

Electricity suppliers, distribution companies, consumer representatives, Code Panel chairs and other interested parties

Email: half-hourlysettlement@ofgem.gov.uk

Date: 7 March 2016

Dear all,

Elective half-hourly settlement: publication of responses to December open letter

In December 2015, we published an open letter setting out our plans for half-hourly settlement (HHS).¹ We indicated that our initial focus would be on enabling elective HHS for domestic and smaller non-domestic customers.² As part of this, we asked stakeholders to provide views on the barriers to cost-effective elective HHS.

There was a good level of interest in our open letter. We received 25 responses covering a range of organisations, including suppliers, network companies, and a consumer organisation. We are grateful to all these stakeholders for taking the time to respond and for contributing to our work.

We are publishing all the non-confidential versions of responses today on our website.³ To complement these, this letter provides a short overview of the main messages from the responses. It also gives information about how you can register your interest in our upcoming stakeholder workshop to be held on 5 April.

Overview of main messages from responses

As part of analysing the responses to the December open letter, we have classified comments on barriers to elective HHS in nine broad categories. These are shown in the diagram below. This section gives a short explanation of the main messages under each category.

As an overview, this section is not intended to be comprehensive – we have reviewed all the points raised by stakeholders, including those not mentioned here. We will take all points raised into consideration. The inclusion (or otherwise) of points in this summary should also not be taken to indicate anything about our eventual conclusions.

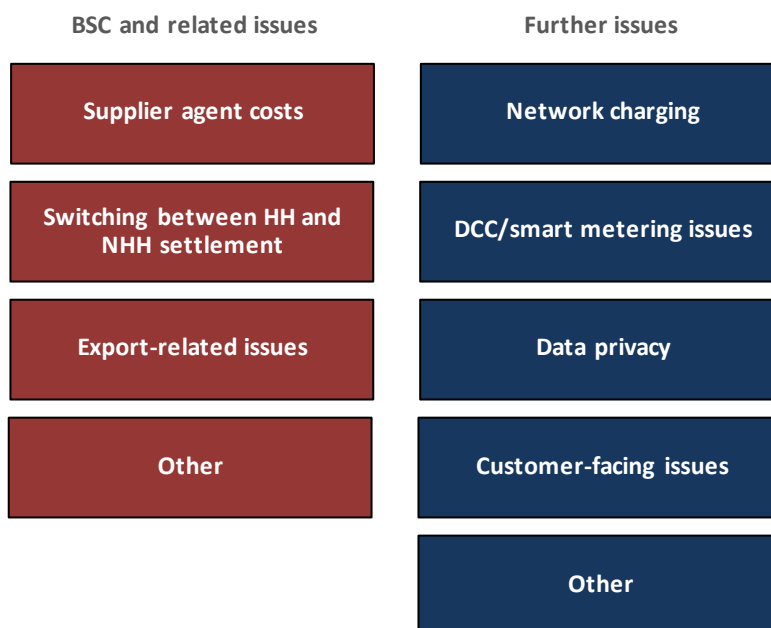
We also received a number of comments that related to mandatory half-hourly settlement. We have not summarised these here. Instead, we will consider these comments alongside responses to the consultation on our draft Forward Work Programme,⁴ which invited views on mandatory half-hourly settlement. After considering responses, we will announce our decision on the proposed Significant Code Review for mandatory half-hourly settlement in Spring 2016.

¹ https://www.ofgem.gov.uk/sites/default/files/docs/final_open_letter_on_hhs.pdf

² Electricity consumers in profile classes 1-4. For further information on the allocation of profile classes, see Balancing and Settlement Code Procedure 516.

³ <https://www.ofgem.gov.uk/publications-and-updates/half-hourly-settlement-way-forward>

⁴ https://www.ofgem.gov.uk/sites/default/files/docs/draft_forward_work_programme_2016-17.pdf



Balancing and Settlement Code (BSC) and related issues

- Supplier agent costs:** Several stakeholders suggested potential improvements to the processes that supplier agents⁵ are required to follow. For example, several respondents suggested that data estimation could be simplified further. Other respondents told us that it would be possible to relax the requirements for how frequently suppliers provide data into settlement (through their agents). Some stakeholders told us that changes to supplier agent processes could help to reduce the ongoing costs of half-hourly (HH) supplier agent services, which they saw as a barrier to elective HHS.
- Switching between half-hourly and non-half hourly settlement:** Several respondents told us that the Change of Measurement Class process needs to be made more efficient. Several stakeholders also said that, under elective HHS, the Change of Measurement Class process needs to work in reverse, to allow customers to switch from HH to non-half hourly (NHH) settlement.
- Export-related issues:** Several stakeholders mentioned the interactions between HHS and GSP Group Correction Factor⁶ (which is affected by factors including spill from Feed-in Tariff generation). Some suggested that Group Correction Factor should be applied to HH sites. A couple of stakeholders told us that export from small-scale generation should be metered and settled. It was also suggested that we should consider barriers to local consolidation of generation and supply (as a potential application of HHS).
- Other:** Stakeholders made a wide range of other points. Several stakeholders mentioned Balancing and Settlement Code specified charges as an issue for consideration.⁷ Several stakeholders also referred to the potential for European-level changes to the length of the imbalance settlement period.

⁵ A supplier agent is a party appointed by a supplier to maintain a meter or to collect and prepare data for settlement.

⁶ GSP Group Correction Factor is a scaling factor used to reconcile the top-down total amount of electricity consumed in a region with bottom-up figure allocated to suppliers.

⁷ These charges are used to recover some of Elexon's costs.

Further issues

- **Network charging:** Several stakeholders said that the introduction of HHS would make it important to review the arrangements for distribution and transmission charging (although this was largely in relation to the introduction of mandatory HHS). It was also noted that there could be a transitional double charging issue under the transmission charging arrangements, similar to that encountered for the introduction of HHS for medium non-domestic customers.⁸
- **DCC/smart metering issues:** Some respondents made points about the underlying smart metering and DCC infrastructure, and how these might interact with a move to HHS. In several cases, stakeholders noted potential cost issues. A couple of stakeholders also told us that it was important to consider how HHS can work for SMETS1 smart meters before they are enrolled with the DCC.⁹
- **Data privacy:** Stakeholders noted that the smart meter data privacy rules were a key factor in determining how suppliers could get access to half-hourly consumption data for use in settlement. A couple of stakeholders said that there could be specific issues with data privacy around the time of a Change of Tenancy. Other stakeholders mentioned the EU General Data Protection Regulation as a relevant development to consider.
- **Customer-facing issues:** Stakeholders noted that new products linked to HHS could have an impact on a variety of interactions with consumers, including information provision and billing. A number of stakeholders also said that there would be impacts on Price Comparison Websites. Several stakeholders said that the tariff cap introduced under the Retail Market Review was a barrier to offering new products. A couple of other stakeholders told us that there were risks of increased tariff complexity.
- **Other:** Again, stakeholders raised a number of points that did not fall under the categories above. In particular, several stakeholders said that we should consider the impact of a move towards HHS on customers who remain on NHH arrangements. A number of suppliers also told us that there would be costs to suppliers from changing their systems.

Next steps

After reviewing responses, we have continued to speak to stakeholders to develop our understanding of the issues raised. Based on these conversations and the responses, we maintain our ambition to enable cost-effective elective HHS for domestic and smaller non-domestic customers in early 2017.¹⁰ Over the coming months, we will be carrying out policy work, with a particular focus on looking for ways to reduce the costs for suppliers who choose to use elective HHS. We will be receiving valuable support from Elexon. During this period, we will continue to meet a range of stakeholders to understand the issues in more detail and to explore potential solutions.

As part of this ongoing engagement, we will be holding a stakeholder workshop on 5 April. This will be an opportunity to explore some of the key issues in more detail, and will allow stakeholders to comment on some of our emerging thinking. The workshop will run from 10am to approximately 4pm, and will be held at our London office.

⁸ Under Balancing and Settlement Code modifications P272 and P322.

⁹ The Data and Communications Company's (DCC) services will be in operation ('live') from 2016. Suppliers will be able to install and commission SMETS2 meters on the DCC network once it goes live; SMETS1 meters will be enrolled with the DCC at a later date.

¹⁰ The precise timing will depend on practical factors such as the BSC Release schedule, which will affect any central systems changes.

If you would like to attend this workshop, please e-mail half-hourlysettlement@ofgem.gov.uk by 16 March 2016. Places are limited, but we will try to ensure that a range of types of organisation are represented. This means that we may not be able to confirm places before this date. All materials presented at the meeting will be published on our website.

Following this, we anticipate publishing a conclusions paper in May 2016. This will provide our response to the issues raised by stakeholders and set out our view for how the priority issues can be addressed in conjunction with industry.

Contact

We are very keen to continue to speak to stakeholders as we continue our work. If you have any thoughts or comments, then please get in touch with us at half-hourlysettlement@ofgem.gov.uk.

Yours sincerely,

Anna Stacey
Head of Settlement Reform