

Jenny Banks & Anna Stacey
Settlement Reform
Ofgem
9 Millbank
London
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3 September 2018

By email: half-hourlysettlement@ofgem.gov.uk

Dear Jenny & Anna,

RE: Access to half-hourly electricity data for settlement purposes

Ofgem's outline business case¹ states that "the scale of benefits from market-wide settlement reform will depend on the levels of data available for settlement".

Therefore the policy decision taken on data access for settlement purposes, along with the penetration of smart meters, will materially impact the scale of the benefits of market-wide settlement reform and the cost and timelines of implementation.

While the final case for market-wide half hourly settlement is still to be made, we welcome this consultation as an opportunity to discuss the critical role of data access in settlement reform.

Processing settlement data is a regulatory requirement and we support mandatory access to half hourly data for settlement purposes. Operating multiple consent regimes, potentially with additional anonymising processes, would add unnecessary complexity for both consumer and industry. And would come at a cost which will ultimately fall on consumer bills.

We recommend that Ofgem considers whether the costs of operating multiple customer consent regimes are proportionate or appropriate for the consumer and the supplier. We would support taking a holistic approach to capturing customer consent for HH data and see a need to review the smart data access framework in parallel with this work.

Ofgem's policy decision on data access will likely result in supplier agents having to make system changes to process data that they do not have customers' permission to access. Increased costs being placed upon supplier agents may add to the case for the centralisation of supplier agents.

1

https://www.ofgem.gov.uk/system/files/docs/2018/08/marketwide_settlement_reform_outline_business_case.pdf

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Access to data for settlement purposes

Centrica disagrees with Ofgem's view that an opt out regime for settlement data will deliver optimal benefits to consumers. We believe that mandatory processing of half-hourly data for settlement purposes, hereby referred to as 'mandatory', will provide a cost reflective and level playing field and facilitate competition to deliver attractive propositions to consumers.

- Settlement is a regulatory requirement. Access to this data for settlement purposes is an appropriate and proportionate use of data.
- Mandatory will ensure that the maximum amount of available smart meter data enters settlement. A greater level of data will deliver a more accurate and cost reflective settlement process.
- Mandatory will prevent 'gaming' by suppliers to avoid cost-reflective charging when it results in a negative financial impact. Customers may opt out or be opted out of HHS to avoid a cost that is reflective of their usage. Cost-reflectivity may lead to higher bills – provided their supplier passes these costs through to the customer. When a customer opts out of HHS to avoid higher bills, their 'true costs' are subsidised by other consumers.
- Creating a second consent regime for an industry process that most consumers are not aware of, and one that does not impact them directly, will be confusing for the customer and very challenging for suppliers to manage and explain.

Ofgem's business case estimates the benefit of market wide settlement reform as between £1.8bn and £5.4bn. We would strongly recommend that Ofgem undertake analysis that sets out how much of this benefit is lost in an opt out regime, considering the additional implementation costs and the incentive for excessively high users to opt-out, or be opted out, of cost reflective charges.

We do not believe that anonymisation or hidden identity adds any value. Developing enhanced privacy processes adds significant cost with no benefit to the consumer.

In our view the Smart Metering Data Access and Privacy Framework (DAPF) should support mandatory access to half-hourly data for settlement purposes as settlement is a regulatory requirement. We look forward to seeing the outputs of the BEIS review of the DAPF later this year which may remove any ambiguity on this question.

Our answers to the specific questions in the Ofgem consultation are included in the annex to this letter.

If you have questions, please contact Tabish Khan in the first instance on 07789 575 655 or Tabish.khan@centrica.com.

Yours sincerely

Alun Rees
Director, Retail Market Policy
Centrica

Annex: Centrica answers to the questions within the consultation

Question 1: What are your views on Ofgem’s assessment of the implications of the options we have set out for access to HH electricity consumption data for settlement?

Ofgem’s outline business case emphasises that access to data for settlement has significant implications on both the cost and benefits case. We therefore agree that it is important to discuss options.

We strongly believe it is important to design a settlement regime that works in the interest of most customers. We consider mandatory to be the most effective option and anonymisation/hidden identity to be unnecessary and disproportionate.

Question 2: Do you agree with Ofgem’s current view that the best balance could be achieved by a legal obligation to process HH electricity consumption data for settlement provided the consumer has not opted out, and if so, why? If you have a different view, please explain which option you would prefer and the reasons for this.

No, we do not support an opt-out regime. Centrica considers mandatory to be the most appropriate option and one that will deliver the largest benefit to customers and industry.

As set out in our covering letter mandatory will prevent ‘gaming’, is the most cost-effective regime for industry and consumers, and will facilitate the delivery of the full benefits of settlement reform.

While we recognise Ofgem’s concerns around data privacy, we do not consider this to be an issue where data is used for settlement. The Government response to the DAPF noted that “by far and away the dominant concern from domestic consumers was that personal information would be used as a source of leads for marketing approaches”. Given that settlement data may not be used for marketing we do not consider it to be a risk or a cause for consumer concern. It is not cost effective to create a consent regime for a regulatory requirement where there is no risk to the consumer.

Furthermore, in our view opt in and opt out are sub-optimal solutions.

Opt in

We strongly believe that an opt in regime is not an appropriate solution.

We disagree with Ofgem's view that "a majority of consumers would consent to sharing their HH data for settlement." Most customers are unaware of electricity settlement, and would have very little interest if they were aware of it.

In contrast, customers providing access to half-hourly data to their supplier for smart metering can see tangible outcomes including Smart reports and Time of Use tariffs, both of which can have financial benefits for the customer.

In isolation from the smart metering benefits, there is no obvious direct benefit for customers from allowing their half-hourly data to be used for settlement purposes. As Ofgem acknowledges in its consultation, "the benefits of HHS may be indirect ... Indirect benefits are likely to accrue in the medium to long term and be shared across all consumers".

Behavioural economics has shown that customers tend to take the default option and we believe a similar effect will be observed for settlement data access. Convincing customers of the benefits of half-hourly settlement will be very difficult, given the complexity of explaining the settlement process. We consider opt-in will result in very few customers having their data half-hourly settled.

Ofgem has set out significant downsides, in terms of unrealised benefits and increased costs, if a sizable proportion of HH electricity consumption data is not available for settlement². On this basis, an opt in regime is not the appropriate solution.

Opt out

We agree with Ofgem that an opt out regime will result in more customers being half-hourly settled than opt in. In our view, those that opt-out will be of two kinds:

1. Customers who do not understand what half-hourly settlement is and opt out 'just to be safe'.
 - These customers will have legitimate concerns around access to data and will not be comfortable sharing data with an industry process that they do not understand.
2. Suppliers who recognise that having certain customers half-hourly settled will negatively impact them financially and choose to opt out these customers to avoid an increase in wholesale and industry charges.
 - These suppliers understand that opting out will benefit them. Henceforth we shall refer to this process as 'gaming'.

² Paragraph 3.15 in Ofgem's consultation.

We understand and have sympathy for those customers who are uncomfortable with data being used in a process that they do not understand, but we have strong concerns around suppliers who seek to game the system.

We believe that the number of customers who would opt-out would be a minority, but the detrimental impact of gaming could be material. The aim of half-hourly settlement is that all customers should face cost-reflective charges and giving suppliers the option to side-step this cost pass through should not be encouraged.

No customer risks have been identified on the use of half-hourly data for settlement purposes so it seems inappropriate to design a costly and complex consent regime that will only benefit gamers. We believe that settlement is a mandatory requirement and setting up an opt-in or opt-out process adds unnecessary cost and complexity on operations.

The running of another consent regime is also likely to be very confusing for the consumer. It is unclear how customers will know they have been opted out of HHS and implications of doing so.

We oppose any requirement on suppliers to notify customers that their data will be used for half-hourly settlement. Most customers will not be familiar with settlement and writing to them on this topic is likely to result in significant customer confusion.

Question 3: There is a risk that consumers who use particularly high volumes of electricity at peak could choose not to be HH settled and therefore disproportionately increase energy system costs, which would then be shared by all consumers. Do you have any views on whether or how we should address this issue?

We agree that high peak consuming customers could opt out of HHS, or be opted out by their supplier, and therefore be cross subsidised by all other customers. As set out in our covering letter and answer to question 2, we believe this risk is reduced by adopting a mandatory data access regime. We do not believe that setting up and maintaining a settlement consent regime specifically for these customers is value for money.

Question 4: What are your views on the potential enhanced privacy options?

We do not support either of the enhanced privacy options:

- The data will not be truly anonymised as it will need to be validated first. Given that this is not true anonymisation, the benefits of anonymisation are negated.
- Appointing a new centralised body to anonymise data adds cost and complexity to the meter reading process. This cost will be borne by suppliers and all

customers, and there is no clear business case that anonymisation can deliver commensurate benefits.

- A new central body adds another hand off in the process where data quality issues may be introduced and another entity whose failure adds risks to the industry and accuracy in customer reads. There is no evidence to suggest these risks are acceptable given the limited benefit of anonymisation.

We can only see a reason of adopting anonymisation or hidden identity if it's used alongside an opt in or opt out regime for those customers who have chosen not to share their half-hourly data with settlement.

However, as detailed in Question 2, we do not support opt in or opt out. Settlement is a regulatory requirement. In our view the addition of anonymisation does not counteract the downsides of an opt in regime, and for opt out, introducing a costly anonymization process for a small number of consumers would not be fair on the many customers who would have to bear a proportion of these costs.

Question 5: If we decided to further consider the hidden identity option, do you think data from all consumers should be pseudonymised or only data from consumers who have not chosen to share their HH data for settlement?

As stated above, only customers who are not sharing their data for settlement should have their data pseudonymised, otherwise it is a costly and unhelpful layer of 'protection' with no benefit to the participating consumer.

Question 6: Please provide any information you can about the likely costs and benefits of these enhanced privacy options.

Any market wide settlement solution is likely to have significant system and operational costs for Centrica. We expect additional cost and complexity in operating a separate consent regime for settlement, especially when most customers will have no knowledge or interest in an industry process that does not impact them directly. Given settlement is a regulatory requirement, the cost and complexity of consent for settlement purposes is disproportionate.

Introducing anonymization or hidden identity will likely result in the procurement of a third party to carry out the anonymization and this will certainly lead to significant costs that will ultimately be passed back to customers.

If Ofgem decides to adopt an enhanced privacy option, we would expect a full cost benefit case for this action that stands alongside and separately from the market wide settlement reform business case. It is important that any additional service introduced can justify its costs with the benefits that will be delivered to customers.

The enhanced privacy options would only be relevant for a small number of customers; however, the costs would be recovered across all customers. As we note above, some of these opt-out customers are likely to be knowingly avoiding cost reflective charges (and be subsidised by consenting customers). Paying for the cost of opt-out privacy is an unfair charge borne by customers who consent to cost reflective settlement.

Question 7: Do you think that there should be a legal obligation to process HH data from all smart and advance metered microbusiness customers for settlement purposes only? If you disagree, please explain why.

Yes, we agree with Ofgem that the privacy risks for microbusiness are less than those for domestic customers. Therefore, we support Ofgem's stance of mandating half-hourly microbusiness metering data being entered into settlement.

Question 8: Are there any issues relating to access to data from microbusinesses that you think Ofgem should be aware of?

We are not aware of any issues relating to access to data from microbusinesses.

Question 9: We propose that domestic and microbusiness consumers retain the level of control over sharing their HH electricity consumption data that was communicated to them at the point at which they accepted a smart or advanced meter, until the point at which the consumer decides to change electricity contract. Do you agree this is the best approach?

While this does appear a pragmatic solution, it would be hasty to make this decision before there is a plan for implementation of market wide HHS.

We believe that it is better to wait until a method of implementation has been agreed before deciding the most cost-effective way to transition customers to HHS, whether this is at the end of a customer's contract or during the contract term.

- Implementation of market wide HHS may be simpler if all customers can be moved over to HHS at once or with a phased approach.
- The Ofgem proposal may mean some customers, who already have a smart meter, experience a delay in receiving the benefits of being half-hourly settled which would be unfair to those customers.
- If the use of data for settlement purposes falls within contractual terms, then as long as any change to terms is made clear to customers, it would negate the need to wait until a customer's contract ends.

Question 10: What are your views on Ofgem’s proposal to make aggregated HH electricity consumption data broken down by supplier, GSP group, and metering system categorisation available for forecasting?

We agree with Ofgem’s proposals to make aggregated half-hourly consumption of their customers’ usage available to suppliers for demand forecasting use.

We recognise Ofgem’s concerns that some customers may be identifiable for remote GSP groups but only consider this a low risk from the very smallest suppliers, in terms of customer numbers.

Protections may be needed to negate this risk among smaller suppliers but we do not consider an issue for a company like Centrica that has a large portfolio of customers.

Question 11: Is there any additional data beyond this aggregated data that you consider suppliers will need for forecasting?

The following aggregated data would help suppliers to forecast usage:

- Customer profiles – the current profile classes would no longer exist if all customers are half-hourly settled. But there may be a new classification of types of customers based on their usage patterns. These new ‘profiles’ would help suppliers predict what customers will use and when. The profiling expert group could take on the task of setting up new categorisations.
- Type of tariff – tariffs could be split between ‘standard’ and time of use tariffs, and if there are significant variances between types of time of use tariffs then there could be sub-categories of time of use tariffs.
- Generation equipment at household – including solar panels, heat pumps and electric vehicles.

Question 12: Our analysis suggests that HH export data reveals less about a consumer and is therefore likely to be of less concern to consumers than HH electricity consumption data. Do you agree?

We agree that export data reveals less about a consumer and therefore this data should be used for half-hourly settlement. Therefore, we consider it acceptable for all export data to be entered into half-hourly settlement.

Question 13: Do you consider that any additional regulatory clarity may be needed with respect to the legal basis for processing HH export data from smart and advanced meters for settlement?

It is always useful to have regulatory clarity on difficult issues where possible. Therefore, we consider it helpful if regulatory and legal clarity can be provided on how export data is settled.

Question 14: Do you have any thoughts on the monitoring/auditing environment for the use of HH data for settlement purposes?

The monitoring / auditing environment appears pragmatic to us.

Question 15: Do you have any additional thoughts or questions about the content of the DPIA?

We have no additional thoughts on the DPIA