



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

Response from E.ON

General Comments

The move to half hourly (HH) settlement for residential and small business customers will help to contribute to the evolution of the energy market by making electricity costs more focused and accurate. It will support innovation and the evolution of commercial offerings from electricity suppliers and aid in the development of the market for flexibility products for customers.

The process of settling electricity volumes using profiles and averages has served the electricity industry well since the time of privatisation. It has helped facilitate and support the introduction of the competitive markets for electricity generation and supply.

Technology is moving on and it is time for these back office processes to evolve to recognise this. Smart meters are now installed in many customers' homes and soon will be available to all. These have the ability to record and provide HH information to the customer, their supplier and to third parties in a cost effective manner.

Other technologies such as on-site generation, energy storage and electric vehicles are changing the way in which consumers interact with the electricity market and system. In order to be able to gain access to the commercial potential that exists in this new world the settlement processes that underpin the balancing of the electricity market need to progress as well.

This is recognised in the consultation from Ofgem and we agree with the overarching ambition that change is needed in this area.

We support the phased approach that is being proposed for this project. As a first step it is necessary to map out exactly what the future process for electricity settlement should look like.



This shouldn't be constrained by the existing model and should recognise the differences that have been introduced into the market since the current arrangements were established in the late 1990's.

With the commencement of operational services from the Data and Communications Company (DCC), a single monopoly will provide meter readings for all residential and small business customers. It is now right to examine whether this development undermines the value of the current competitive settlement metering agent arrangements and whether a preferable centralised model may serve the industry and consumers better (akin to that used in the gas market).

A mandated move to HH settlement will have impacts upon the costs that individual customers incur for their electricity supply. This is inevitable and the implications of this need to be assessed and understood.

Therefore we welcome Ofgem's decision to commission a study into this as part of the next phase of the project. Similar studies have been undertaken in other markets where smart meters have already been deployed. The findings from these however are not easily translated to the GB market as the use of the electricity system and the underlying costs are different.

An assessment of the distributional implications is therefore an important part of this project. We believe it would be useful for this assessment to also explore and propose recommendations as to how a transition should best be managed from a consumer perspective.

In particular it will be an important factor for the project to understand how the transition can be managed for those customers who are negatively affected and what messages should be sent to them to explain why change is happening. A key observation from the Balancing and Settlement Code (BSC) P272 mandated implementation of HH settlement for larger customers was that strong centralised communication is critical and was something that was missing from this project.

Good central communication will be important for maintaining customer buy in for any change and to avoid any negative implications for other industry programs. In particular the smart metering roll-out may be vulnerable to negative association if the communication regarding HH settlement is poorly managed, especially as the acceptance of smart meters by customers in the GB market is on a voluntary basis.



The issue of distributional impacts from changes to the market is being considered by Ofgem and the industry in the project looking at how distribution tariffs for customers should evolve to take into account the evolution that is occurring within the electricity sector.

In both projects it is right and fair that costs should be allocated to those that incur them. Settlement of electricity costs should be allocated to those customers who are using it at specific times of the day. This will encourage the development of flexibility from customers and ultimately will result in the total costs for all customers being lower than they otherwise will be.

We agree with the two key proposed dates set out in this consultation, that a decision on the way forward should be determined by mid-2018 and that it is unlikely that a mandate will be possible before 2021 when it is expected that there will be sufficient numbers of smart meters in customer's properties.

The proposed next set of project deliverables; a Target Operating Model (TOM), business case and impact assessment (IA) all seem sensible as is the suggested approach to phase the project. We would however like to see more detail about the project and how each phase will operate.

This should include detailed plans as to how the proposed outputs from each phase will be delivered. An indication of how stakeholders, such as ourselves, will be involved and transparency on the key milestones would be useful both from a planning perspective and in helping us to provide support and insight.

It would also be good to clarify the role that Elexon and the DCC may have in this project as both will need to budget and resource to support its delivery over the coming years.



Consultation Question:

CHAPTER: Two

Question 2.1 *Do you have views on our proposed approach?*

The proposed approach seems sensible and is one that we would support.

Question 2.2 *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 that process. Do you have initial views on the costs and/or benefits? If so, please provide these with your supporting evidence.*

Defining the costs for a move to mandated HH settlement is difficult to predict at this stage as the Target Operating Model has yet to be defined. The scope of this and decisions on questions such as whether to centralise DC/DA activity will have an impact upon the costs that we as a Supplier would incur from a move to mandate HH settlement.

If it is decided that domestic and small business customers are to have a centralised DC/DA activity an assessment of the competitive HH DC/DA market should also be undertaken. Issues with this market have been raised recently via BSC P332 and it would be beneficial for the market as a whole if this sector was included within the assessment of what changes are needed.

The proposal to undertake a business case assessment and impact assessment are the correct ways in which to proceed and should provide the evidence to support this initiative.

CHAPTER: Three

Question 3.1 *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 the proposed plan?*

The reforms outlined in the consultation are comprehensive and reflect the prior work undertaken by the industry in examining a move to mandatory half hourly settlement. We do not have any further areas of reform to suggest at this stage.

Question 3.2 *What industry expertise is needed to deliver these reforms in the timetable we have given?*

Moving to mandated half hourly settlement will have a significant impact upon Elexon's and Suppliers settlement systems. Therefore it is important that the engagement process



that Ofgem utilises for this project is open and transparent and allows these key stakeholders to be involved.

The DCC will be acting as the data retriever for the affected customers and therefore their input to the project will also be critical.

As the project has suggested reviewing the network charges for customers, it would also be sensible to include representatives from the distribution and transmission network companies.

There will be impacts to consumers from these proposals and therefore it is also important to include stakeholders who can represent their interests.

Question 3.3 How much expertise and time can your organisation provide? How does this interact with other Ofgem initiatives?

This is an important project for our business that will ultimately result in us incurring significant costs and impacts upon the service and products that we provide to our customers. Therefore we will endeavour to engage with the process as much as is possible.

This initiative is directly linked to our smart metering deployment as the benefits of HH settlement are only available once a customer has a smart meter.

The project is one of a number of regulatory and Government policy led initiatives that are changing the energy market that we operate in. Resourcing and supporting the development of multiple changes is a challenge for any commercial organisation. It is important therefore for regulators and policy makers to provide as much notice of change as possible, be as transparent as they can regarding decision making and be cognisant of other policy initiatives that are underway and therefore avoid too much change being scheduled for release at the same time.

For this project of work the approach set out by Ofgem seems appropriate. Setting out the long term policy ambition (HH settlement for all in this case), setting out the steps that will be taken (develop a TOM, business case and I/A) and then delivery of the changes.

Although we appreciate that it is difficult at this stage to predict the later stages nearer to the implementation of this project we would have preferred to have seen greater detail set out in the HH project plan for all phases, especially those occurring over the next 2 years.

Ofgem's Switching Reform project has provided us with a high level indicative timetable of the different project stages. It would be good to see a similar approach adopted here. From the consultation the only aspect of certainty we were provided was that the initial assessment of whether and how to mandate HH settlement should be complete by mid-



2018. How this decision will be made and the timetable for the development of the initial TOM would be interesting to understand to help our resource planning.

The proposal to implement industry rule and central system changes by the same time as a decision is made on HH settlement is unachievable. These would logically follow the development of the key policy decisions rather than being introduced before or at the same time as them.

Consideration of the options for the centralisation of DC/DA functions and the potential amendments to the settlement process will all have implications for the speed with which mandatory HH settlement can be introduced. An assessment of these timescales and the appropriate approach to implement change is something which needs to be considered as part of the development of the TOM, business case and impact assessment.

Question 3.4 *What are the key risks and constraints to delivering to the timetable outlined?*

As explained in our response to the previous question the timetable for delivering reform isn't completed clear to us at this stage.

A clear constraint is whether or not to decide that mandated HH settlement is right for customers and the form in which this will take (e.g. the future settlement process and roles for metering agents).

Part of the consideration of the reforms should be how challenging they are to introduce and how they can be introduced in a way in which minimises the risks to market participants and to consumers.

Question 3.5 *Do you agree with the dependencies in Figure 1? If not, please explain what changes you suggest and why.*

The considerations for each area of reform articulated in Figure 1 in the consultation seem comprehensive and we would agree with them. There may be more considerations for each area and further assessment of the reforms may bring these to light. It wasn't clear from the consultation how each of these reforms would be assessed by the project and how and when the dependencies for each would therefore be explored in more detail and solutions proposed.

Greater clarity and detail in the project plan should provide an insight into this and also help to understand whether it is possible to meet the aspirations of determining all the policy answers on this by mid-2018.



Question 3.6 *What are the barriers to making changes to central systems and industry rules by the first half of 2018?*

Changes to central systems and industry rules can only be drafted once there is clarity on what the future TOM looks like and after key decisions have been made on the areas for potential reform that have been articulated in this consultation (e.g. whether DC/DA should be centralised).

Therefore it doesn't seem clear to us that it is possible within the proposed project for this to be delivered. It would seem more logical for these to be introduced at some point after mid-2018 once the key policy questions have been answered.

Barriers to the introduction of these changes will vary depending on the exact scope and nature of the ultimate reforms. Significant change which impacts upon many different industry parties will require co-ordination and organisation to successfully manage the transition. More modest changes to existing ways of working can be introduced more quickly particularly if they do not have any IT system changes or are linked to a restricted number of parties.

It will be important during the planning phase to identify any dependencies between the proposed changes to ensure that they are sequenced correctly. Experience from the implementation of P272 (mandated HH settlement for customers within profile class 5-8) shows that it is important for all implications of a change to be thoroughly assessed and that processes are not examined in isolation. Failures in this project to assess the consequences upon commercial contracts with customers (both Supplier and connection with the DNO) and implications for transmission charging led to costly delays and problems with its implementation. Similar occurrences should be avoided on this project.

Question 3.7 *Do you have any other comments on the proposed plan?*

More detail regarding this plan is needed to provide clarity to stakeholders, prepare them to engage with the process and to demonstrate that the reforms can be introduced in a robust manner.

CHAPTER: Four

Question 4.1 *Do you agree with the conclusions of the ESEG and the PSRG (see paragraphs 1.8 – 1.10.)? Do you think anything has changed since they considered these issues?*



We continue to agree with the conclusions of the ESEG and the PSRG and the work that has previously been undertaken in this area. The underlying principles have not changed since this work has been undertaken.

Some aspects of the market have evolved more quickly than was originally envisaged by this work. In particular the deployment of onsite generation has been greater than originally envisaged and the potential for onsite storage to make the commercial case for HH settlement more attractive was not considered at the time.

There is also greater clarity now on how quickly the DCC will be established and the likely timeframe for it to adopt and to enrol existing SMETS 1 meters. Both of these are slower than was originally considered by the groups who previously examined the potential of mandating HH settlement. There is also now greater clarity on what the actual deployment rates for smart meters in general will be as more Suppliers are now active in their roll out plans.

Taken together this information doesn't alter the conclusions from the previous groups but helps amend the commercial rationale as well as better informing the timescales for when reforms to mandate HH settlement should be considered.

Roles and responsibilities (see paragraphs 4.2. - 4.7.)

Question 4.2 Do you agree with the scope of issues identified in this section? Are there any others we should be considering?

Yes, this is one of the most important aspects to the next phase of this project. We agree with the ambition that the new arrangements should be cost-effective, efficient and promote continual improvement and innovation. This is an aspect of the market that will need to evolve as the future of electricity market evolves.

The future of the electricity metering agents is an area that needs consideration. The current competitive metering market of separate data collectors and data aggregators is being challenged by the evolution of the market (as can be seen by BSC P332). To ensure that efficient decision making and change is undertaken we believe that this modification should form part of the HH settlement SCR and be co-ordinated by Ofgem.

The DCC will be the default data retrieval agent for all customers being considered as part of this consultation whether this continues to allow the viability or desirability of differing commercial data processing and the current formal Data Collector role needs to be assessed.



Similarly the role of independent Data Aggregators for this sector is also potentially questionable in the future. There is a case both from an efficiency perspective and to aid with settlement accuracy for this role to be centralised. Who should undertake this role and how the current arrangements should be transitioned is something that this project should provide the conclusion upon.

Settlement process (see paragraphs 4.8. – 4.17.)

Question 4.3 Do you agree with the scope of issues identified in this section? Are there any others we should be considering?

Yes, these are all important areas where answers will need to be determined in order for the TOM for the HH mandate to be completed.

Policy enablers (see paragraphs 4.18. – 4.27.)

Question 4.4 Do you agree with the scope of issues identified in this section? Are there any others we should be considering?

Yes, the question of network charging has to an extent been addressed as part of the implementation of P272. There is currently a review into the CDCM and EDCM charging models used by distribution network companies. This work on a mandate for HH settlement shouldn't look to duplicate this work but should work collaboratively with this to ensure an aligned outcome.

Consumer issues (see paragraphs 4.28. – 4.38.)

Question 4.5 Do you agree with the scope of issues identified in this section? Are there any others we should be considering?

Yes, the question of data privacy is one that this project will need to consider and assess. During the development of the smart metering data privacy framework there was discussion of how HH data could be used for improving settlement. There was consideration of a number of potential options and how viable these will be will in part reflect the nature of how the reforms are implemented. For example during the discussion there was consideration of using a potential future central DC/DA service to anonymise data before it is provided to Suppliers/Network companies and the central settlement system as an option. This potential option would of course only be possible should a centralised service be chosen as the model to use in the future.

CHAPTER: Five



Question 5.1 *What is the best way for us to use the expertise of stakeholders? What have you found helpful in the past?*

Setting up a robust project framework has proved useful from other major industry projects. Setting out clearly the engagement strategy that the project will follow and having industry groups of structured to deliver the best outcome.

From experience on other projects this needs to be a mix of groups whose purpose is to reach to as many stakeholders and possible and to engage with them generally on the project as well as focused smaller groups looking at specific areas and issues.

Transparency in the project is important. Having access to the key papers and decisions in a single easily accessible place on the Ofgem website is useful and should be replicated.

There is a considerable experience and knowledge of the electricity settlement processes within Elexon at the moment. We are aware of the proposals from Ofgem, as a result of the recent CMA investigation into the retail energy market, to expand the roles of industry Code Administrators. It would perhaps be useful to understand how these projects and the potential for an SCR would combine. It would be unfortunate if the two projects somehow conflicted and prevented either from reaching their desired outcome. This is something that we would expect to see Ofgem manage and to ensure that it positively contributes to the success of the project to mandate HH settlement.