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Dear James,

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

Thank you for the opportunity to respond to Ofgem's consultation on the aims and timetable for reform related to Mandatory HH Settlement. We are responding to this consultation in our role as System Operator for Great Britain. Our position can be summarised as follows.

- Subject to the output of your Key Products, we expect Mandatory HH Settlement will be necessary to realise some of the expected benefits of smart metering so it should be done as soon as practicable taking into account implementation costs / barriers and lessons learned from comparable projects to ensure a successful delivery;
- We agree with the proposed approach to inform a decision on if, when and how to implement in the first half of 2018. SCR driven changes to transmission charging will need to be carefully considered in the context of (or be aligned with) the other workstreams looking more broadly at this area;
- We agree a clear pathway is required to implementation but think that consideration should be given to allocating a single accountable (and possibly licenced) body for the delivery of the overall change programme i.e. consistent with the recent proposals related to CMA and CGR3; and
- The reforms and scope of issues which have been identified for further investigation appear robust but we expect that they will be further refined with industry through the development of your Key Products.

We have provided more detailed responses to some of the questions in Annex 1. Where we have not provided a response it is as we feel that there are better placed parties in industry to provide Ofgem with a view on a particular question.

We look forward to further discussing with you and industry at your workshop on 19th January but please contact Mike Oxenham (Michael.Oxenham1@nationalgrid.com or 07554413864) if you would like to discuss or have any questions in the meantime.

Yours sincerely,

[By e-mail]

John Twomey
EU and UK Commercial Strategy Manager
National Grid Electricity Transmission

Annex 1

Ref	Question Summary	Response
Chapter 2		
2.1	Do you have any views on our proposed approach?	<p>We are supportive of your proposed approach and note your intention to consult on the most appropriate option to follow under a SCR, which could also result in the use of new powers.</p> <p>It also appears that some of the concerns raised by industry on Mandatory HH Settlement, in your earlier consultation related to Elective HH Settlement, will be addressed by your proposed approach and our understanding is that the Impact Assessment will also explore the distributional impacts of the proposed reforms and whether any specific consumer intervention will be required.</p> <p>Subject to positive decisions indicated through the Key Products, we anticipate that Mandatory HH Settlement will be necessary to realise some of the expected benefits of the smart meter roll-out (some of which are detailed in the BEIS CBA from August 2016) and to contribute to, primarily via additional time-of-use tariffs, further unlocking flexibility and demand side response.</p> <p>Therefore, whilst it is vital that implementation costs and barriers are fully considered, if the output of the Key Products is positive, then the implementation of the proposed reforms should be undertaken as soon as practicable to ensure there is no undue delay and that the overall benefits are maximised.</p> <p>Whilst we are also supportive of the SCR approach, Ofgem needs to ensure that through this SCR there are no barriers placed to further consideration of transmission charging arrangements in the context of a targeted charging review, which may require a further SCR, and which is to be consulted upon in early 2017.</p> <p><i>Our current views on the need for a holistic charging review, with clear governance, goals and timescales, can be found in our response to your open letter on the existing charging arrangements for Embedded Generation dated 29th July 2016.</i></p>

2.2	<p>Do you have initial views on the costs and/or benefits? If so, please provide these with your supporting evidence.</p>	<p>We believe there may be potential benefits associated with these proposals around increasing the provision of demand side response whilst maintaining the neutrality of the associated Balancing Responsible Party. We also believe that there are likely to be consequential benefits to demand forecasting as a result of these proposals. These associated benefits should be further explored through your Key Products, as well as through the current Call for Evidence.</p> <p>The move to HH Settlement further opens up options in relation to cost reflective charging, including transmission charging although we expect this would be further explored through an associated Code Modification Proposal.</p>
Chapter 3		
3.1	<p>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?</p>	<p>The necessary reforms currently identified seem comprehensive. However, we believe consideration should be given to allocating a single accountable (and possibly licenced and/or incentivised) body for delivery of the overall change programme, with some discretion to revise programme dates if and where it becomes apparent that additional time would result in a better overall outcome, to avoid the risk of a less than desirable option to achieve a firm deadline.</p>
3.2	<p>What industry expertise is needed to deliver these reforms in the timetable we have given?</p>	<p>With specific regard to transmission charging we note that Ofgem recently approved WACM1 under CMP266. As this is likely a stepping stone to facilitate Elective HH Settlement we envisage that an enduring solution will likely be more complex and have wider implications for industry – for example, further debate will be required on whether Triad charging would be appropriate for domestic and smaller non-domestic consumers.</p> <p>Whilst a broadly similar level of industry expertise will be required to again modify the transmission charging regime to facilitate Mandatory HH Settlement (when compared to CMP266) it is likely that a subsequent code modification will be more labour intensive due to the issues and considerations identified under CMP266 and we would suggest needs to be considered more broadly as part of a holistic charging review.</p>

3.3	<p>How much expertise and time can your organisation provide?</p> <p>How does this interact with other Ofgem initiatives?</p>	<p>In a similar manner to CMP266, we are more than happy to support Ofgem in the development of proposals in this area. We would again like to refer you to our concerns related to the SCR (or use of new powers) i.e. a further code modification related to transmission charging should be carefully considered in the context of (or be aligned to) a holistic charging review.</p>
3.4	<p>What are the key risks and constraints to delivering to the timetable outlined?</p>	<p>There is significant future industry change affecting all industry parties (and a finite level of resource) so this could constrain the ability of key industry parties to work to the timetable outlined but we believe those key parties will be better placed to advise.</p> <p>From the Transmission charging perspective specifically, if there is to be 12-18 months available to raise and conclude a code modification proposal related to both the end state and transitional arrangements for Mandatory HH Settlement by the first half of 2018 then i) to ensure a fully considered outcome the timescales for the modification process itself could become a barrier, and/or ii) if any stakeholders' systems or processes need to change as a result of the final change decision then any associated change timescales and costs might not be able to be fully scoped by the affected parties within this timetable, which in turn could become a barrier to the Key Products being finalised, and upon which your decision and transition schedule will be based. There could in theory also be consequential code changes required to bring the charging modification into effect i.e. depending on the changes.</p> <p>It is also important that lessons are learned from comparable projects such as P272 or Project Nexus.</p> <p>For example, the planning and scope of the reform and any subsequent changes required to central systems and industry rules should be carefully and robustly defined (and fixed with a change control process) as soon as practicable to define the programme, including realistic start and end dates, and with an effective overall governance structure to manage and direct the overall change programme.</p>

3.5	Do you agree with the dependencies in Figure 1?	Other than as above, we have no comment on the dependencies identified in Figure 1 at this point in time.
3.6	What are the barriers to making changes to central systems and industry rules by the first half of 2018?	Again, we feel there are other key industry parties better placed to advise but as referred within the consultation we agree that it is likely there will be significant challenges to realising this ambition. With specific regard to transmission charging please see our response to Question 3.4 for further information.
3.7	Do you have any other comments on the proposed plan?	We have no further comments on the proposed plan at this time.
Chapter 4		
4.1	Do you agree with the conclusions of the ESEG and the PRSG?	We have nothing further to add to those conclusions at this time.
4.2 - 4.5	Do you agree with the scope of issues identified in this section? Are there others we should be considering?	We generally agree with the scope of issues identified. With regard to other considerations, Ofgem should be mindful of the direction of the European Network Codes to ensure any central system and industry rule changes align with their direction, as well as being mindful of innovation more generally i.e. any changes made should be as 'open' as possible to encourage innovation and ensure the market design is future proofed. For example, as has previously been noted by some industry parties, it is possible in future that the duration of each settlement period could change.
Chapter 5		
5.1	What is the best way for us to use the expertise of stakeholders? What have you found helpful in the past?	There is vast expertise and experience in industry on the issues and opportunities associated with HH Settlement so continued industry engagement throughout the SCR process will be key to success. Regular formal consultations, updates and events are useful and informal engagement with key stakeholders should also be encouraged.