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Settlement Reform: Supplier agent functions – proposed approach

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, coal and gas-fired electricity generation, renewables, storage, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including residential and business users.

EDF Energy welcomes the opportunity to respond to Ofgem's consultation on supplier agents functions in regards to settlement reform. We agree with the conclusion that there is no clear evidence that Ofgem should pursue a policy of centralisation of the functions currently undertaken by supplier agents.

While we agree that supplier agent functions do not need to be centralised, a competitive model does not mean that market-wide half-hourly settlement should be based on the status quo. The current supplier agent model, based on functionally separate agent roles that are separated from, but appointed by and operate for, suppliers, was probably suitable when the competitive market opened in 1998. We do not believe that this remains the case. The processes to be followed, and the resulting outcomes, need to be tightly governed to protect the integrity of the settlement process. However, suppliers should have the flexibility to implement those processes and deliver those outcomes in way that suits their individual businesses; there may not be a 'one size fits all' approach for all suppliers.

Centralisation of data or access to data, rather than of agent functions, may be beneficial to the delivery of market-wide half-hourly settlement. The data used in the settlement process is currently dispersed across a variety of repositories, and is frequently communicated unnecessarily. Ofgem could reduce the number of places that data needs to be held, while granting appropriate access to that data, without centralising the agent functions themselves.

We agree that there is no compelling reason to retain data aggregation as a separate function outside of the central settlement systems. However, the current data aggregation agents, and specifically the data that they hold, support suppliers who actively manage their settlement performance. Should the decision be taken to remove aggregation as a separate function it will need to be ensured that suppliers, and other

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parties, have the same reporting capabilities and access to data that is currently provided by that function.

Our detailed responses are set out in the attachment to this letter. Should you wish to discuss any of the issues raised in our response or have any queries, please contact Paul Saker on 07875 110937, or myself.

I confirm that this letter and its attachment may be published on Ofgem's website.

Yours sincerely,

Paul Delamare
Head of Customers Policy and Regulation

Attachment

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EDF Energy's response to your questions

Chapter 2: Analysis

Q1: Do you have any comments on our updated analysis and thinking?

We broadly agree with Ofgem's updated analysis and the conclusions that have been reached.

Taking each of the areas of analysis in turn:

Data Quality
Data quality is critical to an accurate and efficient settlement process. We agree that there is no clear evidence that implementing a central agent would lead to better data quality, relative to a competitive model.

We agree that smart metering and the Data Communications Company (DCC) have the potential to support better management of data quality. This improvement is, however, reliant on implementing processes that are optimised to maintain data quality. Currently, smart meters are being managed using the same processes and data flows as traditional metering; this is likely to lead to many of the same data quality issues arising over time.

While we agree that agent functions should not be centralised, consideration should be given to more centralisation of data. When it comes to data there should be one version of the truth, made readily accessible to those that need it. As an example, metering data should be mastered by meter operators, who can then provide access to that data to other parties. Consideration could even be given to something like a single register of metering data, maintained by multiple meter operators and made accessible to suppliers, network operators and other parties.

Hand-offs
While data hand-offs are an issue in current processes, we agree that centralisation is not the only answer. Many of the issues that arise in current processes are as result of the need to send data between parties on data flows. Agents are usually reliant on another party to send them the data they need, and often don't receive updated information.

Even when data is sent, there are often inconsistent interpretations of the rules that are applied to these communications. Issues with hand-offs are usually lower where the sending and reiving party are part of the same organisation (for example Data Collection

and Meter Operations undertaken by the same company), as they will have an agreed interpretation of data formats.

A competitive model where agents are able to access the data they need rather than being reliant on it being sent, supported by strict data governance, would eliminate many of these problems.

Settlement Performance

We believe that settlement performance is an area of differentiation between supplier agents. Settlement performance is a function of not only successful data retrieval, but active management of data and timely resolution of exceptions. As a supplier we have previously changed our appointed Non Half Hourly Data Collectors in order to improve our settlement performance. In our case we took these functions 'in house' as we felt this enabled better management of the end to end processing of data.

The ability for supplier agents to differentiate themselves based on settlement performance may change depending on the design of the Target Operating Model for half-hourly settlement. Processes that minimise the number of exceptions that are likely to arise in the first place will help to ensure that all parties are able to achieve excellent settlement performance in a cost effective way.

Economies of scale

We agree with Ofgem's analysis that any economies of scale that are likely to arise as a result of a central agent are unlikely to be significant, if they materialise at all. There is certainly insufficient evidence that the potential for cost reduction in this area is outweighed by the significant risks posed in other areas, such as the lack of competitive pressure.

Value-added services

We agree that value added services provided by supplier agents are unlikely to be associated directly with the data collection and data processing functions required for settlement.

Implementing Industry Changes

It is not clear that the costs of implementing industry changes would be lower were there to be a central agent. As noted there is no competitive pressure on that agent to minimise costs. Our recent experience of costs incurred as a result of a central agent (DCC) is that they are higher than expected, and are in fact creating a barrier to change.

It is also worth noting that the feedback provided is largely based on the way changes are made under the current technical architecture. It is vital that any solution for market-wide half-hourly settlement is implemented on a platform that enables changes to be made quickly, and at the lowest possible cost.

Chapter 3: Our proposed position

Q2: Do you agree with our proposed position? If not, please explain why.

We agree with the proposed position that Ofgem's work on market-wide settlement reform should not include centralisation of agent functions. No clear evidence has been provided that centralisation would lead to lower costs, or to better outcomes, than a competitive model.

The decision not to implement a central agent should not mean that we replicate the current status quo when delivering market-wide half-hourly settlement. A competitive model need not mean retaining agent functions (such as data processing) as ring fenced activities. Different suppliers have different business models; any future arrangements should provide suppliers with the flexibility to procure and deliver the services required for half-hourly settlement in the most efficient manner for them, while ensuring that the outputs can be assured as accurate.

Q3: Do you consider that settlement data will still need to be aggregated for submission into central settlement systems in future? In light of this, do you consider that a data aggregation role is required?

There is no settlement related reason that data would still need to be aggregated prior to submission into central settlement systems in the future.

Data aggregation is currently undertaken using strict rules, and in many cases using the same NHHDA software provided by Elexon. There is no added value to be gained from the act of aggregating data, and no reason that suppliers would need to retain this function in the future.

However, the other capability that data aggregation currently provides is reporting and performance management. Most suppliers use the data held in the current data aggregation systems to monitor and manage their settlement performance. Reporting against the data in the data aggregation systems enables them to see which metering points are settling on actual consumption data (and what that actual data is), and also where there are exceptions that will result in estimated data being entered into settlement.

Monitoring this data, especially before it is used in settlement runs, allows corrective action to be targeted at those cases which will have the most material impact on settlement. Suppliers are also able to use the settlement data held in aggregation systems for forecasting purposes.

Should data no longer be aggregated on a de-centralised basis, suppliers will need to have access to a reporting and monitoring capability that enables them provides them with the same level of data access.

Q4: Do you agree with our consideration of our proposed position against our assessment principles?

We agree with the consideration of the proposed position against Ofgem's assessment principles.

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