

Stakeholder workshop on Ofgem's mandatory half-hourly settlement consultation

Notes from Ofgem's stakeholder workshop on their mandatory half-hourly settlement consultation. The workshop also sought stakeholder views on the Impact Assessment and design of the Target Operating Model.	From Date Location	Ofgem 19 January 2017 Coin Street Conference Centre, London
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Overview

1. On 19 January 2017, we held a stakeholder workshop following our consultation on mandatory half-hourly settlement (HHS). Each session started with a short presentation. These are provided in a subsidiary document and this note should be read in conjunction with them. ELEXON also gave a presentation on their view of what is needed for mandatory HH settlement design, which is included as a second subsidiary document.
2. The workshop started with a welcome from Cathryn Scott (Partner) followed by a presentation from Anna Stacey (Head of Settlement Reform) summarising the key themes arising from the consultation responses, focusing on: the approach and timetable; risk, constraints and dependencies; and scope of issues.
3. The remainder of the workshop comprised breakout sessions to gather views on our initial thinking on the Impact Assessment (IA) framework and development of the Target Operating Model (TOM). The notes below are a summary of the discussion at each table during the breakout sessions and are drawn from the notes jotted down on the flip charts and those taken by the facilitators. **Please note that these are the views of the attendees and do not necessarily represent Ofgem's views or intended direction.**

Impact Assessment breakout session

4. James Earl (Senior Economist, Settlement Reform) presented his initial analysis for the mandatory HHS Impact Assessment (the Economic Case of the 5 Case Model). He set out the intended approach to the Impact Assessment and a rough scope for the costs and benefits to be included in the analytical framework for economic assessment.
5. He facilitated a breakout session, where 4 tables were asked to discuss the benefits side of the framework, and the other 4 were asked to discuss costs. The information from these sessions will be used to develop the framework further and begin to build the Economic Case.

Benefits of HHS

6. Stakeholders suggested the following considerations for the analytical framework:
 - There may be wider consumer benefits to consider, such as increased engagement, potential impact on fuel poverty and other qualitative benefits. Their increased engagement may also have knock-on effects for demand reduction and energy efficiency.
 - There should be a benefit attached to fairness. Although technically HHS amounts to a 'zero-sum game' by ending cross-subsidy between consumers using more or less at peak times than the average profile, it does make the arrangements more reflective of actual behaviour, which is fairer.
 - The benefits from lower levels of network losses should be in scope.

- Some benefits may be welfare transfers rather than additional benefit. For example, reduced wholesale prices would benefit consumers but not generators.
- There would be a big challenge to sustain the benefits by getting consumers to maintain their behaviour change, and automation could be key to this.
- The data access solution will affect the benefits case, and so the Impact Assessment should be used to help to build the solution.
- Supplier balancing is a key benefit that might come earlier than other benefits, and would be amplified by changes through the Electricity Balancing Significant Code Review. There may also be benefits for intermittent generators.
- Better data quality would improve residual profiling and may lead to savings in Performance Assurance.
- There is a risk of double counting benefits with the smart meter rollout and flexibility programme. None of these should be viewed in isolation, but the Impact Assessment should look to attribute incremental benefits to HHS.
- SMETS1 and SMETS2 meters should be split out in the benefits case.
- Different sizes of supplier stand to benefits by different amounts
- The IA should try to map out future demand considering smart technology and electric vehicles, and the effect of flexibility such as DSR – and considering when this would accrue a benefit.
- Encouraging innovation through commercial benefits may be a long way off, and this would be very hard to quantify.
- The carbon benefits side of the framework could be developed further, but also noting a risk of double counting carbon benefits with other programmes.

Costs of HHS

7. Stakeholders suggested the following considerations for the analytical framework:

- Time element is important – costs are mostly upfront and benefits have a long timeframe.
- The framework should consider if and how suppliers are likely to engage with smart tariffs and their likely offerings, and the costs this could entail.
- HHS will make forecasting more complex so the framework should consider costs to suppliers who expose themselves to imbalance, and the variation of impacts for different types of suppliers, particularly those with different customer bases. This may be more complex during the transition also.
- The framework should include any potential costs to non-smart households.
- The distributional effects should be highlighted.
- There will still be some costs of profiling to consider. The costs savings are likely to be minimal.
- The costs of maintaining legacy systems running in parallel will be an important factor.
- Consideration should be given as to how to use the DCC, and the various resulting cost scenarios.
- Specific consideration should be given to consumer-facing costs and how to minimise these through engagement and information. Need to consider if costs to the supplier eg marketing will end up on the consumer. Also need to consider who is the most appropriate party to inform consumers.
- There may be costs to suppliers in managing increases in customer queries.

- The IA needs to consider the cost of modification and implementation delay, which will differ by solution.
- Aligning the comms package to customers for smart metering and HHS would reduce supplier costs.
- The potential costs and challenges of creating a monopoly for agent services when there is already a competitive market in place need to be carefully mapped out.
- Transitional work to move customers from NHH to HH will carry a cost, but also create commercial incentives.
- The analysis needs to consider costs to supplier agents of different scenarios for systems changes.

Further points raised

- Consumers are very different so their response to HHS will be different, and this should be factored in.
- The counterfactual should consider the fact that ToU tariffs are already available largely through Economy 7 and Economy 10 tariffs.
- Lessons and data from elective should be fed into the Impact Assessment.
- We should consider how to reassess the costs and benefits in the Business Case over time.
- The counterfactual analysis and assumptions about elective will be important.
- Consultancy work should be considered for the analysis.
- The strategic case is very important and should be considered alongside the Impact Assessment.

Target Operating Model breakout session

8. Beth Hanna (Senior Policy Manager, Settlement Reform) presented additional detail on some of the issues relating to the settlement process and development of the TOM. The tables were then asked to provide their thoughts on a selection of the questions below.

Is it more effective for issues to be resolved one-by-one or spread out across the working groups? How should the issues identified in the consultation and responses be sequenced in order to ensure they are all given robust consideration?

9. The tables assigned these questions were largely focused on how the working groups might be set up to ensure sufficient engagement and consideration of the issues.
- Development of the TOM depends on a number of issues, including:
 - Access to customer consumption data
 - DCC enrolment for SMETS1 meters
 - Identifying how data will be transferred between industry parties who those parties will be
 - One table suggested that consideration should be given to a 'smart agent' role, where agents are able to qualify once in order to perform both HH and NHH activities. Smart agents would potentially make it easier for NHH customers to be migrated to HHS. This will streamline arrangements applied to customers who remain NHH because they are unable to, or do not want to have a smart meter installed.
 - Some tables suggested it will be necessary to have more than one working group because the expertise required may be different (e.g. network charging).

However, the interaction between the groups mean there may be value in ensuring some members are consistent.

- Different ways of engaging were discussed, including webinars and newsletters to ensure those with resource constraints are still able to stay updated on progress. Some participants suggested there would be merit in some working group meetings being held outside of London.

What are the biggest challenges and risks for your company, both in terms of project development and (if approved) implementation?

- A number of tables suggested that resourcing would be a significant challenge. In particular, there is a risk that necessary expertise is already busy working on other programmes. Some tables were particularly concerned about availability of IT expertise and one table noted that regulatory change tends to take priority over other IT changes for companies.
- Several tables identified the number of dependencies also being a risk for companies. For example, the timing of this project, compared to implementation of other regulatory work being undertaken. In addition, if HHS is phased in, industry parties will be able to use early phases to test implementation.
- There was some concern about the impact of HHS on smaller suppliers, who may have fewer resources to ensure they are represented on the working groups and may not be able to implement changes over a short time frame. One table suggested there is a risk that the final design might suit larger suppliers but not the needs of smaller ones.
- Finally, several tables identified that not all customers may benefit from being migrated to HHS. One table suggested we need to be mindful of what happened in Texas where time-of-use (ToU) tariffs were introduced at the same time as wholesale prices increased, which customers blamed on the ToU tariffs.

What elements of the governance arrangements for other projects (e.g. Nexus, Faster Switching) should we consider for HHS and what lessons can we learn?

- There needs to be good project management oversight. However, although there may be some benefit in having an independent Project Manager, there is a risk if they are appointed too early in the process, that they are unable to make policy decisions so end up functioning as a 'go between' industry and Ofgem.
- One table suggested that having Ofgem lead the project feels right. They believe the Switching governance arrangements have worked well, although other participants noted there were some areas that could be improved (e.g. transparency of discussions).
- Some tables asked questions about the governance arrangements, including how the working groups will be appointed, how to avoid conflicts of interest and whether they will be peer reviewed. Another table suggested that, finite industry expertise creates a risk of not seeing the full picture, if these people do not sit on all the working groups.
- Several tables suggested that Ofgem needs to avoid setting an arbitrary end date to the project. It was also suggested that one of the problems with Project Nexus is that it did not have clear timelines.

What are the biggest risks to the success of the process design work and how might they be mitigated?

- One table identified that those customers on Economy 7 tariffs will already be familiar with ToU tariffs and so may be more willing to opt for complex tariffs. Has research been done on the demand side response benefits provided by Economy 7 customers?

- There was some concern about the risks of not following an evidence based approach. Some tables also suggested that we need to take into account evidence from P272 and elective HHS.
- Some tables highlighted the risk of not including export in the issues being considered as part of the HHS project, due to the impact of spill on the accuracy of settlement. Some parties also felt metering and settlement of export was especially relevant to suppliers with a focus on green energy, as they will have a lot of customers with solar panels. Some attendees noted however, that the significant amount of work required to make systems ready for export, means it may be better to consider separately.
- One risk that was identified was a lack of engagement for some parties either due to resources or visibility of engagement. Some parties suggested we need to take into consideration consultations and other major engagement to ensure parties are able to respond.

Consumers are key to realisation of the full benefits of HHS. What might an engagement plan that ensures their needs are reflected look like and how should responsibility be shared?

- Tables who were assigned this question focused on the potential impact of ToU tariffs. Customers will need to understand new products, in particular, the benefits in order to be incentivised to change their behaviour and the potential for additional costs, if they consume at expensive times.
- Customer engagement needs to start now and parties need to understand what it is that drives them in order to understand potential levels of take up. Some tables suggested that Smart Energy GB could lead on this, although one table suggested that their budget does not currently cover engagement around HHS. Another table disagreed with a centralised approach for consumer engagement and instead felt responsibility should sit with suppliers to focus on their own customers, as there is not a one-size-fits all approach.
- Consumers need to understand how their data is being shared and used and what their rights are. Some tables noted the link to the smart meter rollout and suggested we need to think about when it might be the right time to add more complex messages around HHS to current smart meter campaigns. Attendees also suggested that messaging needs to be consistent across different groups (e.g. Ofgem, suppliers, Citizens Advice).
- One table noted there was a risk that price comparisons websites and other third party intermediaries might not provide consistent messaging to consumers.

Next steps

10. Anna Stacey closed the workshop with a brief presentation indicating that we propose to publish a response to the consultation, including a revised plan, and would follow that with the launch of our Significant Code Review.

Annex 1 – list of attendees

Name	Company
John Christopher	BEIS
Vicky Mason	BEIS
Chris Welby	Bristol Energy
Tabish Khan	British Gas
Greg Mackenzie	British Gas
Victoria Pelka	Citizens Advice
Vincent Tuk	Cleanreturns
Loic Hares	Cleanreturns
Tom Andrews	Cornwall
Robin Healy	DCC
Louis du Plessis	DCC
Andrew Jones	EDF Energy
Rosella Jones	Electralink
Claire Hynes	Electralink
Kevin Spencer	ELEXON
Jon Poste	Extra Energy
Paul Farmer	First Utility
Jill Ashby	Gemserv
Derek Weaving	Good Energy
Huw Birch	Green Energy
David Crossman	Haven Power
Paul Akrill	Imserv
David Barratt	Lowri Beck Services
Simon Daniel	Moixa
Mike Oxenham	National Grid
Sean Young	Northern Power Grid
Andrew Enzor	Northern Power Grid
Hazel Ward	Npower
Matt Bunney	Octopus Energy
Barney Scott	Ovo Energy
Conor Maher-McWilliams	Ovo Energy
Aaron Dickinson	Places for People Energy
Tom Chevalier	Power Data Associates
Dermot Hearty	Salient Systems
Haren Thillainathan	Scottish Power
Colin Frier	Siemens
Colin Prestwich	Smartest Energy

Name	Company
Andy Colley	SSE
Tim Parry	St Clements Services
Nik Wills	Stark
James Murphy	Stark
Alex Warren	Stark
Judith Ward	Sustainability First
Ryan Hledik	The Brattle Group
Eric Graham	TMA Data Management
Chris Ong	UK Power Networks
Rachael Mottram	Utilita Energy
Carly Linehan	Utility Warehouse
Tracey Pitcher	Western Power Distribution