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James Earl, Senior Policy Manager
Ofgem
9 Millbank
Westminster
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6th January 2017

Dear James,

Thank you for the opportunity to respond to the consultation "Mandatory Half-hourly Settlement: aims and timetable reform."

OVO supports the move to half-hourly settlement (HHS) and has been actively involved throughout 2016 in the work to develop the elective HHS (EHHS) market. Whilst we were previously concerned that a Significant Code Review (SCR) to introduce mandatory HHS (MHHS) might detract from the work on EHHS, we are now comfortable that this has been sufficiently progressed and believe an SCR to be an appropriate route to ensure all facets of the change are given due consideration. Notwithstanding this view, we would however like to ensure that as much learning as possible is taken from the work on EHHS and fed into the design and implementation of the mandatory HHS plan. Given the broad scope of this SCR we feel that changes to industry rules and central systems required for MHHS should not be made until after an implementation decision has been taken in the first half of 2018.

Our response to some of Ofgem's specific questions are in the attached document; we have only responded to those questions we felt well-placed to answer. We would also be happy to share our views with you bilaterally, based on our experiences from the EHHS work.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Conor Maher-McWilliams'.

Conor Maher-McWilliams
Senior Trading Development Manager



OVO Energy response to Ofgem's consultation on
Mandatory Half hourly settlement: aims and
timetable for reform

6th January 2017

Question 2.1 Do you have views on our proposed approach?

OVO believes that an SCR is necessary to ensure that the Mandatory HHS (MHHS) market is designed to be as robust and efficient as possible by giving due consideration to all relevant aspects of the market. A key focus for the SCR should be ensuring that the learnings from the implementation of an EHHS market are fully considered both in terms of implementing the required industry change and designing an efficient market.

Ofgem should maintain a focus on the EHHS market as it develops in 2017 as a means to inform the development of MHHS arrangements. It is also essential that through the SCR process there is clarity and transparency around desired implementation dates. It is OVO's view the MHHS should not be implemented until after the smart meter rollout is complete to ensure that the transition to MHHS can be managed as quickly and efficiently as possible.

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.

At this stage we don't have any further evidence to offer on HHS beyond what we have shared with Ofgem previously as part of our EHHS work. Our initial view is that the industry-wide benefits of MHHS far outweigh the ongoing costs, particularly because maintaining two settlement arrangements is likely to impede the growth of the domestic demand side response (DSR) market. We would also note that at this stage that many of the ongoing supplier cost barriers to HHS have already been removed via previous work on EHHS. We would not expect the day-to-day costs to the industry to be higher under MHHS than the current arrangements. Indeed, increased settlement efficiency and reviewed cost signals may reduce costs.

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 consultation document does include most of the key reforms necessary for consideration by the SCR. An additional area for consideration is the suitability of existing Data Transfer Network (DTN) processes in a mandatory half hourly world. This is addressed in section 4.3 (Settlement Process). We would stress also that areas worthy of particular focus are network charging and the socialisation of unallocated energy costs. Again, our views are expanded in section 4.

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

High-level cross-industry experience is essential. Our experience from the work on EHHS shows that it is essential all parties in the process are working towards one cohesive timeline and goal and that there is a way for this to be coordinated centrally. Whilst we recognise that there will be detailed and specific work to be done by some individual parties, we would recommend that that work is overseen by cross-functional panels/steering committees to ensure that the overall aim of the programme is achieved. We would be concerned if a more piecemeal approach is taken with experts being left to determine, design and implement changes in isolation.

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

As you are aware, OVO has been a key contributor to the work on EHHS, and we will continue to support the work on a move to MHHS wherever possible, not least because we are keen to ensure that lessons are learned and applied from the approach taken to EHHS.

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

In terms of making a decision on MHHS by 2018 the key risk is associated with industry expertise being spread thinly across this and other industry initiatives such as the Ofgem led 'Switching Programme' and the smart meter rollout. We believe that the key constraint on the implementation date is the completion of the smart meter rollout; This is required in order to complete the transition to MHHS as quickly and efficiently as possible.

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

We view Ofgem's ambition to have the industry rule changes and central system changes in place as unfeasible, primarily due to the industry timescales required to make such changes. In order to achieve this target industry code changes and modifications would need to be raised almost immediately which does not seem sensible given the SCR is in its infancy. We believe it would be better to wait to implement required changes until after a decision is made in 2018 to allow lessons learnt from EHHS to be incorporated into the design which will provide greater certainty that changes being raised will best facilitate a robust and efficient MHHS market.

Furthermore, we believe that the completion of the smart meter rollout in 2020 is a key dependency for MHHS and that implementation date should follow this. As such we believe this gives the industry more than sufficient time to make the systems and rules changes required.

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 conclusions drawn by ESEG and PSRG remain broadly correct. The major areas for consideration identified in the Electricity Settlement Project around transitioning to a half hourly settlement model are well-served by measures already in progress to enable EHHS as well as those proposed on MHHS.

Roles and responsibilities (see 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?

It is correct that the scope is broad in this section. Our view is that the scope at this stage should include a full review of supplier agent roles. Given the change expected to be adopted under BSC CP1474 which limits the role of the HHDC in the case of supplier-serviced meter points (smart meters), the role under MHHS is unclear.

With regards the other supplier agent roles (MOA, HHDA), we believe that a similar level of scrutiny should be applied. If these roles, or indeed the broader supplier-hub principle, need to be fundamentally altered to accommodate efficient MHHS then this should be additionally scoped.

Settlement process (see 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?

We agree in principle with the scope of issues identified around the settlement process. Some comments on the areas identified for reform:

The Settlement Timetable

We agree that where smart meter data is available the required timetable for settlement closeout should be shorter. Were the timetable to be shortened we would, however, wish to see data-backed decisions around the correct length of time before each settlement run (such as performance threshold triggers); a shorter settlement timetable is not desirable if it reduces the accuracy and efficiency of the settlement process.

Data Estimation

It is OVO's view that the existing estimation processes available in BSCP502 are not suitable for smaller meter points, and this is an area that should be reviewed. As such we agree with the suggestion that some form of profiling-based estimation is desirable in the case of large volumes of smaller meter points. The possibility that smart meter data might improve the accuracy of profile estimation makes this an option worth exploring

Treatment of NHH Customers

It is correct that the impact of GCF change and settlement error allocation is monitored during the transitional period. It is also important to consider the impact of settlement error due to theft and other causes of 'unallocated' energy and how this burden can be fairly shared in a fully HH world. While the GCF may be the correct mechanism to do this, other solutions should be considered if required.

Where there is evidence that NHH customers are unfairly bearing the cost burden of settlement errors, we would accept the need for cost socialisation with the caveat that any cost socialisation should not dis-incentivise EHHS.

Change of Measurement Class (CoMC) Process

The new CoMC process for smart meters currently being considered as part of CP1474 represents a significant improvement over the existing CoMC process where smart meter customers are concerned. We would welcome further review of this process in light of any redefinition of party roles and responsibilities (see question 4.2).

Additional Consideration: DTN Costs

Along with other areas for consideration identified, we believe that the data transfer requirements should be considered as part of the scope of the SCR. Currently, arrangements for the transfer of HH data were developed for use by fewer, larger sites; as such the cost per MPAN of use of the Data Transfer Network (DTN) is significantly higher for HH sites than NHH. We believe that settlement processes using the DTN should be investigated to ensure their appropriateness for domestic HH settlement.

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?

Advanced Meters

Our experience of EHHS is that the division of meter points by meter type (smart/advanced) is in most cases better than division by measurement class in classifying appropriate processes and tolerances. This was a sentiment shared in the CSMWG (Change of Measurement Class for Smart Meters Workgroup). The manner by which large and smaller meter points are distinguished should be considered as part of the scope of the SCR, as current definitions of measurement class may not be appropriate.

We do not at present see a problem with dividing meter points into those which are smart and advanced metered, as is the case in redlined BSCPs 502, 504 and 514 under CP1474 (in this case these meter points are defined as 'supplier serviced' and 'DC serviced' respectively).

Settling Export

Unmetered export from microgeneration sites (mostly FiT solar sites) is to the detriment of settlement, given that it allows 'free' energy to spill onto the grid. The accurate settlement of microgeneration export would improve settlement accuracy and potentially incentivise the deployment of load-shifting technology. OVO believes

that in the interest of accurate and efficient settlement arrangements unmetered microgeneration export should be addressed at the earliest opportunity.

Network Charging

Our involvement in CMP266 has led us to holding a strong position on the unsuitability of triad charging at smart-metered sites. Any TNUoS charging mechanism should be developed with consideration of the the lack of availability of traditional load-shifting mechanisms to domestic meter points. Charging should instead consider how load shifting might be achieved at domestic meter points, potentially via distributed storage technologies.

Along with transmission charging, there is an opportunity with mandatory half-hourly settlement to review how the distribution network as well as DUoS charging regimes can be developed, also with a view to facilitating innovative storage and demand-shifting technology and reduce the need for network reinforcement.

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?

Data Access

We agree that data security provisions should be considered in line with DCC developments elsewhere.

Protecting Customers

We agree that there is a concern that the proliferation of smart tariffs facilitated by half-hourly settlement may be confusing or misleading to the customer and should be closely monitored. At present, given that such tariffs have not yet become widespread in the market, we would recommend avoiding pre-emptive restrictions which might stifle innovation in this area. We fully agree, however, with the need for a distributional analysis on the differential impacts of mandatory half-hourly settlement on different socio-economic groups, particularly on vulnerable customers. We believe it is crucial to the timely implementation and success of mandatory HHS that the

likelihood of any negative distributional effects on vulnerable customers is well understood and can be mitigated. Any mitigating measures should offer protection to vulnerable customers while not being detrimental to the overall aim of cost reflective settlement.

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 key to the success of this SCR that expertise from across the industry engage with the process to identify the industry rule and systems changes required. We believe that cross industry workshops and working groups (such as the Settlement Reform Advisory Group which looked at EHHS) provide a good platform to explore potential issues and develop proposed solutions. Given the broad scope of the SCR strong programme management will be essential to ensure that different work streams are aligned to the overall aims.