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By email only

Dear James,

### **Mandatory Half-Hourly Settlement: aims and timetable for reform**

Thank you for the opportunity to comment on the above consultation. Utilita has a number of concerns in respect of the proposals and welcomes Ofgem consulting at this early stage.

Utilita is a smart prepayment supplier who has been installing smart meters since 2008. We believe that smart meters are particularly beneficial for prepayment customers and using their HH data to give customers visibility of their energy consumption helps them manage their energy spend. The benefits of HH data to improve the quality of settlement are also evident. However, we believe that elective half hourly settlement (HHS) has the potential to deliver the majority of the cost benefits for consumers if barriers are removed for minimal additional cost.

### **Questions 2.1 and 2.2.**

We suggest that a modified approach to that set out in the document would deliver benefit and allow the benefits to be tested ahead of a decision to proceed. This approach would be in three stages:

- 1) Remove barriers to Elective HHS  
Ofgem and industry to assess barriers to elective HHS and take immediate action to reduce them. The main barriers to elective HHS include:
  - a. Current data processing costs incurred from supplier agents – the difference in NHH vs HH pricing makes it very commercially unattractive. The charges should be amended to a £/MWh charge.
  - b. Data access licence and SEC provisions – currently require opt in consent
  - c. Tariff structure restrictions<sup>1</sup>

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<sup>1</sup> In the process of being reduced by CMA remedy implementation

2) Use Elective HHS

Suppliers will naturally move customers for whom HHS is cost efficient to this mode of settlement. A period of time should be allowed for these changes to bed in and take up by suppliers. Around 18-24 months would seem reasonable to allow suppliers to make the elective change and then provide several full settlement runs.

3) Assess impact of Elective HHS and evaluate if mandation needed

Full analysis, proposals and IA for mandatory HHS can then be completed during the latter 12 months of (2), this would ensure that the information from the elective process can be included in the IA produced by Ofgem. Consideration could also be given to procuring this analysis independently, perhaps via Elexon. A decision can then be made based on full information prior to incurring additional costs.

In considering the proposals in the document, we have taken account of the CMA report and remedies. In particular, the CMA was clear that a full cost benefit analysis/impact assessment was required and that elective HHS and a range of implementation options should be considered. We agree that this should be the case.

In terms of approach, the business case must be completed ahead of the detailed design work and should include the cost benefit analysis and IA. This will allow an informed decision on benefits to be taken prior to the initiation of a major industry project. The CMA notes this work has not been completed to date. In the Switching Programme, the full business case is being developed alongside the design work, rather than being used to inform the decision to proceed as would usually be the case in major projects. In this instance, given that the proposals are expected to have distributional effects, it will be essential to take account of this in the IA, including the relative distributional effects of both costs and benefits.

We also believe that the proposed CMA amendment to remove 1C from Ofgem's duties is relevant. Ofgem correctly notes in the consultation the risk to competition of creating a further monopoly activity in a new central agent, but does not recognise the impact that removal of 1C will have in clarifying the importance of competition. It is essential to learn from other major projects prior to implementing further change. Careful consideration of the DCC programme (and the associated costs/incentives) is needed before suggesting an alternative to competition in the form of a new Central Agent.

In addition, a centralised DC/DA service risks creating a homogenous market place with no room for innovation and makes it even harder for suppliers to differentiate their services. We believe that elective HHS supported by competing service providers at competitive costs would produce a better and more cost effective outcome for consumers.

In reviewing the CMA report, we also noted that the projected Elexon costs/savings were dependent on cessation of NHH settlements. As customers may reject a smart meter, have a smart meter but no comms or refuse access to half hourly data, it is clear that arrangements will be required to manage settlements for these customers. In addition, it is evident that there will be some areas which will never have WAN or may have continuously poor WAN,

arrangements will be needed for these sites as well. It is not clear that all these scenarios are covered by the proposed sections of the TOM.

In 2.21 Ofgem states that it has commissioned analysis to understand the distributional effects of smart tariffs, we hope that Ofgem will publish the analysis once completed.

### **Question 3.1**

Please see above, if Elective HHS is implemented and allowed to operate for a period, this will aid Ofgem in identifying what additional incremental changes (if any) are required. The benefits which should be afforded by an elective approach could be supported and increased by judicious incremental improvements for modest cost. Given the level of major change in the industry in the next 2-3 years, incremental changes should be utilised where practicable and all major change must be carefully assessed in advance.

This has been illustrated by the recent consultation on the Gas Settlements Order, where it became clear that the proposals had larger impacts than had been initially anticipated by CMA and Ofgem. This was recognised in the final version.

As noted above, it is likely that provision will need to be made for customers refusing smart meters or with comms issues. As customers may also opt out of HH data collection, we believe that the first step should be to address the data access issue, which would facilitate the elective approach and subsequent mandation if this proves necessary.

The data access point should be addressed consistently for both the gas and electricity licences rather than risk the rules associated with the two fuels being unnecessarily out of step. This would also assist with the requirements deferred in the Gas Settlements Order.

While not a reform per se, the full cost benefit analysis and IA should be completed, prior to a final decision being made on whether to move to mandatory HHS and in what form. Once this information is available, a robust decision can be made and timeline agreed. We do not support the approach of making a decision and confirming a deadline for implementation for such a major change in advance of carrying out the CBA and IA.

### **Questions 3.2-3.7**

Significant amounts of industry time and resource would be required to progress these reforms. The industry is currently undergoing a time of unprecedented levels of fundamental change between Nexus implementation, the Smart programme/roll out and the Switching programme. In addition, the CMA Orders are being implemented including the prepayment cap, licence (and any subsequent code) changes associated with remedies, reporting requirements, trials and the database remedy.

All of this change is concentrated into a period of less than 3 years. Implementing further change requiring fundamental systems changes over the next 18 months in advance of the switching programme can only be extremely high risk. The risks posed would not only be to the Mandatory HHS project but also to the other wider projects which would be competing for the same resources within suppliers, imposing lost opportunity costs on suppliers.

The change is not trivial. As of 30/9/2016, currently around 2.4m smart electricity meters have been installed by the larger suppliers, this number is expected to ramp rapidly over the next 3 years. To move from processing HH data for the current numbers of HH sites to processing and using HH data for millions of sites is significant.

While not all sites would have smart meters and hence be able to record HH data by mid-2018, the document refers to making changes to central systems by first half of 2018 (Q3.6 and text), but also suggests an implementation phase following a decision in the first half of 2018 (para 3.4 and 3.7). In addition, Figure 1 does not include timelines and hence the proposed timetable mentioned in para 3.6 is not clear.

In view of this, we believe Elective HHS should be tested first, this could allow for completion of a robust IA and defined proposals by late 2018. These timelines would also allow for better understanding of the progress of the smart programme and proposed switching systems with a decision point by the end of 2018. This should then be followed by a planning and detailed development stage leading to implementation of any mandatory solution (only if required) by the end of the smart meter rollout. As smart meters are required to provide HH data, we consider it makes more sense to align mandation to this point.

The points made above on data access are also key, as in the absence of change, data collection will be dependent on customer opt-in.

#### **Questions 4.2-4.5**

In respect of roles and responsibilities, please see previous points made. In addition, lessons must be learned from recent major projects such as Nexus and the DCC programme to ensure similar issues do not arise.

For clarity, we do not support the creation of a further monopoly central agent which is not subject to competitive pressures.

Moving to the settlement timetable, while we agree that full HHS might allow for shortening of the timetable and consequently reduced credit, the level of dependencies is high. For example, it might only be practical to make such a change if no NHH settlement remained, which may not be viable. The document was also not clear under para 4.11 whether the 94% settled on actual data referred and an industry total level or individually to all suppliers.

We have identified a number of issues above relating to data access which must be considered, but the issues around data estimation and the equitable treatment of NHH customers are also important. If GCF costs were to be socialised as suggested, it is not clear how incentives to minimise could be applied other than through an incentive applied to the network operator. In addition, the document suggests in 4.16 an amendment to the error allocation rules to apply to HH as well as NHH customers. This would need to be estimated and factored in to the cost benefit analysis to understand better the distributional effects.

On the customer facing section, we have commented in detail above on the data access issues. We continue to believe that this area should be addressed first to facilitate other activities. While we understand the view that the data could be considered 'personal' data, we believe that it should be possible to allow collection of such data freely for purposes beneficial to the industry such as settlement and improving forecasting.

The general data protection provisions around use of data for marketing should be sufficient to offer consumer protection, without adding a specific constraint on HH data collection. We believe that relying on the general provisions in conjunction with the new principles proposed for condition 25 and the current condition 25C provides a robust framework consistent with the move toward more principles based regulation.

In addition, further work is needed to ensure that customers who have smart meters and opt out, or who have comms issues (which are outwith the supplier or customers' control) are not penalised. There is perhaps more justification for different treatment where the matter relates to the customer refusing a smart meter, but even in that case the impact should not be undue.

The CMA assessed the market for issues of unfairness and it will be important to ensure no inequities are created as a result of remedy implementation.

There may also be consequential areas to consider, these include the reduced benefit of profiling as numbers fall and the remaining customers become less 'standard'. A second area to consider is a separate business case related to the benefits of accurate metering for Microgen (including domestic PV and similar). If error allocation and GCF are to be socialised it becomes increasingly important to minimise such smearing. It may be that the CBA applicable to such specific areas may justify greater effort than the overall business case.

The CMA was clear that a range of options for implementation should be considered. If proportionate and judiciously applied actions to specific areas, in conjunction with broader incremental change (such as elective HHS) would deliver most of the benefits for minimal cost, then this would be a better approach both for consumers and the industry.

We hope these comments have been helpful, and would be happy to meet and discuss any points in more detail.

Kind regards

Yours sincerely

*By email*

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