

Response to Ofgem Consultation on Mandatory Half-Hourly Settlement: aims and timetable for reform

Prepared for:



Making a positive difference
for energy consumers

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1 Introduction

IMServ looks forward to fully contributing to the process of determining whether mandatory half-hourly settlement for all sites should be implemented.

Having operated half hourly settlement processes since 1994, we have experience and understanding to share of the current half hourly market and how that can be adapted to this situation. This experience is not just relevant to the future operation, but also to the process of transition.

IMServ's view is that the question of whether half hourly Settlement should be applied to all sites irrespective of consumption level is perfectly valid in the context of the introduction of smart metering and its ability to provide half-hourly consumption information on a more universal basis. There is undoubtedly a disconnection between the actual consumption profile of the majority of loads connected to the GB electricity network and that allocated to it by non-half hourly settlement processes. This does little to incentivise energy suppliers to encourage their customers to use energy at the most cost-effective times of the day and fails to make the prices seen by customers truly reflect the cost of producing that energy.

When considering the impact that millions of sites truly incentivised to load-shift could have on the long-term efficiency and economics of the GB energy system, it is definitely worth looking at whether HH settlement for all sites is a viable proposition and the costs of its introduction and operation are supported by the long-term benefits.

2 Response to Consultation

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

The approach as to how the reform will be managed and delivered is suitable, and in particular, IMServ welcomes the business case that will be developed on the basis of a detailed target operating model. This is a substantial change and there needs to be an appropriate level of detail provided to the industry to facilitate the detailed evaluation of the costs of making the reform from a consistent baseline of understanding.

2.2 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.

There is currently an order of magnitude difference in the operating costs of settlement for a current half-hourly customer and one settled using non-half-hourly profiling techniques. Some of this is down to the volume of customers in each of the two arrangements and this would improve in the half-hourly arrangements with higher volumes and process simplifications. It is also true however that there are inherently greater costs incurred by the need to process 4,000+ times the count of points of consumption data used in the half-hourly process when compared to non-half-hourly.

IMServ have already evaluated the costs of providing simplified half-hourly services at volume for customers with smart meters and concluded that significant cost improvements can be achieved, but the costs will still be higher than operating a non-half-hourly settlement process.

To correctly assess the costs for this change, the potential target operating model(s) need to be clearly defined, comprehensive and understood. IMServ looks forward to providing further information at this point.

2.3 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?

We would recommend that the following additions are considered:

- Qualification, in the Settlement Process section
- Performance Assurance, in the Settlement Process section
- Changes to SEC, in the Policy Enablers section
- Customer Engagement programme, in the Consumer Issues section

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

This is a big change and a lot of expert resources are need to contribute towards a clearly defined target operating model and business case at the appropriate levels of detail and clarity. The resources needed to implement the reforms will be even greater. Existing industry expertise needs to be fully engaged to ensure that the timescales are met and the review is comprehensive and accurate. Particular emphasis needs to be placed on how to lead and manage the implementation– the track record of implementing recent major changes has been poor. The reforms need to be debated and reviewed from across all aspects of the industry to verify that they will have the intended consequences, and in particular, are compatible existing half-hourly market operation, as it is important that this key market is unaffected by these reforms.

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

We will provide resources to support this initiative as we have a great deal of experience to provide in this area, although we are concerned that this coincides with a period of great change as 2017 is already very congested with P272 implementation, SMETS2 implementation, and the Faster Switching programme having reached the detailed evaluation stage.

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

The first stages need to be executed effectively and in sufficient detail to ensure that the cost and benefit analysis can be completed from a position of common understanding to create a robust business case. Our view is that completing this early stage of work to sufficient detail in a quick timeframe is the key risk to reaching the outcomes outlined in this consultation.

The risk of achieving this is the availability of the right people and engagement of industry at a very busy and challenging time.

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

The logical presentation of the dependencies makes sense. Work on evidence-based evaluation of the benefits of half hourly settlement to domestic and small non-domestic customers to feed into the business case process isn't shown on the plan and we would consider this to be an omission.

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

Although is it not clear what is meant by central systems and industry rules, it is difficult to conceive that changes to these can be completed by the first half of 2018 as they would naturally be made after the approval of a business case and the decision to go ahead with mandatory half hourly has been made. Why would the industry make investments in something that is not agreed to happen? System changes are dependent on industry rules, which in turn, are dependent on the reforms being set out and established.

The degree of change that these reforms would introduce is enormous and needs to be carefully planned and implemented if the reforms go ahead.

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

The ambition to move quickly may be beyond the industry's ability to change given the other change programmes that are running. The progress made on implementing other, often smaller, changes such as P272 implementation and HH Elective for smaller sites in the last 12 months has been slow and difficult at times. Lessons need to be learned from recent changes and programmes to help implement this major change more effectively.

2.10 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?

In general, IMServ does agree with the conclusions of these groups.

The most relevant thing that has changed since the conclusions of ESRG and PSRG were published is the work to introduce HH elective settlement for smaller sites. As part of the process of gathering evidence for the benefits of introducing these reforms, it would be useful to look at the planned uptake of this solution by energy suppliers and their customers.

2.11 Question 4.2: Roles and responsibilities (see paragraphs 4.2. – 4.7.) Do you agree with the scope of issues identified in this section? Are there any others we should be considering?

The scope of issues identified in this section appears to be complete. Centralisation of service provision for half-hourly data collection and aggregation should be considered. IMServ is confident that the benefits of having a competitive, differentiated and innovative market will win its case on its own merits. There will be sufficient volumes under a mandatory half-hourly operating model to achieve benefits of scale in a competitive market model just as well as a centralised market model.

2.12 Question 4.3: Settlement process (see paragraphs 4.8. – 4.17.) Do you agree with the scope of issues identified in this section? Are there any others we should be considering?

We would suggest considering Qualification and Performance Assurance.

2.13 Question 4.4: Policy enablers (see paragraphs 4.18. – 4.27.) Do you agree with the scope of issues identified in this section? Are there any others we should be considering?

We would suggest considering changes to SEC.

2.14 Question 4.5: Consumer issues (see paragraphs 4.28. – 4.38.) Do you agree with the scope of issues identified in this section? Are there any others we should be considering?

We would suggest considering a customer engagement programme to help them understand the changes and the benefits.

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

Ofgem's current approach has worked well in the past. As well as broad consultations, we also think it is important to narrow down the focus to specific items and topics, and assemble the right experts in smaller groups on occasion.