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Dear James

Re: Mandatory Half-Hourly Settlement: aims and timetable for reform consultation

We welcome the opportunity to respond to this consultation on Mandatory Half-Hourly (HH) Settlement as it is a key facilitator of the transition towards a smarter, more flexible energy system. The rollout of smart meters combined with the move to HH settlement for all customers will provide us with the opportunity to reduce the costs to serve our customers.

Overall we support the implementation approach proposed by the consultation but highlight the development of a joint industry implementation plan must take into consideration the interdependencies of resources and systems involved in other significant industry change programmes over the same period. The HH settlement reform team must ensure that there is no double counting of either costs or benefits in this impact assessment for those identified in the smart meter rollout or faster switching programme impact assessments.

Please find our responses to the consultation questions contained within Appendix 1.

If you have any comments or questions, please do not hesitate to contact either myself or Simon Brooke (simon.brooke@enwl.co.uk).

Yours sincerely

Sarah Walls
Head of Economic Regulation

Appendix 1

Chapter Two questions

2.1: Do you have views on our proposed approach?

Electricity North West supports Ofgem's aims for the Half-Hourly (HH) Settlement reform and its proposed approach for delivering the proposed reform through a Significant Code Review. This transparent and methodical approach should deliver the co-ordinated reform required. However, this is another significant change that the industry is currently planning and so its successful implementation is dependent upon the engagement and participation of industry parties. The proposed implementation timetable, which appears optimistic, overlaps with other significant change programmes so care will be required to ensure interdependencies of both system and resources from across the industry are clearly identified and taken into consideration when developing the joint industry implementation plan.

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.

We are happy to provide our Distribution Network Operator view of the costs and benefits of mandatory HH settlement. However, care needs to be taken when developing the impact assessment as there is a potential double counting of the assumptions included within the impact assessments for smart metering and faster switching programmes (also known as centralised registration). The impact assessment on the costs and benefits of the smart meter rollout completed by DECC in 2014 and updated in 2016 by the successor department, BEIS¹, does contain a sub-set of costs and benefits associated with HH settlement. While Ofgem is about to launch, in mid January 2017, a request for information under the faster switching programme to enable the creation of an impact assessment, it is vital that the HH settlement reform team understands the costs and benefits already identified in these two other impact assessments to ensure no double counting of either costs or benefits in this impact assessment.

Chapter Three questions

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?

We generally agree with the analysis completed by Ofgem on the scope of the proposed regulatory interventions required to change the current settlement arrangements. We do think that Ofgem needs to ensure that the analysis captures all of the costs associated with the move. For example, there will be a cost for the Licensed Distribution Network Operators who need to change their systems to collect the new information and these should be recognised in any impact assessment and timetable.

One other area which should be considered as part of the reform programme is a post implementation review to ensure that the anticipated benefits from the programme are realised so Ofgem can address any identified barriers to the perceived customer benefits.

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

The current timetable looks incredibly tight given Ofgem's objective to have all industry rules and central systems in place by the first half of 2018. This effectively provides a maximum of 18 months to complete all of the activities described in figure one alongside all appropriate and required consultation periods. The required level of expertise during this timetable would be significant for all code administrators and designated parties.

¹ The costs benefits analysis for the smart meter rollout is available at:
<https://www.gov.uk/government/publications/smart-meter-roll-out-gb-cost-benefit-analysis>.

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

Electricity North West has a team of regulatory contract managers who are responsible for engaging with the code administrators and ensuring that the distribution business complies with its obligations. This team will review the ongoing consultations and respond accordingly. These managers are part of the Regulation team and will allocate their time across all of the ongoing Ofgem regulatory requirements.

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

As already stated, we are concerned with the proposed timetable as it risks constraining the consultation process in the development of the systems, processes and procedures required to deliver mandatory HH settlement. We note a successful implementation is highly dependent upon industry resources that are generally heavily committed to and engaged in other change programmes. We would be interested to understand how any lessons learned from the elective half hourly settlement process have been factored into the proposed timetable.

In our opinion, the timetable is very tight and does not allow any time for delays or resolving any unforeseen issues.

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

We agree with the dependencies identified. We think that the outline business plan should be in the first phase to ensure that the high level data access and network charging principles are correctly aligned with the proposed case. It would also be helpful to include indicative timescales against these dependencies.

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

We are not best placed to answer this question. We will rely on the code administrators' views on the likely timescales for changes in the central systems. As we have already noted, the timescales do seem very short for such a significant change programme.

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

No.

Chapter Four questions

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 believe the conclusions of ESEG and PSRG are still valid, for example, consideration of where best the roles of DC and DA should sit, a robust estimation process and reducing the overall settlement timetable. However, it will be useful for these conclusions to be revisited not least in light of the designation of the Smart Energy Code.

Roles and responsibilities

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

We agree with the scope of issues identified and don't believe there to be any others to be considered.

Settlement process

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

We believe this section has identified all of the issues that need to be taken into consideration.

Policy enablers

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

We believe this section has identified all of the issues that need to be taken into consideration.

Consumer issues

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

We believe this section has identified all of the issues that need to be taken into consideration.

Chapter Five questions

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

We have found the open and transparent approach followed by the faster switching programme team and the quantity and level of engagement opportunities offered by the team helps us plan for and deliver our inputs into the programme and we recommend this approach for this change programme.