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Sent by email to: halfhourlysettlement@ofgem.gov.uk

Dear Anna,

Electricity retail market-wide half-hourly settlement (MHHS): consultation

Centrica is a business focused on delivering the net zero energy transition. We are ready to support a green recovery that works for both consumers and businesses.

Centrica supports the changes that will enable customers to transition to a low carbon future. A future where customers, both those with smart homes and electric vehicles (EVs) and those without, may take advantage of innovative new propositions such as dynamic time of use tariffs tailored to their unique energy and services needs. Half-hourly settlement is one enabler of this future.

Centrica supports the rationale for implementing MHHS. We support the principle of cost reflectivity, and that demand reduction and demand shifting can deliver significant benefits to end consumers and help them transition to a low carbon future.

It is important that MHHS is implemented at a time when customers can take advantage of the potential benefits that MHHS will enable, while balancing this with a realistic implementation timeframe.

We are largely supportive of Ofgem's proposals for implementing MHHS and agree that the proposed four-year implementation timeline is realistic. We fully support Ofgem's decision to account for the COVID-19 related delays and ensure that MHHS retains a 4-year implementation and transition period starting from 2021¹.

However, we have two significant concerns with the current MHHS proposals:

¹ Confirmed at Ofgem's online event on 22 July: <https://www.ofgem.gov.uk/publications-and-updates/settlement-reform-online-event-22-july-2020>

- **Lessons learned:** It is vital that we learn from and improve upon similar large-scale programmes such as Project Nexus, half-hourly settlement for profile classes 5-8 and Faster and more reliable switching (FMRS).
- **Data access:** We strongly consider half-hourly data should be entered into settlement on a mandatory basis, as it delivers the largest customer benefit and the smoothest customer journey.

We are grateful that we had the opportunity to raise these issues on a call with Ofgem before submitting this response. We intend to continue our productive engagement with Ofgem and wider industry in delivering MHHS.

Lessons learned

Ofgem should conduct an analysis of what worked well in other programmes, similar to MHHS, and where in hindsight the processes may have been improved – namely for Project Nexus, the migration of all profile class 5-8 meters to half-hourly settlement - often referred to as P272, and faster and more reliable switching (FMRS). Examples of improvements include:

- A clear left to right plan with appropriate governance to keep the critical path under review and re-programme where necessary. Adhering to unrealistic timelines that are unlikely to be met can lead to increased pressure and costs on suppliers - we have seen this impact in both Nexus and FMRS. We recognise that even a well-planned programme may slip, and it's important to acknowledge delays early and re-plan accordingly.
- Clear consensus across all impacted industry parties. In P272 we saw disagreements between network operators and suppliers on how communication should be cascaded to customers, and this ultimately led to confusion and mistrust among consumers. In FMRS we have seen greater engagement from large suppliers than from smaller suppliers. Lack of consensus may be mitigated through early buy in from all impacted stakeholders.

Lessons learned from these programmes should be used to ensure that MHHS improves upon previous programmes, and that project governance and implementation for MHHS is conducted as effectively as possible.

We recognise Ofgem's concern that its involvement in FMRS has been resource heavy and it may not be able to dedicate a similar amount of resource to MHHS. However, a balance may be struck with Ofgem outsourcing much of the programme management to a third party while remaining involved in the decision making and consultation process throughout the MHHS programme. Any outsourcing of programme management should be competitively procured to ensure it delivers value for money. The active engagement from Ofgem in the FMRS programme has been welcomed in keeping the project on track and Ofgem should retain an active role in the governance of MHHS.

We propose that Ofgem publish a short paper of lessons learned in early 2021 that includes examples of best practice and areas for improvement from Nexus, P272 and FMRS. This paper should be followed by a consultation that allows other industry parties to contribute their own lessons learned. After consulting Ofgem should publish an output paper that sets out how lessons on good governance from previous programmes will be applied to MHHS, and how MHHS will improve upon the mistakes of previous industry programmes.

Data access

We remain of the view that giving customers the ability to opt out of their half-hourly data being processed into settlement will add complexity to the implementation of MHHS and will erode some of the benefits of the business case.

We ask that Ofgem reconsiders its approach to customer data access. A greater level of data will deliver a more accurate and cost reflective settlement process, will benefit all consumers and presents negligible data privacy concerns.

We strongly consider that mandatory processing of half-hourly data for settlement purposes will provide a cost reflective and level playing field and facilitate competition to deliver attractive propositions to consumers.

Creating a second consent regime, in addition to the consent regime for smart metering, for an industry process that most consumers are not aware of, will be confusing for the customer and challenging for suppliers to manage and explain.

Most customers will be presented with an option to opt-out before they are able to take advantage of MHHS enable products, i.e. before there is the necessary market penetration of EVs, heat pumps and other equipment that would allow customers to take advantage of dynamic tariffs. Further eroding the business case for MHHS. Explaining the outcomes of settlement to customers and asking customers to decide based on future propositions that may or may not apply to them will make this task doubly challenging.

We have set out our answers to Ofgem's specific questions in the appendix of this response.

If you have any questions, please contact me on Tabish.khan@centrica.com or 07789 575 665.

Yours sincerely

Tabish Khan
Centrica Regulatory Affairs, UK & Ireland

Appendix – response to consultation questions

In this Appendix we set out answers to the specific questions asked within Ofgem's consultation document.

Target Operating Model (chapter 3)

1. We propose to introduce MHHS on the basis of the Target Operating Model (TOM) recommended by the Design Working Group (DWG) last year. Do you agree?

Yes.

We are supportive of the detailed work that has been completed by the DWG and the preferred TOM it has arrived at.

We recognise and support the need for a market data service (MDS) and load shaping service (LSS). Furthermore, we agree with Ofgem that supplier agents should be able to offer other competitive services outside of those provided by any central services.

We appreciate that as discussions on the TOM progress, another level of detail will emerge. At such point we reserve the right to make appropriate representations on any further details provided.

2. Ofgem's preferred position is that HH electricity consumption data should be sent to central settlement services in non-aggregated form. Do you agree?

Yes.

We agree with Ofgem that there are cost efficiency, flexibility and data quality cost benefits of centralising the data aggregation function. We agree there is little competition and innovation in the act of data aggregation, as all data aggregators use the same systems.

By having data aggregation centralised we consider that the likelihood of data quality errors and exceptions will decrease due to the fewer hand offs between entities and through having a centrally controlled repository of data rather than several disparate ones.

We agree with Ofgem and Design Working Group (DWG) members that the current system is inefficient by design and support the centralisation of data aggregation.

Ofgem is looking at several ways of implementing centralised data aggregation through the architecture working group (AWG). Our key ask from the AWG is that the solution be cost-effective, secure and transparent.

Settlement timetable (chapter 4)

3. We propose that the Initial Settlement (SF) Run should take place 5-7 working days after the settlement date. Do you agree?

4. We propose that the Final Reconciliation Run (RF) should take place 4 months after the settlement date. Do you agree?

5. We propose that the post-final (DF) settlement run should take place 20 months after the settlement date, with the ratcheted materiality proposals described in chapter 4. Do you agree?

We welcome your views on this proposal, and in particular about its potential impact on financial certainty for Balancing and Settlement Code parties.

Yes.

We agree that all three proposed timescales are appropriate. However, all three should be re-assessed once they have been in place for two years to see if the amount of data received for each run suggests that they remain appropriate. The targets for each run should also be re-assessed based on the roll out of smart meters – i.e. if there are still a larger proportion of traditional meters installed then targets may need to be decreased as getting regular read for these meters will not be possible.

Export-related meter points (chapter 5)

6. We propose to introduce MHHS for both import and export-related MPANs. Do you agree?

Yes.

We consider that many of the benefits attributed to MHHS for import related MPANs also apply to export MPANs. Though the benefits attributed to MHHS are likely to be significantly higher for import MPANs. There would be little additional costs to introducing MHHS to export MPANs for us. Therefore, we agree with Ofgem's proposal to introduce MHHS to both import and export MPANs.

7. We propose that the transition period to the new settlement arrangements should be the same for import and export-related MPANs. Do you agree?

Yes.

There would be cost efficiencies, in terms of system and process changes, in introducing MHHS for both export and import simultaneously.

Transition period (chapter 6)

8. We propose a transition period of approximately 4 years, which at the time of analysis would have been up to the end of 2024. This would comprise an initial 3-year period to develop and test new systems and processes, and then 1 year to migrate meter points to the new arrangements. Do you agree?

We agree that four years is an achievable and realistic timeframe to implement MHHS. While a one-year migration seems reasonable we have concerns that it may not be long enough, and this will not be evident until the initial 3-year development and testing phase is complete.

Therefore, we propose aiming for a 1-year migration period with the recognition that the length of time required for a migration period may change once the development and testing phase is complete. Having this flexibility in place will ensure that the migration period, once it commences, will not be rushed to meet a set deadline.

There should be flexibility in migration for suppliers to prioritise migration of customers who may stand to benefit most from MHHS. I.e. those customers who have expressed an interest in a new proposition enabled by MHHS.

We fully support Ofgem's decision to account for the COVID-19 related delays and ensure that MHHS retains a 4-year implementation and transition period commencing in 2021.

FMRS has also been disrupted by COVID-19 and is therefore likely to take longer to implement than latest published timescales suggest. Our strong preference is that changes to industry and supplier systems on FMRS are complete before changes on supplier systems for MHHS commence. We would not like to see this overlap eat into the 4-year transition period allocated for implementing MHHS.

Any overlap will add complexity and cost to both change programmes and may increase the scope for system and process errors in implementation, which would be to the detriment of consumers.

9. We have set out high-level timings for the main parties required to complete a successful 4-year transition to MHHS. Do you agree? We welcome your views, particularly if your organisation has been identified specifically within the timings.

Ofgem has stated: "suppliers may wish to move advanced meters that are already mostly half-hourly settled to the new arrangements more rapidly. In this instance, we would expect migration and/or adoption to begin as soon as the relevant systems and processes were ready".

We agree this is a route supplier's may wish to take and that this should remain within a supplier's gift to control. Suppliers have different systems and processes, and the flexibility for individual suppliers to manage meter migration as appropriate will ensure an orderly transition for all customers.

Our wider thoughts on the suitability of the timelines are included in our answer to question 8.

10. What impact do you think the ongoing COVID-19 pandemic will have on these timescales?

The COVID-19 pandemic may understandably cause a delay to the MHHS programme. Given that Ofgem must manage short term priorities during these difficult times for customers. It is understandable that Ofgem is "delaying or postponing stakeholder engagement on those activities that [it] consider[s] less time-critical to short term consumer protection and security of supply²".

We fully support Ofgem's decision to delay MHHS and to place a commensurate delay into the timelines of the overall programme.

Both the smart meter rollout and the faster switching programme are both linked to MHHS, as MHHS is dependent on both being implemented to ensure that both the benefits of MHHS are realised and that any major system changes can be implemented respectively.

Any delay to either the smart rollout and faster switching due to COVID-19 may also have knock on impacts that should be reflected in the MHHS timetable.

Data access and privacy (chapter 7)

11. We propose that there should be a legal obligation on the party responsible for settlement to collect data at daily granularity from domestic consumers who have opted out of HH data

² Quoted from MHHS newsletter:

https://www.ofgem.gov.uk/system/files/docs/2020/05/mhhs_newsletter_may_2020.pdf

collection for settlement and forecasting purposes. Do you agree that this is a proportionate approach?

We strongly consider that mandatory processing of half-hourly data for settlement purposes for all customers will provide a cost reflective and level playing field and facilitate competition to deliver attractive propositions to consumers.

Ofgem has correctly identified there needs to be a legal obligation for suppliers to collect daily settlement data. We are proposing that Ofgem go further and place a legal obligation requiring the collection of half-hourly data from all consumers.

Creating a second consent regime, in addition to the consent regime for smart metering, for an industry process that most consumers are not aware of, will be confusing for the customer and challenging for suppliers to manage and explain.

We also have concerns over the difficulty in managing two consent regimes at the point of change of supply and change of tenancy, including a supplier's level of legal risk if this isn't clearly communicated to the new supplier by the old supplier.

Many customers will be presented with an option to opt-out of half-hourly settlement before they are able to take advantage of MHHS enabled products, i.e. before there is the necessary market penetration of EVs, heat pumps and other equipment that would allow customers to take advantage of dynamic tariffs.

Customers who are not yet capable of taking advantage of MHHS enabled propositions may opt for what they deem to be the 'safe choice', by opting out of their data being used in MHHS. If enough customers opt out of providing half-hourly data for settlement purposes, we will see a further erosion of the business case for MHHS. Explaining the outcomes of settlement to customers and asking customers to decide on a consent regime based on future propositions that may or may not apply to them will make this task doubly challenging.

We ask that Ofgem reconsiders its approach to customer data access. A greater level of data will deliver a more accurate and cost reflective settlement process, will benefit all consumers and presents negligible data privacy concerns.

While we agree with a legal obligation for data collection there should be a degree of proportionality attached so that suppliers do not face enforcement action for activities outside of their control, e.g. a communications failure from the meter or the DCC.

12. Existing customers currently have the right to opt out to monthly granularity of data collection. We are seeking evidence about whether it is proportionate to require data to be collected at daily granularity for settlement and forecasting purposes for some or all of these consumers.

As with our answer above we don't consider that customers should have the ability to opt out of data collection and this should be set out in the regulatory framework for MHHS.

Data should be collected from all these customers as frequently as is required to deliver the full benefits of the MHHS impact assessment.

The Ofgem impact assessment³ estimates that the benefits of better matching of supply and demand will reduce balancing costs by £53m. Any reduction in granularity of data collection will decrease this potential benefit. Therefore, as high a granularity of data collection as possible should be implemented as part of MHHS.

13. Should there be a central element to the communication of settlement / forecasting and associated data sharing choices to consumers? For example, this may be a central body hosting a dedicated website or webpage to which suppliers may refer their customers if they want more information. If yes, what should that role be and who should fulfil it?

Yes.

It is important that suppliers have the freedom to tailor messages on data sharing choices to individual customers, and that these messages are also consistent with other messages being sent out by industry participants. To this end we propose that Ofgem should set up a working group to start designing these key messages now so that this can be agreed up front and suppliers can start letting customers know about the benefits of MHHS before its implemented. Therefore, when customers must decide about data access, they will be able to make an informed choice.

Once the key messages to customers have been agreed Ofgem and other consumer facing entities including, Citizens Advice and the Energy Ombudsman, should host these key messages on their websites. This will build trust with consumers and enable them to see that their data sharing choices are part of a wider regulatory programme.

Communicating the benefits of customers agreeing to share their half-hourly data with suppliers and central systems will be vital in ensuring that the full benefits of MHHS may be realised.

Providing half-hourly data for MHHS will allow customers to benefit from innovative propositions such as dynamic time of use tariffs. However, most customers will be unfamiliar with such tariffs and therefore convincing customers of the benefits of giving access to their data may prove difficult without first-hand customer experience. A similar experience has been encountered through the smart metering rollout.

As messages are likely to be sent out a few years from now we consider that most customers at that time will prefer to receive any data access communication online – i.e. via email or a notification on an app. Providing flexibility in communication medium to suppliers will ensure a customer's preferred medium is used to make them aware of the key messages on MHHS.

Online messaging also has the advantages that we can see how many customers have opened the email and clicked on links within it, providing far more insight than may be gained from sending a letter in the post. Online contact will allow suppliers to target those customers that must be contacted again as they haven't received the first communication on their MHHS data access options.

Consumer impacts (chapter 8)

14. Do you have additional evidence which would help us refine the load shifting assumptions we have made in the Impact Assessment?

³ Ofgem impact assessment:

https://www.ofgem.gov.uk/system/files/docs/2020/05/mhss_draft_impact_assessment.pdf

No.

We do not have any additional evidence beyond that which we provided in our response to Ofgem's information request preceding the publication of the impact assessment.

15. Do you have any views on the issues regarding the consumer impacts following implementation of MHHS? Please refer to the standalone paper we have published for more detailed information.

No.

We are comfortable with the key findings and conclusions of the paper. It contains all the consumer impacts we would expect to find in a paper on this topic.

Programme management (chapter 9)

16. Do you agree we have identified the right delivery functions to implement MHHS?

Yes.

MHHS will be a sizeable programme to implement and the amount of work this will require should not be underestimated, both from Ofgem and code bodies in managing the process and from industry participants in contributing input, advice and guidance.

The faster and more reliable switching (FMRS) programme is a good comparator for the collective effort that will be required to implement MHHS.

17. We have set out some possible options for the management of the delivery functions, and a proposal on how these would be funded. We welcome your views on this.

Given that MHHS will be predominantly a BSC change it is sensible for the costs to be recovered across BSC parties. If there are impacts on other codes then those costs should be recovered from the parties to those respective codes.

We recognise there are trade-offs, highlighted by Ofgem, between Ofgem directly managing the implementation of MHHS and appointing an industry third party to do so. We propose a hybrid where the programme management is conducted by an industry party with Ofgem sitting on the steering board and having a say on the decision making.

As set out in our covering letter, Ofgem should conduct an analysis of what worked well in other programmes and where in hindsight the processes may have been improved – namely for Project Nexus, the migration of all profile class 5-8 meters to half-hourly settlement, and faster and more reliable switching (FMRS).

Lessons learned from these programmes should be used to ensure that MHHS improves upon previous programmes, and that project governance and implementation for MHHS is conducted as effectively as possible.

To ensure MHHS is implemented as smoothly as possible it is important to learn lessons from Nexus, P272 and FMRS. We propose that Ofgem publish a short paper of lessons learned that does a side by side analysis of each programme to determine best practice. This should be

followed by a consultation that allows other industry parties to contribute their own lessons learned. The output of this paper and consultation would ensure that the programme governance and implementation of MHHS builds upon what has worked well in previous industry change programmes and MHHS is therefore implemented in a cost-effective manner.

Other (chapter 10)

18. Do you have any comments on the Impact Assessment published alongside this document, or any additional evidence that you think we should take into account?

No.