

Information Request for the mandatory half-hourly settlement Business Case: Q&A

We are developing an Impact Assessment which will form part of the Business Case on the move to mandatory half-hourly settlement. The Impact Assessment will examine the economic aspects of the Business Case.

As a first step, we are issuing a voluntary Information Request to gather information on the potential impacts of mandatory half-hourly settlement. This Information Request was sent out in draft form on 27 July 2017 for respondents to ask questions for clarification.

The questions we have received and our answers to them are summarised below.

If you have any further questions on this Information Request, please contact James Earl at James.Earl@ofgem.gov.uk, or email the team mailbox at halfhourlysettlement@ofgem.gov.uk.

Question 1

The Information Request is voluntary. What does that mean in practice?

We are not requesting information pursuant to our Information Request powers, so answering the Information Request is optional. We appreciate the competing demands on your time and we are grateful for any information you can provide.

Question 2

I think the questionnaire for supplier should focus on the supplier only costs and the Agent questionnaire focus on agent costs (incl when agent is part of a supplier organisation). If some organisations combine the supplier and their 'in house' agent costs then it will be difficult to distinguish or extrapolate.

Our view is that there are areas of cost that may be missed out if this Business Case RFI does not seek to gather this information. We appreciate that there are differences in the models for supplier agent services, and ask that stakeholders make clear where costs are clearly attributable to either a supplier or a supplier agent, or if they are not able to distinguish or extrapolate these costs.

Question 3

In question 6.00. Would ELEXON answer this relating to BSC audit costs and Audit Scope in the future? Depending on the RFI relating to the supplier agent functions the Audit scope and criteria in the future would change considerably. Could this also be directed to the Issue 69 working group for the PAF review?

Question 6.00 is intended to capture a broad range of impacts on code administrators. As such, ELEXON can consider whether there are any impacts on the BSC Audit that they would like to highlight at this stage, recognising that the TOM is as yet undefined so these impacts may be uncertain.

We welcome views from any Issue 69 working group members as well.

Questions 4

Should we assume DC/DA agents are not centralised for the purposes of this RFI? (1.01-04, 2.02)

The question of whether or not to centralise Data Collection and Data Aggregation is important, and we are approaching it with an open mind. Ultimately, we want to come to an evidence-based decision about which option is in the best interests of consumers, in line with our principal objective. We therefore encourage you to provide us with evidence in order to better inform our policy development in this area.

We have not yet developed a strawman for how any central agent could work in the event that we took a policy decision to go in this direction. Given this, we appreciate that it would be difficult for stakeholders to provide information on the costs of DC and DA under a central agent.

Therefore, for the purposes of this initial Business Case RFI, we think it is pragmatic for stakeholders to respond on the assumption that supplier agents would provide DC and DA services (as currently). However, if you believe that costs would be different under a central agent, please feel free to provide any information and justification.

For the avoidance of doubt, this does not prejudge our decision on whether or not to centralise functions currently performed by supplier agents.

Question 5

Given that ElectraLink will be providing input to this process, for example what, if any impact on industry data transfer costs may result from mandatory HH settlement, should market participants EXCLUDE data transfer costs? If not, there is a risk that market participants could just assume a linear increase in data transfer costs, which is not the case.

We ask market participants to please still include data transfer costs, but show these clearly and separately to other costs. We also ask ElectraLink to provide their view on any changes to data transfer costs, so these estimates can be compared.

Question 6

Is there any reason why Supplier Agent isn't included as an "Affected Stakeholder" in column "B"? Seem to be quite a few questions that would directly affect Supplier Agents e.g. profiling and DCDA

The text has been edited to read 'Supplier and/or Supplier Agent', for clarity.

Question 7

Under operational impacts on suppliers there is a section on profiling costs. Can you clarify what supplier costs are expected on suppliers as we're expecting this to be largely supplier agent and central system costs.

As explained in question 7 above, questions looking to gather information on supplier costs are also looking to gather information on supplier agent costs, so question 2.01 would largely refer to supplier agent costs. We are also of course interested in any potential impacts on suppliers related to profiling.

Question 8

There is no supplier cost category for managing read exceptions. This cost was captured within the Nexus RFI and would be prudent to include here. It may be helpful to do wider cross-referencing exercise with the Nexus RFI for any items that map across here.

We ask that potential costs for managing read exceptions are submitted under question 2.06, which is intended to capture all operational impacts not captured by questions 2.01-2.05. We would be interested to gather evidence from you on the expected scale and materiality of these costs, and whether they can be directly attributed to settlement reform.

Please also (if possible) make the distinction in your estimates between direct costs to the supplier for managing read exceptions and the indirect costs of paying for DC/DA services for this. This is to avoid double counting of potential costs.

Question 9

We're assuming the costs for residential smart metering communication is covered under DCC costs. What should we assume for small non-domestic customers (PC 3-4)?

If you consider that you are likely to have non-domestic meters which are not enrolled with the DCC, and that there are likely to be incremental communications costs as a result of half-hourly settlement, then please include these (as part of your DC/DA costs in answer to question 2.02). Please note that we will not include communications costs which you are already incurring, so we are looking for your justification as to why these incremental communications costs should or shouldn't be attributed to settlement reform.

Question 10

Should supplier costs also take into account supplier agent costs? (1.01-1.0)

Yes these should be included. Where these costs are separable, please provide these estimates as separate figures.

Question 11

Are you asking for costs by meter point, as a single customer may have many meter points? (1.01)

Either units are okay to be used, as long as it is clear what is being presented. Please indicate how one figure might translate into another.

Question 12

Question 1.02 asks about economies of scale in relation to IT requirements. Can you please expand upon this question as the assumption given in the introduction assumes all PC1-4 customers will move to HH settlements? (1.02)

'Economies of scale' in this question refers to potential per customer/meter point cost reductions for a supplier from increasing the number of customers in their portfolio, rather than an increase in the scope of customers covered by HHS. We are interested to know if there are differences in costs for IT upgrades for different sizes of supplier.

Question 13

Should suppliers assume that they will need to maintain NHH systems / agents /processes to take into account the hopefully small volume of customers that will not have a smart meter and to support Unmetered Supplies? (1.02)

Yes, respondents should assume that some process still remains for settlement of consumers without smart meters. This exact process will be developed through the Target operating Model work, so is as yet uncertain.

Question 14

What sort of implementation should suppliers assume the HH TOM will deliver (big bang / phased etc.)? This may have impacts on costs and an assumption would align responses (1.03)

Our work on the Business Case so far has produced a long list of options for mandatory HHS which we have begun to narrow down to a short list of options through a qualitative process, which we will then subject to cost benefit assessment. These options include various options for implementation, which at present remain open until we know more about the Target Operating Model.

At this stage we have however indicated that a phased approach to implementation is likely to be preferable, considering the risks of a 'big bang' approach. We ask that suppliers assume a phased approach to implementation in their responses, unless they can provide evidence as to why a 'big bang' approach would be preferable.

Question 15

Can you please expand on question 1.04? (1.04)

This question seeks to ensure that the difference between IT system upgrade costs that are attributable to settlement reform and IT system upgrade costs that are business as usual (or simply not attributable to settlement reform) is clear. Where costs are attributed to settlement reform, we ask that stakeholders provide a clear justification and rationale for this.

The question is seeking evidence on these costs not just from suppliers and supplier agents but also from other stakeholders, to help with triangulation and interrogation of these costs.

Question 16

Can you please clarify question 2.05, particularly in relation to the 'requirements'? Does this relate to comms frequency? (2.05)

Yes – this relates to the requirement on suppliers to maintain meters with communications suitable to collect half-hourly consumption data for settlement. As noted in the guidance, our initial view is that it is the smart meter rollout that drives this requirement rather than half-hourly settlement, so we anticipate that costs won't be attributable to settlement reform, although we are seeking your views and evidence on this.

Question 17

For imbalance, should we make any assumptions on whether the volume will be continue to be split across the remaining NHH sites (inc. UMS)? 3.00

BSC Modification P339 introduced new Consumption Component Classes which enabled GSP Group Correction Factor to be applied to small half-hourly sites in measurement classes F and G in the same way that it is applied to non half-hourly sites.

This should be assumed as the baseline by which to answer Question 3.00. The enduring arrangements for GSP Group Correction Factor will be considered through the Target Operating Model design work.

Question 18

Is question 2.06 asking for non-IT costs relating to settlement reform? If so, should it reference section 1 (2.06)

Question 2.06 is asking for any other operational costs not captured by the preceding questions – these can be either IT or non-IT costs. It is intended as a catch-all question to ensure all costs are covered.

Question 19

Do we need to take into account any new industry players such as aggregators? This would require us to build in the reports for customers at a more aggregated level for some customers. (3.02)

We are seeking cost information that can be attributed to settlement reform and the justification/rationale for this. Please only take into account the costs to you of facilitating any new industry players if you can provide justification of how these costs would be incurred and that they can be directly attributed to settlement reform.

Question 20

Does question 6.0 cover any potential costs to the central balancing systems or is it just aimed at organisational changes within the code administrator? (6.00)

This question is intended to cover any impacts on the code administrator, whether that be operational or system impacts.

Question 21

Are there any assumptions we should make about the TOM to support answers 6.00? (6.00, 6.01)

At this stage, please treat the TOM as to be decided. We would encourage respondents to think through their preferred model for the TOM and show evidence of the cost differences for different categories between the models they have considered. This will be useful feedback for the TOM for identifying which options are higher and lower cost.

Question 22

Please confirm if you are looking for a cost impact to the DCC only, or are you looking at supplier costs also? (7.00 -7.03)

This question is specifically aimed at the cost impact on the DCC, but if you have evidence to provide on the impact on suppliers' costs for use of the DCC then we are happy to receive it. This should be provided in question 2.06 which looks at any other operational costs to suppliers and agents not covered in the previous questions.

Question 23

Can you please provide a definition for 'balancing actions' and 'unit costs'? (8.00, 8.01)

We are looking to determine the potential effect of improved data quality for settlement and forecasting on system operation. 'Balancing actions' therefore is intended to capture anything that the System Operator needs to do to maintain electricity transmission system frequency and reliability, which we could reasonably expect to be less if forecasting were to improve as a result of mandatory HHS. The 'unit cost' in this simply refers to the costs that the System Operator incurs for taking these balancing actions - this has been edited to read as simply 'cost' in the spreadsheet for clarity.

Question 24

Should we assume that networks plan to change their tariffs to support new HH combinations for domestic customers and should we assume that current simple tariffs remain for the rump of NHH customers? (9.01)

This is something that will be considered in the Target Operating Model work. For this information request, assume that this is unknown and treat it as an uncertainty.

Question 25

Q4 We are unclear on whether the intention of this question is to draw out whether suppliers would need to inform or educate customers on the settlement arrangements themselves (unlikely), issues concerning data privacy or the development of more innovative Time of Use tariffs? Or all? Some guidance on this question may be worthwhile to support consistent understanding and usable responses.

This question is seeking to gather information on any costs incurred to inform or educate customers that can be attributed to settlement reform. Where this directly relates to explaining changes to the settlement arrangements to customers, we are seeking evidence of why you would incur those costs and what those costs would be. Where these relate to wider education around time of use tariffs and other innovation, we are seeking justification of why these costs could or should be attributed to settlement reform.

As noted in the guidance, costs for such messaging will only be included where there is a well-justified case for their inclusion.

Question 26

Q2.03 Is this question specifically asking about 'Data Transfer Network' activities or costs (under the DTC) or a more general view of data transfer? If it is the later then are we to attempt to consider the costs of managing far more granular data and the potential impacts on our obligations to forecast demand to DCC? Depending on the design of the

settlements reform we would anticipate data transfer to be greatly increased, but some specific guidance on what 'data transfer' is would be useful.

This question is intended to gather information only Data Transfer Network activities or costs. For more general data transfer costs, if you feel able to provide evidence of these then please do so under Q2.06, along with an explanation of what these costs refer to and the justification for attributing these to settlement reform.

Question 27

When answering the RFI, do we assume:

- *Ofgem Switching reforms have been implemented? Yes, please assume that.*
- *SMETS1 meters have been adopted by DCC (as is assumed under Ofgem Switching reforms)? Yes, please assume that as that is the policy intent.*
- *Exports are settled HH? Yes, please assume that export is settled half-hourly. The Target Operating Model work will be considering the implications of developing half-hourly settlement arrangements for export, which will also be dependent in part on Government policy development in this area. We would also be interested to receive any evidence from you on the potential costs of settling export, to inform this work.*

Question 28 and 29

Q2.05 We are unclear as to what this question is attempting to establish. The provision of communications lies with the DCC and the way in which SMETS devices are maintained is covered in the SEC. It is the DCC, not the Supplier, who holds the influence. A question asked specifically to DCC of HH data and communications could be worthwhile in this regard.

Alternatively, is this question looking at the impacts on maintaining genuine HH metering i.e. 100kW as opposed to SMETS? We understand Ofgem intent, to date, has been to leave the existing HH market untouched by the reforms. More clarity on this question and its intent would be appreciated.

This question relates to the requirement on suppliers to maintain meters with communications suitable to collect half-hourly consumption data for settlement. As noted in the guidance, our initial view is that it is the smart meter rollout that drives this requirement rather than half-hourly settlement, so we anticipate that costs won't be attributable to settlement reform, although we are seeking your views and evidence on this.

Question 30

Though SMETS meters can record HH interval data, the wider DCC solution has not considered HHS. We note question 7 is targeted towards DCC impacts but given that, as a Supplier, our most significant interface is DCC; we suggest that a specific question(s) is added to tease out the potential supplier impacts of revising the DCC solution. Such a question may not result in any concrete responses from stakeholders, but it may at least better identify a significant and costly issue at an early point in the process. If a question cannot be raised, then it would at least be worthwhile to reference DCC in the guidance on answering questions (column F) concerning Supplier IT Systems (Question 1).

We would prefer if the potential supplier impacts of revising the DCC solution were included under the IT system costs in question 1. A note has been added to the guidance making specific reference to the potential supplier impacts of revising the DCC solution.

Question 31

Q1.04 In our view, the DCC solution should become BAU when the systems and processes are stable and working 'as normal'. Could Ofgem please provide guidance on what constitutes BAU activities in the context of this question and in the face of multiple transformation projects occurring in parallel?

We are interested in the additional/incremental costs of settlement reform. We appreciate that the baseline BAU is changing and may continue to do so, but ask that respondents seek to isolate costs and impacts (including on the DCC) that can be attributed to settlement reform and provide evidence on these. If it isn't possible to isolate these impacts given potential overlaps with other changes, please explain this in your responses.

Question 32 and 33

Does "Half-hourly settlement is mandated for all consumers with advanced and smart meters" mean that consumers no longer have to opt-in to provide HH data?

Should we assume that suppliers have full access to HH data of all customers for the purposes of this RFI i.e. no need to build additional systems for the purposes of keeping track of opt in / out customer data (1.01-1.0).

We are working to identify options to address the data access issue which are compatible with relevant data protection regulations, include appropriate consumer safeguards, and can be practically implemented without imposing disproportionate costs or complexity on industry. For the purposes of this Information Request, please provide cost estimates against each of the questions independent of the way forward that is taken on data access. If this means your cost estimates are subject to uncertainty and may vary, please explain this in your answer.

We will be gathering evidence on costs and benefits of approaches for access to half-hourly data for settlement purposes as part of our policy development. We are considering access to data for settlement purposes only.

Question 34

Please confirm which 'Outline options' you are referring to? (3.00, 7.03)

This refers to options that we are developing to structure our Business Case. These options will be refined over time as we get more information from stakeholders and from the Target Operating Model work. For now, as these options develop, please assume just one 'option' – the high-level outline set out in cell C7 of the Introduction tab.