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Via email

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Dear James,

Mandatory Half-Hourly Settlement: aims and timetable for reform

Thank you for the opportunity to respond to Ofgem's consultation on Mandatory Half-Hourly Settlement (HHS).

We appreciate that Mandatory HHS opens up many potential opportunities to transform the energy market. The inclusion of a full business case is welcomed; the exercise of assessing the assumed benefits to customers and the market should be well grounded and we will be pleased to support in this work.

As noted in the consultation, Suppliers do not have a right to Half Hourly (HH) data. If domestic customers retain the right to opt-in to providing these data it may seriously challenge the efficacy of a mandatory model. We therefore seek a clear position on specifically how this barrier will be overcome at an early stage in this programme.

We anticipate considerable risks resulting in the proposal of implementing changes to codes and central systems by the first half of 2018. Introducing a further transformational project will increase the complexity, cost and risk already borne by Suppliers and customers. We remain to be convinced by the perceived benefits of meeting such an aggressive timeline, which we explain in further detail in our response (Annex 1).

Notwithstanding these concerns, we are of the view the Policy Scope provides a quality overview of what matters need to be tackled by this programme and we look forward to providing our support.

If you would like to discuss our response please do not hesitate to contact me.

Yours sincerely,

Kristian Pilling
Regulation

Annex: Response to Consultation Questions

Mandatory Half-Hourly Settlement (HHS) - Aims and Timetable for Reform

2.1 Do you have views on our proposed approach?

Mandatory HHS is a transformational project and has wide-ranging implications and opportunities for electricity market. SSE acknowledges a Significant Code Review (SCR) is the appropriate mechanism for facilitating transformational change in a co-ordinated and considered manner.

SSE specifically welcomes a business case based on HM Treasury's Five Case Model to build a compelling case for action. Mandatory HHS may fundamentally change certain areas of the market, for example, the centralisation of Supplier Agent functions could disrupt existing business models and therefore must have a clear case for doing so. Mandatory HHS may also act to facilitate innovations such as smart tariffs and therefore we welcome Ofgem's commitment to carrying out robust research in this area.

Mandatory HHS would be major undertaking if the market was in a steady state, but adding a further complex and transformational project will increase the complexity, cost and risk already borne by Suppliers and customers. We note the consultation does not provide a detailed rationale for the code changes and central systems being targeted for the first-half of 2018 in light of the existing level of competing regulatory priorities.

We encourage Ofgem to consider the level of concurrent industry change and incorporate it throughout the planning and design of Mandatory HHS. Not doing so will have a direct impact on value for consumers, affordability and achievability of the project.

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.

SSE would be pleased to provide evidence of costs and benefits as this programme develops. We broadly agree with the potential costs and benefits cited by Ofgem, however it is premature for us to make meaningful evidence based contribution given the level of variables. Fair research and assessment needs to be completed to test the theoretical benefits and quantify the costs ahead of judging whether there is a net benefit for customers.

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 broadly consider the key reforms have been identified and believe all these reforms should be fully reviewed. Other reforms may come into scope as the programme develops.

On 'Roles and Responsibilities' we anticipate the business case will assess the value of Supplier Agent competition as part of evaluating a central agent model. We have not completed our own assessment on this question but we are clear that the overall model should, wherever possible, streamline processes and make the market simple to manage and reduce operating costs.

We suggest the Data Communication Company (DCC) should be considered in the same grouping as Data Collector/ Data Aggregator, Meter Operator and Data Retrieval roles. The DCC has a major role in Smart Metering development and for various reasons there are challenges in making changes to DCC to operate a smart solution that will meet existing expectations and there have been successive delays. It is therefore important that assumptions are not made on the DCC ability to deliver the necessary performance and capability for Mandatory HHS arrangements as a matter of course.

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

We agree that reforms are ‘wide-ranging and complex’ and therefore the level of industry expertise should reflect this. Ofgem expertise and independent consumer research may provide valuable insight to market trends and customer behaviour. Mandatory HHS touches many areas of regulator-driven change and to allow this programme to successfully develop there will need to be broad expertise on subjects ranging from Settlements, Demand Side Response, Network Charging, Smart and DCC, through to Principles Based Regulation and Customer Vulnerability.

The Department of Business, Energy and Industrial Strategy (BEIS) expertise and support will be necessary where Mandatory HHS interlocks with smart metering arrangements, including the Smart Energy Code (SEC). We view DCC engagement on matters such as performance and capability are necessary so the industry design is feasible and cost-effective.

Elxon will no doubt have a key role throughout the process and their experience in managing the settlement arrangements will be invaluable. We are aware of the recent consultation on licencing of code bodies and therefore any uncertainty around who manages codes would also to be considered.

As a Supplier, expertise will be sought from across our Retail operation , including but not limited to, Regulation, Settlements, Pricing, Forecasting, IT, Metering, Smart, Customer Experience, Sales, Marketing, Domestic and Non-Domestic experts.

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

Mandatory HHS is likely to be a major undertaking both at an industry level and at an organisational level. SSE’s Retail operation is broad and incorporates supply and metering businesses. The experts referenced in 3.2 are being heavily utilised in existing projects and regulatory priorities including Smart, Ofgem’s Switching Programme and the implementation of the Competition and Markets Authority (CMA) remedies.

We agree that it is a question of both time *and* expertise; pursuing Mandatory HHS in parallel with some of the most transformational projects the industry has managed, will carry risk and increase costs. Human resources with the relevant skills and expertise are not quickly replicated and may therefore impact the level and quality of interaction for Mandatory HHS as well as the other major industry programmes.

With reference to Ofgem’s Switching Programme, the industry code changes must properly dovetail with Mandatory HHS so that processes and obligations are clear and no material gaps, overlaps or contradictions are created. Making concurrent changes to the same codes is challenging and can be inefficient due to the changing baseline, as demonstrated to a lesser degree with the Project Nexus and Xoserve Funding, Governance and Ownership (FGO)

modifications to the UNC and iGT UNC. We anticipate the code changes to facilitate Ofgem's Switching Programme and Mandatory HHS would be markedly more complex.

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

SSE is supportive of having a timetable that outlines prospective milestones to support organisational planning; however at this stage it is our view that placing a date on when the full design is agreed without first assessing the impacts risks slippage or shortcuts. The Mandatory HHS arrangements should be in place for a significant number of years, we would always favour more upfront planning and design over rushing into a solution that requires re-work, results in inefficiencies or may obstruct the right outcomes being realised for the industry and customers.

The Smart roll-out is continuing to "ramp up" and therefore installing smart meters, maximising customer benefits and ensuring industry rules and systems are robust and appropriate will remain a priority. The industry is not currently in a steady state; with numerous modifications to SEC and other codes are continuing to be raised to support delivery of an efficient and effective smart solution. Further changes will no doubt be required as our experience of DCC and smart metering increases and there are risks, as evidenced by the 'pause' in developing SEC modifications, that industry processes are not keeping up with existing requirements. We believe prioritising a well-functioning smart solution is paramount for public confidence and this could be challenged if attention is diverted to Mandatory HHS.

SSE does not consider the proposed timetable is achievable given the level of concurrent change driven from government, Ofgem, the CMA remedies and Europe. A further transformational programme such as Mandatory HHS could disrupt the development of proposed projects and could add costs to approved projects.

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

While we support data access being the first step, we note that it is a 'high level approach' only, with several other steps taking place before the 'detail' is considered. Our current position is that more than a 'high level approach' needs to be established before embarking on the rest of the plan. The ability to access Half Hourly (HH) data is a key risk that may be particularly difficult to overcome. We are aware that, at least since the time Ofgem's Electricity Settlement Expert Group (ESEG) was meeting, the issue of domestic customers needing to opt-in to providing HH data has been known. The matter was more recently referenced by the CMA and we understand BEIS intend to consult on this. At a legislative level, the Data Protection Act (1998) and General Data Protection Regulation (2018) may also need political intervention and thus a dependency on government. Ofgem will also be aware that at a Supplier Licence Condition (SLC) level, clauses SLC 47 (electricity) and SLC 41 (gas) are very prescriptive and require suppliers to seek consent from customers to access HH data. This has to be confirmed regularly with the customer who must have a clear opportunity to change their consent preferences at any time. Thus, while we might gain consent to obtain and use half-hourly data at the point the meter is installed; this can change at any time. In the future, offering fixed term tariffs with features predicated on suppliers having access to HH data would be difficult to achieve without requiring the customer to commit to allowing access throughout the fixed term period. This could be construed as eroding consumers' right with regards to data access and privacy. Any new drafting of the above SLCs will require careful consideration by all parties to ensure the right level of



consumer protection at the same time as enabling suppliers to build in the necessary commercial protections to their smart tariff offerings.

Consumer groups have also expressed views on this issue. If data access is not resolved then we believe this would significantly impact the business case. A government policy shift supported by good consumer communications on the benefits of HH data may successfully overcome existing privacy concerns of consumers. Proceeding without first knowing the extent to which HH data will be available will, we believe, significantly impact the case for reform.

At a technical level, there is also a dependency on industry systems and infrastructure supporting the significant increase in the volume of data. We would expect this issue would be considered as part of the impact assessment.

Figure 1 closes with 'Decision and transition schedule' but we suggest transition discussions take place earlier in the process, if only at a 'high level'. The transition is a key area of discussion and we believe lessons should be learned from previous change programmes.

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

Mandatory HHS will likely require significant re-writing of existing industry codes, notably the Balance and Settlement Code (BSC), which would be a major undertaking. If code changes are not fully considered there is a risk that errors will be introduced and unintended consequences resulting in possible commercial risks will not be challenged.

We believe industry can learn lessons from other industry programmes, such as Project Nexus. Good quality planning and management at an early stage paired with realistic timescales should be fundamental tenants of Mandatory HHS.

We expect Code Administrators, not least Elexon, will have a significant pressure to deliver. We observe Code Administrators are already under pressure to actively manage, co-ordinate and support in the development of code changes and Mandatory HHS will further contribute to this challenge.

Depending on the design, there may be cost barriers to changing central systems by the first half of 2018. The proposed timescale provides a maximum of 18 months from now through to the central systems being fully designed and implemented. In reviewing industry changes that impact BSC systems, it appears that far less fundamental changes have taken around 12 months to implement. If Mandatory HHS requires a full overhaul and redesign of central systems then we would expect a shortened timescale could result in increased costs and/or reduced quality. The former does not deliver value for customers and the latter introduces commercial risks to companies that may impact customers.

Various existing processes will need to be explored to avoid stranded and potentially dysfunctional processes remaining, for example, unmetered supplies or Non HH profiles. There is also the risk that developing and maintaining new central systems, alongside these other processes will increase costs and the indirect pass-through costs met by customers without any immediate benefits being realised.

We do not believe the timeline will take into account the experience of Elective HHS and other major changes in the industry, such as the Switching Programme. Elective HHS will be in place from June 2017, however the extent to which industry will utilise this process remains to be seen. If Mandatory HHS is available from 2018 then it may act to reduce the

commercial incentive to participate. We are also unclear on the level of experience we will have gained from the Switching Programme by the first half of 2018 as suggested in the consultation.

We are also concerned that the cost of updating central systems by 2018, when many customers will not yet be able to be settled on a HHS basis, will mean a system being built capable of managing a total population of electricity supplies, whilst also having to manage a significant number of NHH processes and data.

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

The plan is very high level and notwithstanding our views on the dependencies and timeline, the plan seems reasonable.

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 preparatory discussions at ESEG and Elexon's Profiling and Settlement Review Group (PSRG) were valuable, however we would caution against their conclusions being fully accepted at this stage. ESEG was meeting in 2014 and the market has moved alongside greatly, not least in terms of smart and DCC. PSRG was a BSC only group and was purely settlements based. There appears to have been limited evidence base for the conclusions these groups arrived at. We nevertheless accept the ESEG and PSRG conclusions as a sensible starting point but believe all conclusions will require further evaluation.

Roles and responsibilities

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

There is a clear opportunity to properly consider the role of supplier agents. As a result of remote reading and configuration of meters, Suppliers will have more efficient and lower cost solutions than those under existing arrangements. It is important that customer appointed agents, primarily existing in the non-domestic market should also be considered.

We agree with the Ofgem assessment that a Central Agent may be more efficient, but would be at the expense of the benefits of competition. We support an economic case being considered including observations on how existing central providers operate in the gas and electricity markets.

Assessment of 'Roles and Responsibilities' should consider the timing of Mandatory HHS. Meter operators, for example, are undertaking unprecedented work as part of the Smart rollout and therefore any uncertainty or changes to obligations should be carefully considered to avoid unintended consequences.

Settlement process

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

SSE support revising the settlements timetable, not least because it would bring forward the financial certainty of our settlements position, however an evidence based approach will be required. Suppliers may prioritise sites where customers request a smart meter and where communications, condition of the connection and access to meter make installation more straightforward. An evidence base should consider that preliminary data may provide a more positive case for significant reform to the settlements timetable.

We agree that the current data estimation process is not fit for purpose for Mandatory HHS. We note that P339 'Introduction of new Consumption Component Classes for Measurement Classes E-G' has since been approved by the BSC Panel and should address the existing difference in costs that HH and NHH customers pay for the settlements process.

The ESEG was correct in concluding in that the existing Change of Measurement Class process is not suitable for a mass migration to HHS. We are sure that significant efficiencies can be realised, however its design will need to consider the duration of migration and the potential changing role of agents, at the least.

Policy enablers

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

We agree that the key issues have been identified. Settling export is a key issue and we strongly encourage Ofgem to prioritise this within the overall development of Mandatory HHS. It has long been recognised that "export spill" is a risk to settlements. Given that one of the key benefits of Mandatory HHS is to improve settlement accuracy, it would be contradictory to pursue this without a clear policy and regulatory obligations for registering export in settlement. We believe Mandatory HHS is the perfect time to address this issue given the broader Flexibility Programme and BEIS involvement.

Consumer issues

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

As noted extensively in response to 3.5, data access is, in our view, probably the most challenging and important aspect of Mandatory HHS to address early on. Beyond not opting in to HH data access, consideration should be given to the number of customers who exercise their right to refuse smart metering.

The development of smart tariffs provides opportunities for customers to benefit from reduced energy prices where they shift their load to cheaper times of the day. There will be a wide spectrum between those customers who can and those who cannot take up such offerings. Some of this will be based on personal circumstances, employment, access and affordability of technology, understanding of tariffs as well as a general willingness to engage with the market and their energy usage. These are complex issues and will require broad and in-depth research across socio-economic and age groups, alongside considerations of how future customers are likely to engage in the market and with technology. Whilst smart tariffs appeal on a number of levels there will need to be a balance struck between the gains and losses that customers can realise.

It would be useful for the Ofgem research to consider the differences between domestic and small non-domestic customers to avoid assuming each customer segment will benefit in the same way. We know, for example, that large non-domestic customers have the financial incentive and commercial ability to manage complex tariffs structure but a significant proportion favour single or two-rate tariffs.

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

The most effective and helpful method is to facilitate workshops that are open for all to attend. This maximises the opportunity for stakeholders to participate and engage in the



discussions. Supplementary remote arrangements, such as web-based tools are useful but in our experience they do not deliver the same benefits as physical meetings.