



To :

James Earl
Senior Policy Manager
Settlement Reform Team
Ofgem
By email: HalfHourlySettlement@ofgem.gov.uk

Salient Systems Ltd.
Cobalt Business Exchange,
Cobalt Park Way,
Newcastle Upon Tyne.
NE28 9NZ

Tel: 0191 280 4545

Subject: Mandatory Half-Hourly Settlement – SSL Response to Consultation of 11/11/2016

Dear James,

Salient System Limited (SSL) provide industry qualified and mobilised HHDC, HHDA, HHMO, NHHDC and NHHMO automated software system solutions in the GB market.

We fully support Ofgem initiatives to achieve the timely delivery of the benefits attached to HHS.

We have proactively engaged with and contributed to the delivery of the industry change proposals that have been progressed by the relevant industry bodies recently in order to remove identified barriers and constraints upon achieving early Elective movement to HHS.

We will continue to engage with Ofgem and other industry participants who are similarly committed to progressing plans to secure HHS as the favoured settlement policy alongside the enabling rollout of Smart meters.

To that end, we have responded positively to your invitation to attend a workshop in January which will initiate the planning process to address the further actions required to achieve effective mandatory HHS.

Please find our brief responses to your Consultation document attached.

Yours faithfully,

Dermot Hearty
Managing Director
Salient Systems Limited

Email: heartyd@salient-systems.com

Question 2.1 Do you have views on our proposed approach?

An SCR, or its successor process, is an entirely appropriate vehicle for Ofgem to employ in order to exercise its responsibilities and to progress the delivery of objectives.

Ofgem commitment to facilitating and assuring industry inputs into the process is encouraging. All interested parties, stakeholders must engage fully in the process or otherwise risk unplanned disruptions or compromise to existing and future business models and service offers.

The suggested iterative review and refinement of a developing Business Case to support mandatory HHS may be assured and formalised at checkpoints within the plan to coincide with the planned deliveries of (work group) key detailed functional and cost-benefit analyses.

Question 2.2 Our Impact Assessment will evaluate the costs and benefits of mandatory HHS for domestic and smaller non-domestic consumers. We will be seeking evidence of costs and benefits as part of that process. Do you have initial views on the costs and/or benefits? If so, please provide these with your supporting evidence.

Development of and agreement upon the TOM will inform the Impact Assessment and overall Business Case.

Understandably, at this point, the suggested scope highlights of TOM proposed analyses and investigations lean towards the identification of opportunities to minimise the costs to deliver effective settlement related business model mechanisms that will guarantee the integrity of HHS.

The wider benefit objectives of HHS are well stated by Ofgem and others at earlier papers leading up to this consultation - but such benefits will not be fully uncovered or realised until HHS is delivered.

Benefits will certainly accrue to Suppliers through, for example, the improved accuracy of energy requirements forecasting, alongside the potential for settlement timetable optimisations to deliver more accurate financial commitments. It is expected that Suppliers will be keen to realise the benefits available to them and should be in a position to share experienced estimates of the benefits accruing.

The benefits that HHS will deliver to consumers through refined retail offers from Suppliers and from the development of new consumer targeted NTBM's by Suppliers and other parties will be more difficult to quantify with certainty.

What is certain, however, is that any and all of the benefits arising at HHS to any and all parties who have opportunity to benefit will be predicated upon assurance of the availability of enabling HH data at those innovative and proactive parties who are keen to achieve benefits at refined processes and from new service offers to market. The appropriate enabling HH consumption data must be in the right place at the right time.

The HH transactional and reference data sets currently positioned at industry established HHDC and HHDA systems represent the core data set from which additional HHS enabled benefits to all parties will be derived.

The settlement related role and value of HHDC/DA systems and their data is well established. Value here will likely continue to be further extended through the positioning of important administrative and data management functions to support possible further CM and EMR related industry initiatives and refinements. The successful integration of particular significant NTBM's within the GB market model going forward will likely also implicate HHDC/DA data and functional extensions to address settlement related impacts.

However, the equally important contribution of HHDC/DA data to the delivery of additional benefits to industry participants and consumers alike will only be realised through effective positioning of that data set within the data architectures that will be developed to support new or refined processes, or the new offers and NTBM's that innovators are keen to deliver to market.

Within discussions and analyses at working groups that will be tasked with arriving at TOM option proposals we will be encouraging that established Data Management Process imperatives remain in sharp focus - particularly at evaluation of options that will influence the positioning of HHDC/DA settlement related functionality and data within evolving industry business models and data architectures. Evaluation of the costs attached to options arising must take into account all costs, including the costs to implement robust mechanisms to assure and administer the distribution of the HH data set to those authorised parties who will deliver the additional benefits available from innovative deployment of that data.

We believe that pragmatic and cost effective options are entirely achievable that will accommodate the custodianship of HH data and HHDC/DA functionality alongside the application and data architectures at innovators who will deliver themselves or partner with others to achieve the additional benefits enabled by HH data. Pass through costs to consumers attached to the delivery of the HHDC/DA settlement role alone can be estimated in the pence per metering system per annum range. The additional benefits available at HHS to Suppliers and Consumers alike will be more securely and cost effectively achieved at integrated data architectures that position HH data at its core.

Question 3.1 Do you think we have identified the necessary reforms? Are there other reforms that should be listed? If so, what are they and how would they fit in the proposed plan?

The stated areas for reform, along with their decomposed further detail at the table included in the consultation document, will provide a very useful starting point to prompt further decomposition of issues during the planning process.

The alignment and testing of reform options against Ofgem's overarching Innovation Plan is assumed. Our assumptions here would benefit from further reinforcement from Ofgem at the start of the working process.

Question 3.2 *What industry expertise is needed to deliver these reforms in the timetable we have given?*

The widest range of expertise available from across industry experienced parties and consumer championing groups.

Question 3.3 *How much expertise and time can your organisation provide? How does this interact with other Ofgem initiatives?*

SSL are able and willing to provide data management, systems engineering and industry HHDC/DA/MO, NHHDC/DA/MO knowledge and expertise over the full duration of the planning process.

Question 3.4 *What are the key risks and constraints to delivering to the timetable outlined?*

Previous experience suggests that industry parties, and others, will commit to engage fully with the proposed planning process and will have the experience, analysis skills and insights necessary to assure that robust conclusions are delivered.

Demands upon resources at stakeholders and competition for resource from other industry initiatives will always be difficult to manage. We would expect, however, that the significance of issues that will be decided here affecting the long-term industry operating model will assure that the availability of appropriate resource from stakeholders will be prioritised.

The key risks are more likely to be those that are generic to any and all project processes – inadequate management and facilitation, inadequate clarity of requirements and of scope/TOR's attached to discrete work packs or work group tasks, inadequate or untested metrics used within analysis or evaluation activities, inadequate dissemination and review of results and impacts across work streams etc. A significant, regular and ongoing commitment over the proposed 18-month planning timetable will be required from participants.

Question 3.5 *Do you agree with the dependencies in Figure 1? If not, please explain what changes you suggest and why.*

The tram-lined and indented graphical presentation of the groupings of evaluation targets at figure 1 suggests that the outcomes of each analysis grouping will be completed before its successor analysis group is started – the agreed outputs from each predecessor will form the confirmed inputs into its successor. Presumably this assumed approach will not reflect the approach that will be adopted in practice.

For example, decisions upon the favoured options to be progressed from consideration of issues at left most tram line will be arrived at with the benefit of appropriate impact assessment of each. After identification of a census of possible options there will be parallel activities of options analysis, impact assessment, TOM

and Business Model variant illuminations, culminating in agreement upon preferred options at an appropriate checkpoint.

Additionally, there will likely be a sub set of 'Settlement Process' related activities that may safely be progressed alongside development of TOM because they will be very unlikely to change functionally but nevertheless will need to be confirmed as fit for purpose to accommodate, for example, step changes in data volumes associated with HHS.

Possible concerns here around the project process and the detailed plans, and their dependencies, will no doubt be addressed early within the planning process.

We are encouraged to note the suggested across activity influence of a requirement to evaluate and address the impacts upon consumer engagement and protection at all outputs from the planning process and resulting TOM. However, we feel that the additional important benefits arising at HHS to consumers and to others must also be similarly noted in sharp relief across the plan - to be complemented by a similar requirement to evaluate the impacts of TOM deliveries upon the potentials for delivery of benefit objectives from innovators.

Question 3.6 What are the barriers to making changes to central systems and industry rules by the first half of 2018?

The scale and pace of change across industry over the medium term will continue to challenge all stakeholders and their ability to implement industry change against tight timescales.

Central systems have been impacted recently during the implementation of change to remove constraints at elective HHS. Further impacts may be expected but should be manageable.

However, there may be a range of very attractive benefits to consumers arising at HH enabled NTBM's that may impact both industry rules (including CM rules) and central systems were they to be encouraged by Ofgem and industry. An early review of what is currently known about proposals in this area will be required in order to identify impacts as early as possible.

***Question 3.7 Do you have any other comments on the proposed plan?
Mandatory Half-Hourly Settlement: aims and timetable for reform***

We look forward to participating at this important industry exercise.

Question 4.1 *Do you agree with the conclusions of the ESEG and the PSRG (see paragraphs 1.8 – 1.10.)? Do you think anything has changed since they considered these issues?*

Roles and responsibilities (see paragraphs 4.2. – 4.7.)

We agree that earlier expert group identification of and attention to the issues arising at a future predominant HHS regime has been very useful and that the issues identified have been incorporated appropriately within the scope of the proposed planning project.

However, it is noted that previous studies have raised options at issues rather than proposed firm conclusions. The imminent planning process must examine the options raised in more detail and arrive at agreed conclusions.

With respect to the important issue of the positioning within HHS TOM of the functions that have traditionally been delivered through supplier agents (DC, DA, MO) we have a number of concerns which we are confident that the planning process will provide space to address in further detail.

For example, the expert group assumptions that the most viable options for delivery of DCDA services are binary in nature are very questionable - the Central Agent model or the existing Supplier Agent model.

The proposition that any 'Hybrid' model of Central Agent and Supplier Agent options available in the market might be compromised by a lack of certainty at the Central Agent of the size of its potential market is problematic. The proposition assumes that any Central Agent function will not have the capability to deliver scalable systems and service delivery solutions, an assumption that we would challenge.

Indeed, were the existing Supplier Agent model to persist then it will persist as a hybrid model in its own right, with perhaps some providers choosing to offer 'Vanilla' services while others choose to provide differentiated and extended services aligned to achieving additional benefit from HH data to suppliers and their customers or directly to groups of customers as is the case in the I&C market.

We would support expert group views that the functions, and their likely variants, that will influence supplier attractive DCDA service offers at HHS must be decomposed and suitably organised so that a pragmatic evaluation of the possible market mechanisms that can deliver service groupings cost effectively can follow, without the influence of any preconceptions about limiting market model alternatives. There will also be significant additional opportunity within the evaluation and planning process to consolidate the identifications of the additional benefits and value offers available from managed HH consumption data, above and beyond its critical value to settlement.

Finally, when reviewing the potential positioning of HH consumption data within any TOM variants then requirements above and beyond the assurance of settlement requirements at the data set must also be addressed. Assurance of the cost-effective distribution of HH data to those authorised parties who will integrate HH data within refined existing processes or within the data architectures required to deliver new product solutions and offers to consumers is implicated here. The current SEC

regulatory framework and operating model will very likely become target for review during evaluations.

Question 4.2 *Do you agree with the scope of issues identified in this section? Are there any others we should be considering?*
Settlement process (see paragraphs 4.8. – 4.17.)

Yes, we agree, and we offer the following observations:

Settlement Timetable – potential to reduce the settlement timetable should be entirely achievable, delivering benefit to all Suppliers, particularly to smaller Suppliers.

Data Estimation – a one size fits all approach to estimating missing data into settlements is unlikely. Consumption profiles attached to groups of domestic consumers will be influenced by the impacts of the benefit providing new product offers arising from Suppliers and other parties. Targeted profile models and associated estimation processes are implicated. However, requirements for estimation of consumption data to enter settlements should be minimal, but will be dependent upon DCC capacities. Of greater importance will be the impact upon forecasting methodologies employed at Suppliers and the requirement to incorporate more econometric methods to predict forward commitments against a customer base whose behaviour will be influenced by benefit bearing product offers. Close coupling between forecasting systems and methods and the HH consumption portfolio data set is implicated.

Treatment of NHH Customers – policy refinements here will form part of a manageable set of likely impacts upon central systems.

CoMC Process – the proposed changes to prepare for Elective HHS are robust and fit for purpose and will likely survive into mandatory HHS without implicating major change or disruptions.

Question 4.3 *Do you agree with the scope of issues identified in this section? Are there any others we should be considering?*
Policy enablers (see paragraphs 4.18. – 4.27.)

Agreed, and again, progress has been achieved already at the issues identified to prepare for elective HHS.

Question 4.4 *Do you agree with the scope of issues identified in this section? Are there any others we should be considering?*
Consumer issues (see paragraphs 4.28. – 4.38.)

An important set of issues that no doubt will prompt interesting debate and policy proposals.

Consumer protection is one side of a two-headed coin, the other side being consumer enablement. The Ofgem objective of effective enablement of consumers

either directly or via groups and other third parties to not only react positively to benefit offers arising but to also have opportunity to shape and deliver innovation alongside HHS could be a useful issue complement.

CHAPTER: Five

Question 5.1 *What is the best way for us to use the expertise of stakeholders? What have you found helpful in the past?*

As suggested in the consultation document, but face to face workshop meetings favoured over early analysis and design phases with teleconferenced update meetings employed at later phases.

Formal presentation of propositions or positions from stakeholders/participants might be encouraged in order to focus debate and analysis.