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Sent via email to HalfHourlySettlement@ofgem.gov.uk

6th January 2017

Dear Mr. Earl,

Mandatory Half-Hourly Settlement: Aims and Timetable for Reform.

I am writing in response to the consultation on the above to set out Haven Power Limited's (Haven's) views on the aims and timetable for the introduction of mandatory HH settlement.

Haven Power is a Drax Group company and is a non-domestic electricity supplier that has been supplying Small Medium Enterprises (SME) since 2007. In 2009 we entered the Industrial & Commercial (I&C) sector and have been steadily growing our customer base in both areas and currently supply ~25,000 and ~9,600 MPANs in the SME and I&C sectors respectively. We have solid experience in supplying customers subject to both NHH and HH settlement.

We recognise the importance of the policy of mandating HH settlement to profile class 1-4 customers. We participated in the Electricity Settlement Expert Group (ESEG) and were active in designing a phased transition to HH settlement for profile class 5-8 customers.

Our responses to the points raised in the consultation are attached.

I hope this response is useful. Please contact me using the details below if there is any aspect you would like to discuss further.

Yours sincerely

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

The change of settlement arrangements will affect the majority of electricity customers and will make a material change to electricity costs to many. In addition the scale of regulatory reform required to implement this is profound. In our view P272 was authorised without due and thorough consideration to the wider impacts, resulting in a rushed and uncoordinated series of changes (principally affecting CUSC, DCUSA and BSC, the latter to ensure a phased and orderly conversion of customer contracts under modification P322). We therefore support your approach to manage this through a Significant Code Review (SCR) as this will enable the impact on the entire regulatory landscape to be considered and managed.

The impact assessment is the most significant initial objective of this work as it is by no means self-evident that the overall long-term benefits will exceed the costs. We would encourage you to give this the greatest priority as the programme gets underway. Driving for the earliest view of the costs and benefits will also highlight the high cost elements and provide a focus for the subsequent work to design solutions to minimise such costs.

The work programme identifies the industry facing concerns (such as change of measurement class process (CoMC), settlement timetable, agent roles, customer privacy etc) and it is entirely right that these matters are carefully considered. However, the assessment of the effect on customers is not given the same weight in the proposed programme. We believe greater attention should be given to this because it is the change of consumption behaviour by customers which is critical to realisation of benefit. In addition, protection may be required in relation to customers disadvantaged by this change, and to safeguard misleading selling practices in relation to complex time of use time pricing models.

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.*

We believe costs of introducing this change are likely to be high. Significant costs will be incurred;

- To modify or create new central systems to support HHS
- For the supporting IT systems investment by network operators and supplier agents
- For major changes to supplier systems affecting pricing, customer invoicing, meter management, demand forecasting, settlement management and finance processes
- Potential costs for financial support for the customer groups disadvantaged by this change

These costs must be set against the benefits identified for the policy as part of the overall business case.

In order to produce savings proportionate to the investment required significant behavioural change in consumption patterns will be needed to provide sufficient savings in generation, transmission and distribution. The modelling should include scenario analysis regarding the degree of customer response to the price signals arising from HHS, drawing upon the experience of other economies which have introduced interval settlement and time of use pricing. Modelling of the supply cost impact will require sophisticated analysis of the total system costs. It would be sensible to procure independent consultancy support for this

analysis. Although this work would be contemporaneous with policy design, it is important to gain an early understanding of the financial factors in order to confirm the economic viability of this change and to give direction to the programme.

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 table presented in the consultation is a helpful summary and is comprehensive. There may be further changes required to the SEC and MRA, especially associated with the transitional arrangements when both NHH and HH will operate concurrently.

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

The programme would benefit from strong and consistent industry input in the following areas;

- Experience in the practical implementation of HHS for larger business customers to ensure the learning from P272 are fully understood and incorporated.
- Electricity settlement
- Metering, especially smart metering processes
- Customer communication
- Customer service
- Product design and pricing
- Evaluation of supplier systems and process impacts

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

Haven has consistently supported Ofgem and ELEXON in this work and will continue to do so, due to the importance of settlement design to industry costs and therefore on customer prices and propositions.

This work interacts with Faster Switching in that the advent of a central registration service (CRS) provides the opportunity to simplify the CoMC process. CRS could also play an important role in identifying measurement class at the point of sale so that suppliers would be able to offer the most appropriate products to customers.

Ofgem's work on protecting vulnerable customers is also relevant as this is a customer segment that may be disadvantaged by mandated HHS.

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

The proposal is to complete the final impact assessment/business case and take the decision to proceed in the first half of 2018. The key risks to this are;

- a) Policy design work will overlap other major regulatory initiatives, including the smart meter roll-out and faster switching, and this will hamper the industry's ability to support the work.
- b) Gaining confidence on the validity of the assumptions made on customer behavioural response to pricing signals is central to the viability of the proposal. If the sample available from elective HHS is too small or deemed to be unrepresentative of the

population as a whole then this could take longer to verify than the programme currently allows for and this would delay the decision to progress.

- c) The overall success of the smart meter roll-out is also an important consideration. If significant numbers of people or businesses refuse to accept smart meters or technical difficulties impact on the number of successful installations then the goal of universal HHS will be compromised.

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

The plan shows the activity on consumer engagement and protection running concurrently with the industry design processes and feeding into only the final impact assessment and decision. The propensity and ability of customers to alter consumption patterns goes to the heart of this change. We suggest the initial phase of work includes the customer behaviour response study and this feeds to the draft IA and business case.

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

- a) The new CRS to enable faster switching will be under development in 2018. The CRS provides a number of opportunities to support HHS (see response to Q3.3 above).
- b) Due consideration must be given to the lead times necessary for major system changes.

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

We urge you to give greater emphasis on understanding the customer reaction to the new and potentially more complex products which arise from this change and the assessment of whether sufficient customers will or can modify their consumption behaviour to meet the programme's objectives.

The use of readings in billing – the current form of HH billing, based on HHS, does not include meter register readings in the traditional sense. If this approach was used for domestic customers, it would be difficult for consumers to check their bills, which could lead to further disengagement in the market.

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?*

The ESEG did not recommend that supplier agents should be replaced by a single, central body. This needs to be considered carefully. DCC will assume the role of data retriever, and there may well be a case to also centralise the data aggregation function, in order to increase process efficiency and reduce operating cost. The roles of data processing and meter operations are critical points of differentiation in which competition between service providers adds value and encourages innovation.

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

The scope is broadly correct. In particular;

- The settlement timetable should be reduced in order to increase certainty of a suppliers position and input cost
- We are concerned that customers remaining on NHH settlement (through choice or technical barriers) could be compromised in several ways – increasingly inaccurate cost reflection as the profile shapes become progressively unrepresentative of consumption, increased service costs (to maintain the current NHH settlement process alongside the expanded HHS process), and the effects of the GCF.
- The current CoMC process is not fit for purpose for a migration exercise on this scale, and the relatively modest changes to support elective HHS do not remedy this. The entire process must be radically simplified and we anticipate that the advent of the central registration service presents opportunities to fundamentally reconsider the design of this process.

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

Taking the issues in turn;

- We believe business customers with advanced meters, irrespective of size, should be settled HH using the current processes
- We must move to a position in which all exported energy is explicitly measured and settled on a HH basis.
- As a broad principle transmission charging should be cost reflective and therefore based on peak-time demand so that customers and suppliers are incentivised to wherever possible to modify their consumption pattern. The challenge is to find a much simpler mechanism to implement this than the current triad approach which is way too complex for small business and domestic customers.
- Similarly, the price signals provided by DNOs to large customers to reflect times of high system stress are not suitable for universal application and a more straight-forward and more easily understood mechanism should be devised.

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 scope is correct.

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

Taking the customer issues in turn;

- a) The data access issue is very important. Why would customers choose to consent to disclose detailed consumption information in a sector characterised by deep distrust of suppliers? The access protections must be relaxed otherwise insufficient numbers of customers will transfer to HHS and the objectives of the programme will be frustrated. Emphasis should be given to the design of safeguards to ensure customer privacy is protected and consumption data is used only for HHS and pricing and not for any other purpose.
- b) Protecting customers – the advent of a wide range of time of use type products will be confusing and almost certainly will give rise to customer complaints. It is the combination of both consumption level and when it is used which will generate problems, especially if the customer was relying on broad brush annualised statement of cost from a supplier or a PCW. Because of this we believe additional

measures are necessary to allow fair and clear comparison of offers and to prevent customers from being misled.

- c) Distributional effects. There are two points to consider;
- i. Because the NHH profile shapes are designed to represent the population as a whole, there will be some customers whose actual consumption pattern will result in cost savings, and some who will incur additional costs when transferred to HHS. It is vital to understand whether there are important distributional effects which may result in particular socioeconomic groups being disadvantaged by this change. If it is the case that the fuel poor and/or vulnerable customers are disadvantaged then thought must be given to how such groups are protected or compensated, and how such protection should be designed.
 - ii. Are particular groups better able and willing to alter consumption patterns in order to take advantage of HHS to drive costs down, and are other groups in the opposite condition and not able to realistically change usage times? Is there a socioeconomic bias to this latter category, for example fuel poor and vulnerable customers? If so is this would reinforce the case for protective measures for such customers.

We welcome the work Ofgem has already commissioned in this area as it is critical that the effect of this change on different customer groups is properly understood and informs the design of the programme.

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

Dedicated expert workgroups with variety of stakeholders from industry and customer standpoints. The workgroup structure used to support the design stage of the Faster Switching SCR is a useful comparison. For HHS we believe the impact on customers is critical and therefore the workgroups must have strong and consistent customer representation.