



James Earl,  
Senior policy manager,  
Ofgem,  
9 Millbank,  
London,  
SW1P 3GE

14<sup>th</sup> December 2016

Dear James,

### **Consultation on Mandatory Half-Hourly Settlement: aims and timetable for reform**

Thank you for the invitation to respond to the above consultation. Bristol Energy is an independent supplier of electricity and gas with a business model that has a regional focus on the South West of England, although we supply customers across Great Britain.

#### Executive Summary

Bristol Energy welcomes Ofgem's proposal to look at mandatory HH settlements. Whilst the recent changes to improve the ability of suppliers to do elective HH settlements are a start, we do not believe the current arrangements are fit for purpose for domestic and microbusinesses to be settled Half-hourly.

We believe that Ofgem's proposal to use the Significant Code Review mechanism is the way forward. We strongly hope that it will learn from the failings of the faster switching SCR, in particular its failure to provide sufficient transparency and engagement for parties not able to be represented on all the various users groups and other meetings. Without this, then there is a danger that the solutions will reflect the conservative concerns of the larger suppliers rather than the needs of an innovative market that independent suppliers are creating.

Ofgem also needs to be mindful of all the other changes currently taking place in the market and ensure that this process when complete matches the market as is, and not as was (i.e. it gets overtaken by events). This includes understanding the increase in "prosumers" and the impact of storage. It must also recognise that all parties have finite resource to commit to such projects, and most (especially smaller parties) are already stretched beyond their limits.

Finally, we believe that HH settlements will allow suppliers to offer many financially vulnerable customers ways to significantly reduce their electricity bills through behavioural change, and whilst it is right that Ofgem should consider the small minority that cannot do so, it should not in focussing on this aspect of consumer protection, inhibit the benefits to the many who can make simple life style changes to gain the benefit.

We have answered your specific questions below, expanding our response where necessary.

#### **Q2.1 Do you have views on our proposed approach?**

We are supportive in principle of Ofgem's proposal to run this project as a Significant Code Review (SCR) although we are concerned that the approach is similar to that used for the faster switching SCR which has

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proved difficult to engage with. This is not just due to the complexity of the programme structure, but also Ofgem's inability, despite promises to the contrary, to be transparent in the process by placing all papers for meetings on its web site. This is important as apart from a few large parties, most companies are not represented on all the groups and cannot fully engage unless the process is transparent.

If Ofgem cannot resolve this issue internally, then we would encourage them to consider working with a party like Elexon to act as the programme administrator, who have a track record of ensuring transparency of the work carried out in Modification groups, and may be better able to ensure transparency of the process.

We support the proposal of focusing the Impact assessment on consumers, but believe Ofgem must consider the impact on industry players as well, in particular the different types and business models of suppliers. It is not in consumers interest if certain business models are disadvantaged in the way mandated HH settlement is implemented, as this would impact their customers, and in the extreme could reduce choice.

**Q2.2 Our Impact Assessment will evaluate the costs and benefits of mandatory HHS for domestic and smaller non-domestic consumers. We will be seeking evidence of costs and benefits as part of this process. Do you have initial views on the costs and/or benefits?**

As stated above we think it is important that the impact of HHS should widen, not reduce consumer choice.

**Q3.1 Do you think we have identified the necessary reforms? Are there other reforms that should be listed? If so, what are they and how would they fit in to the proposed plan?**

We believe that Ofgem has identified all key areas for reform. However, under the settlement process we feel that a review of NHH unmetered supplies would be beneficial as these will remain in the NHH process and how this is managed in the transition should be considered.

It may be beneficial to also document any known concurrent industry changes that may impact this process by changing the baseline. For example, EU proposals to move to 15 minute settlement periods, faster switching and flexible systems for storage and demand side aggregators.

Finally, Ofgem needs to be mindful of the impact of storage. HHS should be beneficial to storage but it should form part of the impact assessment as to whether the proposals are fit for purpose for a future where storage is a significant part of the market.

**Q3.2 What industry expertise is needed to deliver these reforms in the timetable we have given?**

The timetable proposed will be challenging, especially as it will be laid on top of an already busy agenda with CMA remedies, faster switching, Smart roll-out, code governance reform, all alongside the usual incremental changes.

Ofgem will need to ensure that any industry expertise is wide reaching and does not just involve industry experts in settlements (an issue with both PSRG and SRAG at Elexon, where the majority of members are wholesale rather than retail experts)

It also needs input from different parties including those not operating business models that align with the major energy companies. Engaging with smaller parties, such as ourselves will be challenging given all the

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other industry programmes that will be running concurrently.

**Q3.3 How much expertise and time can your organisation provide? How does this interact with other Ofgem initiatives?**

Whilst we have several individuals with the necessary expertise to work with Ofgem, these resources are currently stretched with other commitments, namely preparing for smart meter roll out and other aspects of the CMA remedies. We are also mindful of needing enough bandwidth to implement any necessary changes to deliver faster switching.

Ofgem could make resourcing easier if parties did not have to spend time trying to find out what was happening in the programme because it was failing to be transparent, and then they would be able to contribute more.

Bristol Energy could not contribute more than a few man-days/month given other commitments.

**Q3.4 What are the key risks and constraints to delivering to the timescale outlined?**

The biggest risk to delivery is the lack of suitable industry expertise. Unlike other programmes, HHS is a specialised area, and HHS experts who also understand the retail market are even more specialised and tend to be within smaller parties where the necessity to multi-task breeds such expertise.

The other big risk would be dependent on the transition arrangements and centralised system complexity. If a big bang approach is adopted, then the deadline would be dependent on all parties being ready concurrently. The opening of domestic market competition is a testament to the problems with big bang approaches, and Nexus and smart are both good examples of how complex central systems can delay progress.

**Q3.5 Do you agree with the dependencies in Figure 1? If not what changes would you make and why?**

We agree with figure 1, but would add that the issues around storage and network charges should be part of the high level review in the 1<sup>st</sup> phase. It is also important that the impact of faster switching is considered as the current faster switching SCR appears to have ruled HHS out of scope, but it will have an impact.

**Q3.6 What are the barriers to making changes to central systems and industry rules by the first half of 2018?**

The biggest barrier to making changes is that central systems are not in a steady state due to changes already in the pipeline from other programmes. A programme of this size will need a baseline to work against which is not steady or stable so the risk of unintended consequences or significant regression testing is high.

In addition, by 2018 the type of customers with smart meters may be skewed and have an impact of the way the NHH market is settled. It is unlikely that the NHH market for customers not yet smart can continue to operate as is, nor can the two markets run independently of each other.

**Q3.7 Do you have any comments on the proposed plan?**

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This plan cannot operate in isolation to other changes in the market. HHS crosses both retail and wholesale markets and any changes in either could have consequential impact, either on HHS or HHS on them.

The resource available from market participants is not infinite and their ability to engage on a project of this size and complexity has to be questioned given other projects underway, even by larger parties. The lack of significant engagement by smaller parties in developing the centralised smart systems and processes, project Nexus or the faster switching SCR should be concerning Ofgem already without adding HHS into the mix.

**Q4.1 Do you agree with the conclusions of the ESEG and the PSRG? Do you think anything has changed since they considered these issues?**

We broadly agree with the conclusions of the ESEG and PSRG. Since these reports the number of NHHS properties with onsite generation has increased significantly (and storage is also increasing) and Ofgem is proposing to increase the speed at which properties can switch supplier. Both of these elements should be reviewed for the impact they make on the original conclusions.

We also believe that both these reports looked at the market through the lens of large energy companies, and that they may not understand the impact of the proposed change on the 40+ smaller suppliers, or generators with NHH metering or no export metering in place.

As part of its commitment to a more flexible energy market, we believe Ofgem should develop a way in which the draft Target Operating Model is reviewed specifically for it to be fit for purpose in the more flexible dynamic market of the future.

**Q4.2 Do you agree with the scope of issues identified in this section (Roles & Responsibilities)? Are there any others we should be considering?**

We agree with the scope of the issues and that this process should review the current supplier agents' structure of the market. The original supplier agent arrangements came into being with market opening as a way of facilitating functions being carried out by the Host-PES businesses on behalf of other suppliers. Most critical of these was to allow other suppliers to access the pedestrian read capabilities and meter operations of the host-PES suppliers. Changes in technologies mean that many of these functions no longer require physical visits to properties and the case for a decentralised structure is less obvious.

Included in the scope should be the role of unmetered supply. Competition in unmetered supply is limited because it requires a different set-up, which only the old Host-PES businesses had in place. The move to HHS could create an opportunity to improve competition for unmetered sites.

The review should also consider the role of the DTN. Whilst it has been an effective method of transferring data between parties, Industry now has both the DTN, the DCC network, and other ad-hoc methods of communicating data such as web based VPN. Given the quantity of data that will now need to be transferred under mandatory HHS, it would seem sensible to consider whether a single, secure data transfer mechanism would be advantageous.

If a centralised system is the outcome of the TOM, then we would also propose that the TRAS service be considered as part of that process reducing the need for suppliers to send data it receives back to the industry for TRAS purposes.

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**Q4.3 Do you agree with the scope of issues identified in this section (Settlement Process)? Are there any others we should be considering?**

We agree with most of the areas you have identified. The reduction in settlement timetable should, in our view be evidence led in that we should reduce the timescale once HHS is mandated, and we have evidence as to when sufficient data is normally available to settle the energy allocation. The ESEG work assumes that HH data would be collected daily from every site, whereas the PSRG work assumed that suppliers would collect a month's worth of HH data per site once a month. Collecting the data daily may increase costs, but equally would cut the settlement window and thus the cost benefit needs to be considered.

The Group correction factor, does not just cover profiling errors but also picks up undetected metering issues, theft and line losses being more or less than the static losses ascribed for the DNO area. We have not subscribed to the view that HH sites do not contribute the GCF and believe mandating HH settlement will prove this, so agree its allocation needs to be revisited.

If settlement timetables are shortened, then Ofgem should consider the impact on charging mechanisms that use this data and whether these processes can be improved. This includes EMR settlements, FIT levelisation, DNO supercustomer DUoS charges and any other processes based on a supplier's market share calculation.

**Q4.4 Do you agree with the scope of issues identified in this section (Policy Enablers)? Are there any others we should be considering?**

As mentioned above, the need to use multiple data networks leads to inefficiencies in suppliers. Part of this is the issue of some customer's meters being managed outside the DCC using bespoke networks. We believe that Ofgem should at the very least allow customers with advance meters to use the DCC if they have meters capable of being enrolled.

When considering export meters, Ofgem should also consider the impact of storage on the system. This has the potential to change the dynamics of line losses when more customers switch to storage or export the storage at advantageous times.

We agree that network charging should be considered, but point out that with the changing dynamics of energy generation and use a reform of the principles of network charges based on kWh is probably not fit for purpose going forward. This project must work closely with Ofgem's review of embedded benefits in this respect.

Finally, the project must look at other policy programmes and their impact. Suppliers do not have the resource to make infinite concurrent changes to the market, and the timing of the switch should be considered in the light of the other changes.

**Q4.5 Do you agree with the scope of issues identified in this section (Consumer issues)? Are there any others we should be considering?**

All change to systems bring losers and winners. Whilst we understand Ofgem's concern that some vulnerable customers may not be able to manage their consumption to derive the benefit of a smart tariff, Ofgem must also counterbalance this with the many vulnerable customers who could make life style changes to reduce their consumption at peak times and thus their energy bills but cannot because suppliers currently cannot offer

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smart tariffs backed by HH settlements in a cost effective manner.

It should also consider in its impact assessment the benefit to all customers in potentially avoided costs to all that will occur if just a proportion of customers change their behaviour, such as reduced capacity mechanism charges or network enhancements that may not being required.

**Q5.1 What is the best way for us to use the expertise of stakeholders? What have you found helpful in the past?**

Key to us is transparency. It is important to move away from the process that suppliers can only effectively engaged if they attend all of the various meetings. This approach does not work for suppliers, equally it would not work for Ofgem logistically if the 50+ interested parties all attended every meetings.

The Elexon modification process is a good process in that the modification groups are usually populated by industry experts acting in that capacity rather than company representatives, but consultation documents appear frequently and include a record of the workshop discussions (which are not the same as minutes). This process allows parties to keep up-to-date with progress and has mechanisms to intervene if they are unhappy with the approach being taken. Modification groups also consider all feedback received which is then relayed back in the workshop discussions.

The only fault line in the Elexon approach is that the modification groups tend to be self-selecting and can sometimes be skewed in their expertise (e.g. Only large suppliers/generators, lack of a DNO representative or it find members actually lack the expertise required). To counter this we would advise that Ofgem seek to ensure a balance representation of experts and consider if parties should be reimbursed for providing these expertise.

In addition, Ofgem must be able to get papers available to the industry in a timely manner, and ensure a mechanism exist for feedback to be given a shared with the expert groups.

I hope you find this response useful. If you have any queries, please do not hesitate to contact me.

Kind regards,

A handwritten signature in black ink that reads "Chris Welby".

Chris Welby  
Head of Regulation

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