

FAO James Earl
Ofgem
9 Millbank
London
SW1P 3GE

5th January 2017

Dear Mr Earl,

Consultation on mandatory half-hourly settlement: aims and timetable for reform

Thank you for the opportunity to respond to this consultation published on 11th November 2016. Please find below our response to a number of questions outlined in Appendix 1.

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

The breadth of the change needs to take account of the changing nature of both the generation and supply markets rather than look in isolation at the supply market alone. In the past, generation was broadly stable (e.g. gas, coal and nuclear) and demand unstable. However, as the generation mix has become less stable through intermittent plant, the risks of full half-hourly settlement have changed. Therefore, any assessment needs to understand the full scale of risk being carried by a customer in taking a flexible tariff structure to determine if the switch to mandatory half-hourly settlement will actually make sense.

To ensure the best value for customers, any progression to full half-hourly settlement needs to assess the full value proposition that may emerge.

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.*

BEIS has produced some research as part of its call for evidence for 'A Smart, Flexible Energy System' which provides evidence that about half of customers would switch to a static time of use tariff for a saving of £100/year. Set against an annual electricity cost of around £450 for these users, the value proposition does not appear to be strong enough to enforce half-hourly settlement across the market.

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 focus is on delivering the capability to settle half-hourly, whereas to actually make it feasible the overall cost structure of the market needs to be assessed to ensure alignment. For example, TRIAD, DUoS and Capacity costs are currently recovered over peak periods, but there has been a mooted desire from National Grid to move towards splitting its costs into a

different charging regime to recover some over a longer period of time. This may stabilise costs to customers (and income to National Grid) but will remove the benefits of load shifting that are expected through more granular settlement.

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

The scale of regulatory driven change to which the industry is being exposed is proving difficult to manage. In setting a timescale, Ofgem should look at the full suite of change that is going on across the industry and set a timescale that is realistic and will not create further stretch on scarce IT resource.

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

The plan needs to learn from previous changes introduced through P272 and other changes and recognise that the supply market operates in a continuum with customers constantly choosing to contract for several years into the future. As such, irrespective of central system timelines there needs to be a clear gap of at least 3 years between any decision and the implementation of that decision for any material change. This will avoid suppliers and customers needing to amend existing contracts unnecessarily.

4.4 *Do you agree with the scope of issues identified in the consumer-facing issues section? Are there any others we should be considering?*

The consumer value needs to be clearly identified before the process is implemented in full.

If you would like to discuss this further please feel free to contact me.

Yours sincerely,

Gemma Newsham
Regulations Director