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6 January 2017

Dear James,

Mandatory Half-Hourly Settlement: aims and timetable for reform

Thank you for the opportunity to respond to this consultation. We broadly agree with the high level plan and approach outlined by Ofgem, and we look forward to helping develop the detail of the plan and assisting in its implementation.

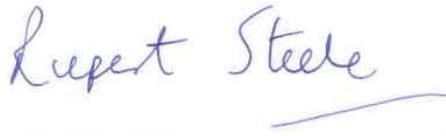
We believe that moving to half hourly settlement (HHS) for all domestic consumers has the potential to deliver significant benefits if designed and delivered effectively, and we consider Ofgem's proposed approach is a good first step to achieving this outcome.

Our responses to the consultation questions are in the annex to this letter. We would highlight the following points:

- Significant Code Review – We note Ofgem's intention to progress the project under an SCR and then utilise any new powers to modify licences/codes to implement mandatory HHS, should these be enabled by legislation. It may be sensible to revisit this thinking as and when legislation becomes available, depending on the progress being made under the SCR and any complexity that would arise from switching process. If Ofgem does adopt an approach based on new legislation, we propose that any licence obligations are kept high level and principles-based, with detailed requirements placed in relevant industry codes. Such an approach has proven successful in delivering major market reform in the past, such as NETA.
- Preparatory work in advance of a decision – Question 3.6 suggests that Ofgem is expecting changes to be made to central systems and industry rules by the first half of 2018. It would be helpful to understand how Ofgem envisages that any changes in preparation for mandatory HHS could be made in advance of a go/no go decision planned for the first half of 2018.
- SMETS1 meters – Given the large number of SMETS1 meters that are likely to be deployed, it will be important for Ofgem to consider any interactions between the timescales for enrolment of SMETS1 meters by the DCC and migration of meters to HHS.

If you have any questions regarding this response please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in blue ink that reads "Rupert Steele". The signature is written in a cursive style and is positioned above a horizontal blue line.

Rupert Steele
Director of Regulation

**MANDATORY HALF-HOURLY SETTLEMENT: AIMS & TIMETABLE FOR REFORM
SCOTTISHPOWER RESPONSE**

Chapter 2: Proposed Approach

Question 2.1 Do you have views on our proposed approach?

We agree with the proposal to use a Significant Code Review (SCR) approach. If Ofgem is given new powers to modify suppliers' licences and industry codes in respect of HHS in sufficient time, it may be appropriate to use these new powers, but otherwise we think the SCR process will be workable.

In any event, we would propose that any licence obligations should be high level, principles-based (as opposed to being prescriptive) and flexible to accommodate the wide variety of possible outcomes for HHS, without constraining the development of the settlement arrangements. The detailed rules on performance and enforcement should go into relevant industry codes.

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.

We agree with Ofgem's approach to assessing the impact of smart tariffs on consumers' behaviour – in particular the likelihood of shifted consumption – in addition to an assessment of distributional effects of various consumers' consumption profiles under smart tariffs.

We believe the scope of this assessment should also factor in wider and long term benefits of HHS, eg potential avoided network investment etc.

We would encourage Ofgem to provide guidance outlining in sufficient detail the proposed scenarios to be assessed. Important details to be covered in the scenarios include centralised data processing/data aggregation (DP/DA) (and the scope of that activity) and the settlement treatment of the rump of remaining NHH customers (for example customers without a smart meter or whose smart meter and/or communications is faulty).

Chapter 3: Proposed Plan

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 note that settlement of export is identified as a Policy Enabler in Chapter 4. We consider that it is essential that changes to implement this are delivered as an integrated part of the Settlement Process Reform and so should be included under that heading.

HHS transition will be complex enough for DCC-registered meters, but by the time HHS becomes mandatory, there will likely be several million SMETS1 meters operated with bespoke head-ends. Even if the DCC has enrolled such meters by this time, this may be by

means of novated contracts rather than migrated records, with the result that the meters would still be managed by the bespoke head-ends. This raises the issue of whether the DCC is able to contract with these SMSOs to provide a HH service. It may therefore be appropriate to consider the process for migrating these meters as a separate reform and workstream.

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

We believe Ofgem's Electricity Settlement Expert Group (ESEG) is a good starting point for understanding how to engage industry expertise. The working group(s) involved need to strike a balance between representation and timely delivery of reforms and implementation. This is likely to require an effective core group drawing up proposals that would be circulated to all stakeholders for consultation.

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

ScottishPower is committed to delivering HHS arrangements that benefit customers, are equitable across the industry and are cost-effective. We will seek to influence developments to this end, and are prepared to allocate reasonable and proportionate resources to ensure that all suppliers and customers can rely on the proposals delivering these outcomes.

It is likely that certain industry experts will be involved in some or all of the current industry development programmes, such as the Faster Switching SCR, the Smart Meter Programme and P272 implementation. It would be helpful if Ofgem could ensure that these initiatives are timetabled to avoid clashes and to minimise the resultant demands on the staff involved.

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

Mandatory HHS of domestic consumers has an obvious dependency on the smart meter rollout which in turn depends on the DCC and its achievement of operational stability. We consider this an important risk to the delivery of mandatory HHS.

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

The diagram is very high level. It should perhaps include a step for design, development and implementation of arrangements to migrate SMETS 1 meters from bespoke head-end to DCC registration including the migration and validation of historic data (see our response to Question 3.1).

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

ScottishPower understands that the decision as to whether to move to mandatory HHS is not expected until after the outcome of the cost-benefit analysis in the first half of 2018. We would expect such a decision to be supported by two or three robust cost-benefit analysis scenarios and accompanied by a sufficiently detailed target operating model (TOM).

That being the case, system and rule changes cannot be initiated far in advance of these outputs being delivered, which may make it challenging to deliver these changes by mid-2018.

It is possible that some changes could be implemented by means of code modification proposals, with an effective date contingent on a Go/No Go decision (in much the same way as was the case for NETA and BETTA). However many of the specific changes will not be identified until the TOM is finalised following the result of the impact assessment. Experience of large and complex industry changes suggest that it will be difficult to complete all the required change in the 2½ years between mid-2018 and end-2020.

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

The migration rules and timetable should ideally allow for a period of historical HH reads (say 12 months) to be obtained prior to migration, so that suppliers can segment customer consumption patterns and develop appropriate tariffs for HHS customers (though it is likely that many customers will initially remain on non-ToU tariffs, even after migration to HHS).

Chapter 4: Policy scope

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?

We broadly agree with the conclusions of the ESEG regarding areas to be considered and we acknowledge the value of the PSRG work. However the PRSG strawman did not consider centralised DP/DA activity and it is important that this is considered as an option in the cost benefit analysis. (We are pleased to note that paragraphs 4.5 and 4.6 make reference to this opportunity.) The simplification of the multiple interactions between agents could deliver material cost reductions and service improvements for customers.

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 believe the role of the DCC should be more explicit in this context, given key interactions with smart meter rollout and comms service provision etc. Ofgem should consider whether the obligation on suppliers to migrate SMETS 1 customers to HHS should be dependent on whether meters have been migrated from the head-end system operator to the DCC, in order to avoid interoperability issues and ensure the availability of historical data prior to migration.

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?

We strongly support previous ESEG proposals to shorten the timescales and the number of settlement runs in the settlement process. However, this would be dependent on the

number of non-half hourly settled meters (eg as a result of customer refusal of a smart meter) being sufficiently small.

Also (as per paragraph 4.10), it is critical that the BSC continues to provide an agreed and contractually binding route to resolve errors and disputed settlement allocations to avoid the risk of litigation. ScottishPower believes that the current arrangements for running post-Final Dispute Runs or making binding Extra Settlement Determinations by estimated impact is most cost-effective; we would strongly oppose the idea of an 'insurance-based' approach as suggested by one member of ESEG.

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?

As noted in our response to Question 3.1, it may be implicit in this consultation, but it is important that settlement of export is implemented once the policy detail has been determined. We therefore believe it should be included as an explicit required reform in the plan.

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?

Ensuring access to sufficient historical HH consumption data will be important for areas such as data estimation and synthetic profiles and should be factored into the transition timescales.

Chapter 5: Conclusions and Next Steps

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

See our response to Question 3.2.

ScottishPower
6 January 2017