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

Dear James

Thank you for the opportunity to respond to the consultation above. npower has considered and discussed Ofgem's planned approach, at this early stage of the project.

We are aware of the recommendations of the CMA, and how the industry must develop a plan to deliver Mandatory Half-Hourly Settlement before 2020.

However, as we have stated in our response to the CMA, we believe that Settlement reform should be done following the roll out of Smart Metering. This is due to both the scale of the reforms and the potential to impact the delivery of the Smart Metering roll out.

We believe that there are still significant barriers to be overcome to enable the successful delivery of a far reaching reform. We have elaborated on these further in our response.

If you have any questions on the details attached, please contact Hazel Ward on hazel.ward@npower.com or mobile number 07989 493072.

Yours sincerely
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Mandatory Half-Hourly Settlement: aims and timetable for reform

Answers to Consultation

CHAPTER: Two

Question 2.1 Do you have views on our proposed approach?

npower welcomes the combined approach to delivering the changes required to mandate Half-Hourly settlement. As a contributor to the work of the Electricity Settlement Expert Group (ESEG), and Profiling and Settlement Review Group (PSRG), we would support a review of the groups' work to see which elements can be taken forward for further development.

We welcome the introduction of the independent distributional analysis, as this will be valuable information which will feed into the cost benefits case, and also look at how we can ensure vulnerable customers who are not engaging, are not disadvantaged by the transition. We would like this analysis to be transparent to the industry, so all industry parties can use the learning.

The changes required to move the industry to Half Hourly settlements are wide ranging, complex and materially significant. Similar recent large scale industry programmes such as Project Nexus and the changes to Xoserve's Funding, Governance and Ownership (FGO) have demonstrated the benefits of early use of an independent project manager to co-ordinate and oversee the project centrally. Whilst the Xoserve FGO programme brought in a project manager at a relatively early stage to great success, the appointment of a programme manager for Project Nexus was far too late resulting in a poorly coordinated central programme that has failed to deliver on a number of occasions. With these lessons in mind, we would strongly advise deployment of independent project management at the earliest possible stage of this programme to ensure successful and timely delivery. .

npower believes that a Significant Code Review (SCR) is unnecessary. Suppliers have already committed to undertake significant work in this area and have done so in full cooperation with Ofgem and the wider industry and we believe that the industry can continue to develop a Target Operating Model in a co-operative way. A Significant Code Review should, therefore, be down the list of requisite actions. In our view it should be a last resort measure, a need for which should be identified during a comprehensive impact assessment due to a lack of industry engagement and collaboration. It should not be put in place as a matter of course.

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.

The cost benefit analysis will form an important part of the overall business case, and rationale for change. We feel it is imperative to ensure that the benefits are clearly defined before the project really takes shape, to ensure that the scale and scope of change are justifiable.

The required changes have not yet been agreed or fully developed therefore it is difficult to determine costs versus benefits. However, some high level cost benefit analysis work has already been undertaken in the industry for other proposed settlement changes which may provide useful reference tools.

The work carried out by Frontier Economics (cost benefit analysis of the proposed change to the 15 minute imbalance settlement period, provided to ACER), could be reviewed for similarly applicable costs and benefits. ¹

In response to the CMA remedy: Draft Order on Gas Settlements, npower undertook analysis to better understand the costs of changing our systems to accommodate daily gas meter readings and we believe other suppliers did the same. It is possible that there may be some cross over in respect of the costs of required system changes to enable both proposed changes.

Whilst the above analyses may give an indication of a rough order of magnitude, they should not be used to provide definitive costs. This should be carried out via a robust cost benefit analysis specific to Half Hourly settlement reform.

In addition, through the development of Faster Switching, the industry is looking to introduce a Centralised Registration System which will allow the DCC to act as a central intermediary. If we are to invest in systems to support the industry then it would seem sensible and prudent to consider how we adapt them further to incorporate all elements of Change of Supply activity.

There is a risk that the industry develops different databases for different functions, and does not use the opportunity to align services and gain efficiency savings. Therefore, if there is scope to use the DCC, for example, then this should be considered. However, as Settlements is already centralised there could be an opportunity to bring data aggregation into the process.

The Non Half-Hourly and Half Hourly data which suppliers' receive for

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https://www.entsoe.eu/Documents/Network%20codes%20documents/Implementation/CBA_ISP/ISP_CBA_Final_report_29-04-2016_v4.1.pdf

their customers is intrinsic to every transaction that will follow through the customer journey. Therefore, any changes to settlement arrangements are also likely to have a knock on effect to the billing and management of the customer thereafter. Although this may not be seen or considered within the project, it is highly likely that suppliers will incur additional system costs.

More work is required to understand the wider benefits of Time of Use tariffs for both consumers and future network stability. Current learnings in this area are mainly restricted to outdated legacy tariffs such as Economy 7 and possibly relatively small, more recent trials. It is not yet possible to get a view on how customers will engage with tariffs that can utilise the functionality that SMETS2 meters combined with Half Hourly settlements will offer. Since this a key perceived benefit of Half Hourly settlements we would advocate more in depth research that should be fed into the cost benefit analysis.

CHAPTER: Three

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 reforms listed give a good indication as to the scope of work required. Consumer-facing issues are a high priority for npower as we anticipate that these will trigger subsequent changes to the way that we manage different customer types.

Vulnerable customers, and those who refuse to have a Smart meter fitted will also need to be given due consideration. If it is not possible to migrate all customers to Half-Hourly settlement, then we need to ensure that these how are still reliant on profiling are not disadvantaged.

As we have looked at the processes that will be required to transition from Non Half Hourly to Half Hourly, questions have arisen surrounding the use of Market Domain Data. For example, the use of Standard Settlement Configurations, and Time Pattern Regimes and how these will reflect the tariffs offered to customers. Further work is required in this area to inform the impact assessment.

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

There is a considerable amount of regulatory change which suppliers will be focussed on delivering during 2017, and as such the availability of both industry expertise and change management capability are expected to be fully stretched. Suppliers will also be entering a phase of increased activity to deliver their roll out of Smart Meters.

That said, it is critical that suppliers of all sizes are allowed to fully engage and input to this proposed change. Given the wide reaching impacts, input from Distribution Network Operators (DNOs), Meter Operators, (MOP) and Data Aggregators, (DA) and the Data Communications Company (DCC) would help to inform the initial stages of the reform. Involvement from experienced code administrators such as such as Elexon, would also be beneficial.

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

The development of Faster Switching has been a difficult to resource. If we are also to contribute towards the settlement reform work under a similar arrangement, this will be extremely challenging in the proposed timeframe.

The scale of change that suppliers are facing during 2017 is focussed on implementing CMA remedies, delivering Project Nexus and ensuring successful roll out of Smart Meters, as the deployment volumes are set to increase. As previously mentioned, development and delivery of Faster Switching also comes into play, along with the potential changes to the gas settlement regime depending on the outcome of the impact assessment now due to be carried out in early 2017.

npower will endeavour to provide as much expertise as possible as, we are sure, will other suppliers. To be clear though, no supplier (irrespective of size) has an infinite resource capacity with the particular expertise required. The existing skilled resource is under increasing pressure to provide input for the already congested landscape of industry change. This must be taken into account when determining the Target Operating Model and delivery timescales.

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

As previously mentioned, we are already committed to delivering many regulatory changes in 2017. From a purely logistical point of view this would make delivery of further industry changes extremely challenging. Furthermore, loading more large scale industry changes onto an already congested timetable of changes conflicts with IT best practice and significantly increases the risk of failure to deliver.

We acknowledge the importance of delivering Settlement reform, and its part in delivering an affordable, secure and sustainable energy future for the UK. However, under the current weight of impending industry change, the timescales in the plan are unrealistic, and do not allow for testing. We consider this to be a significant risk which must be factored into the plan.

In addition to the resourcing, as mentioned in the answer to question 3.3, we believe that the data access and privacy issues are also a key

risk to the overall project, and as such should be prioritised for development.

As outlined in Ofgem's consultation (section 4.29), suppliers are bound by the Data Protection Act (1989), and the framework established by DECC in 2012 and subsequently supported by the Smart Energy Code. At present, Suppliers must gain explicit 'opt-in' consent from a customer to access their within day (i.e. Half Hourly) consumption data. We are yet to establish, if, and how much data customers are prepared to share in order for us to provide them with a wider range of energy products such as Time of Use tariffs.

The CMA's Customer Database remedy, and the planned trials, will provide useful learning. In its decision document, the Information Commissioner Office has advised that suppliers must be transparent about the data they have and the purpose for which it is to be used. The trials will be key to informing further considerations under Half Hourly settlement, in relation to the treatment of customers' data.

However, it should be noted that the ability to access the Half Hourly data will be integral to providing Time of Use tariffs. In that regard, Half Hourly data cannot be used for settlements alone. To achieve the perceived benefits of Half Hourly settlement reform, suppliers' must be able to use the data for other processes that enable them to develop demand management products for customers and, in addition, accurately forecast and manage settlement costs. This must be made clear to customers.

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

The high level plan in Figure 1 gives an indication of all of the work required at a very high level.

However, we consider network charging arrangements to be crucial to ensuring cost reflectivity. Therefore, more work in this area, early in the process would be may be beneficial.

The settlement timetable review may also benefit from a more detailed work, prior to the development of the Target Operating Model. If there are benefits to changing the settlement timescales, then they also need to be part of the benefits case.

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

As we have highlighted in our answer to question 3.2, there is a considerable amount of change planned for 2017. As with many industry developments, it is likely that some target dates will change,

and could be pushed into 2018.

If central systems are changed, then it is reasonable to conclude that suppliers will also have to make subsequent changes at that point, which will increase costs and, as previously mentioned considerably increases the risk to delivery of all changes due to be delivered at this time.

The open consultation on Network Innovation will also provide an opportunity to look at the role of the DNOs and Transmission Network Operators (TNOs) and how they can further contribute to the increasing demands on the network.

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

The plan in itself is a sensible and structured approach to delivering the work necessary to drive the reforms; however, as highlighted in some of previous answers, the overall scope of change, to which we have already committed, makes the timing unrealistic.

The integration of the DCC, the ongoing work on Faster Switching, Project Nexus, and the roll out of Smart Meters are major milestones for the suppliers and will demand our continued focus.

CHAPTER: Four

Question 4.1 Do you agree with the conclusions of the ESEG and the PSRG (paragraphs 1.8 – 1.10.)? Do you think anything has changed since they considered these issues?

As mentioned in our answer to question 2.1 we consider the work of the ESEG and the PSRG to be valuable learning that should be reviewed. In particular, the Change of Measurement Class (CoMC) process, although now modified to accommodate elective half-hourly, has yet to be tested at scale. At this stage we do not know if the proposed changes will be suitable to take forward as a solution the CoMC process which will be required for mandatory half-hourly settlement.

The delivery of BSC modifications P272 and P322 has demonstrated a need to take greater account of customer needs and engagement when transitioning to Half Hourly settlement. This was not really considered by ESEG or PSRG. The flexibility afforded by P322 has enabled customers to transition to Half Hourly in line with contract start and end dates giving them greater choice in when and how they transition. This is key to engaging customers in the benefits of Half Hourly settlements, particularly for non- domestic customers.

As previously mentioned, data access and privacy needs further development, as the granularity of data will drive many of the processes and changes in scope.

The transition to mandatory will also require robust planning as there are likely to be risks and impacts. For example, the application of the Group Correction Factor.

There is a risk that errors can be carried across into Settlement. If so, the Group Correction Factor will need to be changed so that remaining Non Half Hourly customers are not impacted adversely.

Roles and responsibilities (paragraphs 4.2. – 4.7.)

Question 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. As outlined in the consultation document, Ofgem have no views on a new design at present but we expect that this will need to be explored early on, to inform the impact assessment.

Whilst we are keen to explore the options of centralisation wherever possible, we need to consider that this could impact some of the existing roles within the industry. For example, centralising data processing and aggregation.

Settlement process (paragraphs 4.8. – 4.17.)

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

The changing of the settlement timetable, as explored previously by the ESEG, could deliver some benefits to the industry. By reducing the amounts of credit cover required before the Information Run, this could reduce the cash risk, and be likely to be a benefit to all suppliers, especially smaller suppliers. However, we need to do more work to understand the benefits of shortening the timescales across the 14 month Settlement period to ensure that the change is justifiable.

The timetable for implementing changes to the end of the settlement timeframe will need to be carefully considered alongside the mass roll out of Smart Meters. We fully expect that there could be a high level of legacy metering errors which will come to light following meter replacement. It will be vital to all parties in the settlement process that these issues can be rectified before the final settlement run (RF) therefore when and how the timeframe is reduced needs to be fully understood.

A 'phased-in' approach may reduce the risk of an increase in settlement errors, and give parties an opportunity to gradually move towards a more flexible timetable.

There also needs to be more focused on how the industry will use Market Domain Data, as many of the data items that are necessary for change of supply are likely to evolve. Implementation scenarios and walk-throughs will help parties to identify gaps in the process, and give

assurance that customer switching will not be impacted by a changing the customer's settlement arrangements.

Policy enablers (see paragraphs 4.18. – 4.27.)

Question 4.4 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. In addition, we expect that the initial impact assessment will highlight the benefits for consumers and the market to support the reforms. We would expect that offering Time of Use tariffs fulfils a customer need and promotes engagement. In contrast, we would want to ensure that the BSC Performance Assurance Framework is flexible and allows suppliers to meet their roll out obligations without fear of breaching the BSC performance targets.

The transition to mandatory will also require robust planning as there are likely to be risks and impacts. For example, the application of the Group Correction Factor. We believe there is a risk using the current GCF calculations because NHH volumes will reduce significantly. Errors contained with NHH meters that are migrated to HH will have a lower GCF factor and will therefore mean the existing NHH meters will be adversely affected. The NHH base will be lower and there is no compensating HH factor to consider this existing industry error within the HH volumes. The impact of this should be understood when there is a crossover from NHH to HH metering.

The network charging arrangements are also likely to have an indirect impact on customers, and should be addressed as soon as possible in the plan.

Recent developments under the DCUSA (DCP 268 DUoS Charging Using Half Hourly Settlement Data) have begun to develop the framework which will be required to reform the charging arrangements.

In addition, the recent decision to approve Connection and Use of System Code (CUSC) CMP266: Removal of Demand TNUoS charging as a barrier to future elective Half Hourly settlement has facilitated an improvement in the charging arrangements. However, this is also dependent on BSC modification P339 (Introduction of new Consumption Component Classes for Measurement Classes E-G). The modification will ensure that TNUoS charges are not unfairly applied to end consumers. It will also help suppliers to manage their network costs more efficiently

Through the development and implementation of BSC modification P272, we have experienced several consequential changes as a result. A number of TNUoS modifications for example, CMP247, 260 and most recently 266 where Half Hourly volume is being treated as Non Half Hourly.

We need to learn from this and ensure that the end to end process is reviewed so that all codes and changes are aligned, to avoid further consequential changes.

Consumer issues (see paragraphs 4.28. – 4.38.)

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

We agree with the consumer issues that have been identified in this section. In addition, we need to highlight that the access to customers' Half Hourly data is a key enabler for Half Hourly settlement. As explained in our answer to question 3.4

In the recent Smarter Markets call for evidence, and the European Winter Package, there was a continued focus to move towards Smarter Grids, so that all consumers can engage in the market and benefit from dynamic price tariffs. For suppliers to be able to offer dynamic products, we need to be able to collect Half Hourly data from Customers.

CHAPTER: Five

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

It is imperative that a cross section of the industry is involved in this project to ensure that all parties are represented. However, this does present logistical challenges, and can lead to repeated work. It would be sensible to look at developing sub-groups and bring these together under a steering group to ensure all issues are addressed and managed appropriately.