

Andrew MacFaul**Ofgem
9 Millbank
London
SW1P 3GE****Tuesday 3rd January 2017****Email: andrew.macfaul@ofgem.gov.uk****By Email Only**

Dear Andrew,

Mandatory Half Hour Settlement – Aims & timetable of reform

Thank you for the invitation to respond to the above consultation. Good Energy is a fast-growing 100% renewable electricity supply company, offering value for money and award-winning customer service. An AIM-listed PLC, our mission is to support change in the energy market, address climate change and boost energy security.

Whilst we believe that setting out a timetable for change by early 2018 is viable, we are concerned at the current volume of change within the industry, such as remedies following the outcome of the CMA investigations. We support, and welcome change which meets an objective of a low carbon economy but many changes to systems, industry and processes are yet to be crystallised. We ask that consideration of ensuring a reform of half hour settlements is in line with other direct and indirect changes to protect the industry and consumers of detriment.

In the move to HHS, time must be given between the installation of a smart meter, and a requirement to operate half hourly settlement. This is necessary in order to allow suppliers to train their models to accurately reflect consumers' behaviour. This is particularly important in light of the fact that a number of consumers are not accurately reflected by the current profiling mechanisms, such as domestic and SME consumers with solar PV installed, who see decreased metered demand over the middle of the day.

In addition, these consumers have also been shown to be more engaged in their levels of energy consumption and so display different behaviours to other consumers such as load-shifting. A delay between the installation of a smart meter and the requirement for half-hourly settlement will act as an effective back-stop to protect both suppliers and consumers, without inhibiting introduction of innovative charging structures, as the introduction of processes allowing voluntary half-hourly settlement may be used by those suppliers wishing to move a meter point to half hourly settlement ahead of the time set by such a delay.

If adequate time is not given for suppliers to develop accurate models of consumer demand patterns, there is a high probability of increased use of the balancing mechanism in the short term – this could lead both to increased cashout prices (and therefore higher costs for consumers) as well as reduced system security owing to suppliers' reduced ability to contract appropriate levels of generation ahead of time.



This increased challenge of forecasting, leading to increased cashout risk is further exacerbated by the move to PAR1. This is of particular significance to smaller, new entrants to the market which may not be equipped to survive even a small number of high cashout prices. A report commissioned by Cornwall Energy in 2015 highlights how smaller, independent supplier's maybe disproportionately impacted against larger competitors.

Consideration must be given to whether the introduction of mandatory half-hourly settlement, in addition to the move to PAR 1 creates undue levels of risk which could increase costs for consumers and threaten energy security and competition. Given the opportunities that half hourly settlement could bring, the merits of moving to PAR1 should also be carefully examined.

Whilst half hourly settlement does support opportunities for innovative tariff structures, we feel assurance that suppliers provide access to appropriate tariffs and incentives for all customers is required. Should some customer groups not be given access to appropriate time of use tariff, as an example those who are not well placed to engage with the market may be disadvantaged from lower energy bills.

While we are supportive of the drive to make settlement runs quicker and more efficient, it is essential that these changes do not have unintended negative consequences. The introduction of SMART metering will be an enabler to settle accurately on the first run relinquishing the need for a three stage reconciliation process.

In the consultation Ofgem suggests that '... any changes to the settlement timescales depend on a critical mass of customers being migrated to HHS, in order to minimise any impact on settlement performance', however we are keen to highlight that an any new structure of settlement runs would only be appropriate for where new metering equipment, which can be read remotely, is in place. Shorter settlement runs are self-evidently not appropriate in instances where meters must be read manually. A requirement for significant numbers of manual reads would both increase cost to serve and risk inconveniencing consumers in premises where access is required to read the meter.

It is essential that measurement classes can be changed easily, as there is a risk that when a property changes use, or if a consumer significantly changes their demand, that its measurement class must be changed. This will be necessary to ensure that the right consumers are able to be half-hourly settled in a timely fashion. Lessons must be drawn effectively from both those suppliers which employ voluntary half hourly settlement, as well as from the P272 & P322 processes.

Whilst we understand the desire to move from deemed export to a system of accurately metered export, there may be a significant cost implications for generators, as export metering costs are borne by the operator of a site. In the case of a small-scale site, the cost associated with metering and collecting/processing the export data could outweigh the value of the exported power. This creates a significant incentive for SMEs and households with onsite generation to refuse the installation of a smart meter. This is particularly true where there is a high proportion of onsite usage. Given the significant number of households and SMEs with onsite generation, this could create a significant barrier to the successful deployment of smart meters.

We welcome the consideration of the impacts of half hourly settlement on network charging and believe it might be more appropriate to consider as part of a holistic review of network charging.



The energy sector is changing quickly, particularly with regard to the significant number of small suppliers now present in the market. It is likely that these changes will have a greater impact on smaller suppliers than their larger counterparts, and therefore welcome the continued engagement with small suppliers, ensuring they are able to fully engage with the change process this will bring.

Thank you for providing the opportunity in responding to the consultation. We fully endorse the objectives of half hourly settlement and the benefits it will bring to the industry. We await the decision following this consultation, in the meantime should you require any further information on this matter; please feel free to make contact.

Kind Regards,

A handwritten signature in black ink, appearing to read 'Peter Berry', written over a faint horizontal line.

Peter Berry
Senior Compliance Manager
Good Energy

