other significant change that is currently being undertaken. We are also concerned about the lack of coordination within the industry across the various change activities. With so much change it is likely that consumers will suffer. This will damage their perception of the industry at a time when trust is slowly starting to be rebuilt.

Smart meter data will not necessarily be clean and complete. The rollout provides an ideal opportunity to cleanse industry data, but there is no guarantee this will be undertaken uniformly and to a high standard. There is a real risk that data quality will deteriorate especially given the very compressed timescale for rollout.

We would also question whether this group of customers would make the most of the potential opportunity created by HHS, which will potentially bring additional complexity for them. Not all consumers are willing or able to change their usage patterns. Most businesses operate within set hours and the time of day that domestic customers need heat, light and cooking facilities are influenced by factors beyond their control. Only very significant price signals will start to influence their behaviour. A significant proportion of domestic customers have no interest in switching supplier, so why would they take advantage of this change? The majority of our fixed price HH customers are priced on a day/ night tariff and we have very few customers who request or will accept Seasonal Time of Day (SToD) tariffs. This demonstrates that even when customers have access to the functionality they are not making use of it to move their usage away from more expensive periods. More specifically we have no evidence of customers moving to HH settlement under P272 requesting or being prepared to accept more flexible tariffs. A move to mandatory HHS will be costly for the industry and those charges will ultimately be passed on to consumers.

It would be a mistake to read forward many aspects of the current HH settlement processes into a much larger population. HH meters have until now been almost exclusively used on larger supplies where they have been managed intensively. Our experience with Advanced Meters suggests that it is quite possible to achieve lower settlement performance unless these are very closely managed. As a result we urge Ofgem to ensure that you fully understand how these smaller meters are likely to behave in practice and to build this into your plans and proposals. There is little evidence that this is understood in the industry at present.

I hope our response is useful. Please contact me using the details below if there is any aspect you would like to discuss further.

Yours sincerely

June Mallett
Regulation Manager
Email june.mallett@havenpower.com
Direct Dial 01473 632536