

Feedback Form

Once completed, please send this form to HalfHourlySettlement@ofgem.gov.uk by 1 September 2017.

Organisation: SSE Energy Supply Limited

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Is your feedback confidential?

YES

NO

Q1.

Do you agree with our proposal to opt for *SCR Option 3: Ofgem leads an end-to-end SCR process, as outlined on pages 5-6 of the Launch Statement?*

We do not object to Option 3 for managing this SCR. This option may provide Ofgem with the necessary oversight to drive the development, decision and implementation plans for the various industry code arrangements to be consistent and aligned. In particular, it may mitigate the risk that modifications (and potentially licence code changes) are developed separately, which could result in divergent solutions, inefficiencies and avoidable cost to the energy bill payer.

Option 3 does nevertheless carry a separate set of risks that we believe will need to be actively managed. The existing industry code processes may not lend themselves to complex cross-code development, but they do provide a robust and transparent process for the industry to develop and impact assess all levels of process design. Furthermore, a key responsibility of industry code panels is to decide or recommend an implementation date that balances the benefits of bringing in a change with the risk of creating market instability due to companies having insufficient time to robustly implement change. Noting Option 3 provides Ofgem with flexibility on whether to develop their own working groups or utilise 'standard industry processes', we would encourage Ofgem to consider how these effective aspects of standard industry processes would be replicated *if* Ofgem decides to manage the process 'in house'.

Whilst we welcome the opportunity to have bilateral discussions with Ofgem, we suggest a full, inclusive and transparent development of solutions, implementation strategy (including lead times) is necessary for the right outcome to be achieved for the market and consumers.

Q2.

Do you agree with our proposed governance model for the Target Operating Model, outlined on pages 6-8 of the Launch Statement and detailed in Appendix 2A? This includes the Terms of Reference for the DWG and DAB in Appendices 2C and 2D.

The overall governance model appears robust in terms of roles and responsibilities for developing the TOM itself, albeit 9 scheduled DWG meetings feels ambitious. We note the other workstreams, in particular the policy options (including potential centralisation of agents) and consumer protection, appear out of scope for the DWG and will instead be fed into the DWG iteratively. There appears to be the intention for the DWG to develop various skeleton TOMs based on different policy options (e.g. data access), as opposed to alternative TOMs based on different ways of achieving the same outcome. Whilst we recognise developing and assessing alternative TOMs may help justify policy change, there is a risk that without a clear early steer on certain policy issues the DWG will develop TOMs that cannot be progressed. For example, the settlement processes and transitional arrangements will be significantly different in a world where all consumers must provide HH interval data compared to one where customers are able to continually opt-in/ out of providing HH data. Furthermore, Ofgem's view on issues such as 15 minute Imbalance Settlement Periods, as raised in Elexon's paper, would also be useful early in the TOM process.

Related to the issue of early policy intent is the way in which these other policy issues will be developed. We understand that these other workstreams will not be assessed via expert working groups but instead within Ofgem with some bilateral discussions with energy companies. Holding multiple workstreams of every single issue would be a significant overhead for the industry but we question whether restricting the governance model to the DWG (for the TOM) takes things too far in the other direction. We are seeking the maximum level of transparency to promote debate and understanding of the policy outcomes.

We note Ofgem are seeking to engaged stakeholders outside of the DWG and DA, "*to provide the opportunity for wider stakeholder input into the design work.*" We welcome this and recognise it may be particularly useful to ensure smaller organisations can be involved without committing resource to fully engage with these groups, in particular the DWG. We would urge Ofgem to ensure there is enough space at the table to enable all organisations with the will and expertise to be afforded the opportunity to be at the DWG. We do not believe their engagement outside of meetings can substitute being 'in the room' when debate and recommendations are made.

We recognise the Ofgem SCR launch statements and associated documents do not go into detail on the membership of the DWG, but would like to reiterate earlier calls for DCC involvement throughout. The settlement architecture needs to be cognisant of the DCC architecture including its existing capability, limitations and the potential costs for developing change.

Detailed points:

Appendix 2C: Design Working Group Terms of Reference

- 2.7 'DWG will escalate but only where there is evidence and rationale, should this not be rationale and where possible, evidence?
- Spelling mistake 3.1. 'January 2018'

Q3.

Do you agree with the Target Operating Model Design Principles, set out in Appendix 2B?

SSE broadly agrees with the TOM Design Principles and notes the detailed design principles are a continuation of the Policy Scope of the November 2016 consultation. We remain interested in further understanding the level to which mandatory Half Hourly Settlement will be leveraged to both incentivise suppliers to encourage customers to shift their load whilst minimising distributional impacts. The CEPA report (May 2016) concerning distributional impacts indicated a very low uptake of Time of Use tariffs (around 8%) and highlighted potential concerns across the spectrum of socioeconomic groups. Ofgem note it is a strategic objective of the TOM to create conditions that incentive Suppliers to encourage customers to shift their load, but in order for the DAB and DWG to meet this objective we believe there will need to be further assessment of what conditions, outside of settlements arrangements, will be necessary to equitably manage these distributional impacts. The scope of Design Principles is understandably focused on settlements arrangements but a joined up approach considering the wider retail market seems necessary if mandatory half hourly settlements is going to deliver Ofgem's policy ambition and deliver value to the market.