

14<sup>th</sup> September 2020

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Dear Anna,

**Re: Mandatory Half Hourly Settlement (MHHS) draft Impact Assessment (IA) consultation**

Thank you for the opportunity to provide our comments to the above consultation.

Utilita Energy has been operating in the market since 2008 with a focus on smart prepayment technology. Utilita has a significant portfolio of smart meters (approximately 90%) installed and have been operating HH settlement since 2017.

Utilita does not support mandating HH settlement. If implemented, MHHS is dependent upon the success of the smart meter roll out which must be the key dependency for any go-live decision. Introducing MHHS while any significant percentage of legacy meters remains *in-situ* will have high impacts upon the success and quality of MHHS, reducing the benefits case and leading to (potentially) negative outcomes for consumers. However, Utilita does support the continuation of elective HHS while the smart rollout completes.

The IA lacks granularity in many areas. The level of uncertainty leads to significant assumptions, and a very wide range of estimated potential benefits with a heavy reliance on assumptions and qualitative assessments. The counterfactual is also unclear.

At present, suppliers are struggling to resource and fund three major industry change programmes – SMETS2, SMETS1 Enrolment and Adoption and Faster Switching. All are running at the same time, in an industry where suppliers are operating under price caps, which are not sufficiently reflective of costs faced. In the case of prepayment, Ofgem has explicitly stated that the price cap does not reflect efficient costs without relying on cross subsidy between customer groups. This means that specialist suppliers will not be able to meet their efficient costs. The price caps do not make adequate allowance for the scale of investment required for existing programmes, without the additional costs of MHHS.

We recognise that Ofgem proposes a future implementation for MHHS, but this means the counterfactual would be industry systems as they are at that point, not the current position. We therefore consider that the benefits are likely to be significantly overstated.

In addition to the above, it is essential to address the massive impact of COVID-19 on the industry, both in terms of the uncertainty it brings and its impact on suppliers' ability to support and implement change.

Given the three large industry change programmes noted above, and the COVID-19 challenges, Utilita believes the current proposed timescales require review. We note that in the document, Ofgem acknowledges such a review may be needed. We firmly support that and consider that the IA process will need further iteration as a consequence. We also believe that the current IA does not sufficiently reflect the potential for lessons to be learned from these other programmes that may benefit the MHHS work.

Our submission comprises this covering letter and the attached Appendix 1, in which we address the consultation questions. We hope the submission is helpful and would welcome discussion for any points that require further detail.

Yours sincerely,

By email

Alison Russell  
Director of Policy and Regulatory Affairs

## APPENDIX 1 – response to consultation questions

**Question 1: We propose to introduce MHHS on the basis of the Target Operating Model recommended by the Design Working Group last year. Do you agree? We welcome your views.**

Utilita does not agree with the approach of introducing MHHS on the basis of the Target Operating Model (TOM) recommended by the Design Working Group.

As set out in our covering letter, the proposals do not sufficiently address the challenges that the industry is facing. In addition to these points, we have a number of further specific concerns which are set out below:

- We fundamentally disagree with the Balancing Responsible Party contracting/providing for these new services.
- This approach may create uncertainty around the ownership and quality of the data being validated; suppliers currently contract for their agents ensuring they have confidence in data validation.
- Such uncertainty would have a direct impact on the accuracy of settlement, introducing a high risk of distorting the energy market.
- The economic and efficient implementation of MHHS will depend upon the completion of the smart meter roll out programme. Changes to the settlement processes and timetable without a very high level of smart meter penetration will result in significant detriment to the accuracy of settlement and forecasting under the proposed timeline.

To conclude, Utilita do not support implementation of MHHS as proposed.

**Question 2: Ofgem's preferred position is that HH electricity consumption data should be sent to central settlement systems in non-aggregated form. Do you agree? We welcome your views.**

Sending data in either aggregated or non-aggregated format has both positives and negatives, the main difference being the volume of data transferred around the industry.

Utilita acknowledges the benefits of sending data in a non-aggregated form, however, this approach would be system intensive. We are not yet confident that suppliers and/or the central settlement systems will be able to process the required volume of data within reasonable timeframes and cost.

Introducing expensive, system and data intensive processes across the industry will result in significant additional cost to customers. Detailed investigation is required into the

most cost-effective solution, and a robust Cost Benefit Analysis (CBA) should be completed before these arrangements are progressed further.

In addition to the above, the project must address the assurance regime that will need to be in place on the central settlement systems, in order to provide suppliers with the confidence that settlement data is being processed accurately and in a timely manner.

**Question 3: We propose that the Initial Settlement (SF) Run should take place 5–7 working days after the settlement date. Do you agree? We welcome your views.**

Utilita is supportive of SF taking place at 5–7 working days after the settlement date. Changing the SF run will not impose a significant difference, because in the current NHH market, most volumes at SF are based on estimated data and not actual data.

In the traditional HH market, data is available in most cases at settlement date+1 and therefore obtaining accurate reconciliation at SF based on these new timelines should be achievable, subject to the volume processes noted in question 2.

**Question 4: We propose that the Final Reconciliation Run (RF) should take place 4 months after the settlement date. Do you agree? We welcome your views.**

Utilita strongly oppose the proposal that the RF should take place 4 months after the settlement date unless MHHS is deferred as set out above.

There is a major dependency upon the level of penetration of the smart meter roll out. In the absence of smart metering (with WAN), the cost of collecting meter reads, even on an annual basis, becomes very costly on a small number of non-smart meters.

Utilita has approximately 90% smart metered customers, but we consider that even this is not a sufficiently high penetration of smart meters to allow a reduction in RF to 4 months. The cost of visiting the remaining 10% of sites every 3–4 months to maintain the residual data required is prohibitive. Process efficiencies are gained by having many sites to read within small areas, naturally as density decreases, the distance between sites becomes greater resulting in less meters read daily and higher costs. As a predominantly smart prepay supplier, we have detailed information on our RF performance in our smart vs. non-smart portfolio and the cost impacts. We would be happy to discuss this point with Ofgem and share data in confidence.

Utilita believes that unless at least 95% of the market has smart metering (and WAN) the consequences of reducing RF to 4 months will be significant in both cost to customers and settlement performance. The higher estimated volume in settlements will result in an increase in smeared costs across the market, which will negatively impact prices paid by customers.

**Question 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.**

Utilita's concerns around the new DF settlement timetable are directly linked with Question 4.

If the reconciliation time for RF is reduced to 4 months (as proposed in question 4) without a high penetration of smart meters, we would logically expect to see a dramatic increase in instances submitted at the DF settlement run to maintain high settlement performance.

As set out above, changes to the settlement timetable would also rely on the smart meter roll out. A significant volume of legacy meters remaining in the market will have a detrimental impact on settlement and forecasting under the proposed timeline.

Currently Utilita does not have a high volume of instances going through the DF run. We believe that the changes as proposed would result in material changes for many suppliers and a detrimental impact upon supplier settlement performance, while reducing the accuracy of settlement at the final reconciliation run.

**Question 6: We propose to introduce MHHS for both import and export related MPANs. Do you agree? We welcome your views.**

Utilita agrees that if MHHS is to be implemented, the same approach should be applied for both import and export related MPANs, as this would support a consistent approach.

**Question 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? We welcome your views.**

Utilita agrees that having a consistent transitional period is sensible. Inconsistency would create unnecessary risk to the project. As per previous questions, it is vital that a significant penetration of smart meters exists in both the import and export markets.

Logically, proliferation of smart meters should be broadly consistent in both, but it is important that appropriate analysis is completed prior to triggering MHHS, to ensure that smart penetration is sufficiently high to begin the migration process. Utilita advocates that any go-no go decisions be dependent on the successful completion of the smart meter rollout, and that this criterion must be consistently applied across both import and export.

**Question 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 welcome your views.**

Utilita is in favour of encouraging migration through the elective HHS route and supports a transition of smaller numbers once elective HHS is more prevalent. Under the current arrangements, as the smart meter population has grown so has the use of elective HHS. As suppliers innovate and offer customer new, time-of-use tariffs we expect to see the number of meters being electively subject to HHS increase organically.

We note the comments in the document in respect of COVID and welcome Ofgem's recognition that further adjustment will be needed. We support this point.

Until the smart meter rollout has progressed further and the pandemic situation becomes more stable there is too much that is likely to change between this consultation and a viable start date. The main areas we expect to be impacted include:

- Smart meter rollout progression
- Complexities/resolution of the comms issues in poor signal areas
- The success or otherwise of the SMETS1 enrolment and adoption programme
- Introduction of Faster Switching
- Uptake of elective HHS
- Impact of COVID-19

At this time, it is hard to assess whether the 1-year migration period is appropriate, however current views would indicate this is likely to be extremely optimistic. With less than half the metering population currently installed as smart meters there are many unknowns and variables to consider.

**Question 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.**

Utilita firmly believes the migration is dependent on the success of the smart meter roll out. Industry is already struggling to fund and resource three large industry change programmes in progress – SMETS2, SMETS 1 Enrolment and Adoption, and Faster Switching. Imposing another large industry project, also running in parallel would fundamentally affect the industry's ability to deliver these changes, which are already challenging.

We propose this timeframe must be re-evaluated at a later date, once progress on the delivery of other projects taking place is clearer, to ensure the industry has the necessary capacity while supporting customers.

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

The COVID-19 pandemic has had a notable impact on the smart meter roll out process. The first wave of COVID-19 impacted meter installations, but to different degrees across the industry - driven by customer need, safety, and supply chain management.

It is clear that further COVID-19 outbreaks are occurring, and significant regional impacts are resulting. This can be expected to continue, including the real risk of further national impacts.

The programme must also consider the fact that supply chains are impacted by actions taken in foreign countries. Utilita supports a cautious, flexible, and responsive approach.

As noted in questions above, the successful rollout of smart meters is vital in advance of the trigger to go ahead with MHHS.

**Question 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 collection for settlement and forecasting purposes. Do you agree that this is a proportionate approach? We welcome your views.**

The only way to make MHHS successful is to provide a legal obligation to collect Half Hourly (HH) data. Until that provision is made HHS should be elective.

If a legal obligation is imposed on suppliers to settle supply points as HH then suppliers must be afforded the legal right to obtain the data required. This proposal does not achieve the necessary outcome to deliver MHHS and introduces unnecessary estimation into settlements, while imposing additional cost and risk on suppliers.

**Question 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. We welcome your views.**

As above. The only way to make MHHS successful is to provide a legal right for suppliers to be able to collect HH data to meet the obligation. Until that provision is made HHS should be elective. If there is a legal obligation to settle supply points as HH then suppliers must be able to obtain the data required.

**Question 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? We welcome your views.**

Utilita questions the proposed benefit of this service to the vast majority of the energy market. The settlement and forecasting data is inherently niche and is likely to cause more confusion than answers. We maintain the opinion that the communication should remain between the supplier and the customer rather than going through a central system. We have spent a lot of time simplifying energy terms for our customers, having a third party running a separate service would run the risk of confusion with different terms and languages for the settlement/forecasting process. If customers do want to access this information it can be found through the supplier, in a format the customer is already used to.

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

Utilita has no additional evidence help refine the load shifting assumptions.

**Question 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.**

Utilita's main concern is moving too fast and setting over-optimistic deadlines. Fundamentally shifting to a different system will cause errors from the existing NHH systems. The key is ensuring that all unnecessary errors are mitigated. At this stage this involves setting sensible criteria on which to base a transition decision.

If the project is completed properly, with all key dependencies being met, there should only be minor impacts to consumers. There will inevitably be an increase in the cost to serve due to data processing costs, managing exceptions in less time, etc. Whilst these may be offset by the benefits in the long term this will be short to medium term impacts.

**Question 16: Do you agree we have identified the right delivery functions to implement MHHS? We welcome your views.**

Since Project Nexus, Ofgem has taken a more proactive and integrated role in ensuring that industry change programs are well managed. This approach has been used in the Faster Switching programme and in general has had significant positive impacts. However, it is essential that MHHS learns from the problems suppliers are experiencing in the faster switching programme – for example, in terms of access to complete design baseline documentation in advance of planning requirements, high levels of assurance activity, right to left planning and lack of contingency.



Given the timescales of MHHS it should be possible to incorporate lessons learned from the Faster Switching programme into the structure and delivery functions used on this programme of work. At this stage, however, Utilita support proposed delivery functions and suggest a review of these in 2021 as the Faster Switching programme enters the delivery stages.

**Question 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.**

The proposal to fund the work through the BSC seems sensible at this stage but we shall review the proposal again once fully formed.

**Question 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?**

Utilita does not have any comments or additional evidence on the Impact Assessment.