TMA's Response to Ofgem Mandatory Half-Hourly Settlement Planning Consultation

By email to HalfHourlySettlement@ofgem.gov.uk

Dear James Earl,

TMA started as a Consultancy and Boutique developer in 1987. Following the Electricity competitive Market opening in 1998 we provided IS and IT solutions for larger Suppliers. We qualified as a Party Agent in 2005. We now provide Half Hourly and Non Half Hourly Data Collection, Data Aggregation, AMR, Data Retrieval and Internet services to over 20 Suppliers and other market participants. We are also in the process of providing DCC Services for Smart in order to ensure that the DCC services are accessible to all Suppliers and other interested parties through shared services.

We welcome the opportunity to respond to Ofgem's consultation regarding Mandatory Half-Hourly Settlement planning.

We fully support mandatory Half-Hourly Settlement and understand that the best approach is to initially remove any obstacle to enable a voluntary move from NHH to HH settlement before moving to a mandatory Half-hourly Settlement process.

Smart metering is providing opportunities for the Electricty Industry to redefine expectations in performance levels, length of settlement timetable as well as unlocking possibilities for innovative Suppliers to provide demand side response tariffs and improve their demand forecasting abilities. TMA has always supported changes going towards a more widespread Half-Hourly Settlement as it is more efficient, more accurate and is the natural extension of the smart metering programme.

We support a model where the current Supplier Agent model is maintained. The competition between Supplier agents has delivered significant improvements in performance levels and decrease in cost. A centralised or partially centralised model would be a most retrograde step and hinder the full delivery of Half-Hourly Settlement benefits.

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This year we have completed a trial for Half Hourly Settlement of domestic sites with an "independent" Supplier. We have now contracted to undertake this work at scale in 2017. The trial was successful and it revealed that with the current arrangements we can settle HH sites with a Smart DCC enrolled meter for less than the current cost of settling these in the current Non Half Hourly market.

We are also at an advanced stage of discussions with an independent Supplier to undertake HH settlements for domestic sites for half a million MPANS , with no further changes other than those that are already in progress.

To imagine that data quality issues which currently cause so much cost and failure would be helped by a centralised operation seems mistaken. In Half Hourly there are no dependencies on all the standing data that causes failure in the NHH market – the simple act of operating Half Hourly Settlement makes almost all the data quality problems evaporate.

The main areas where work is required to enable the settlement of domestic customer as half-hourly from our stand point are data estimation and data validation.

The estimation rules currently used for HH sites would need to be adapted to domestic sites. Profiling is expensive and inaccurate; we support an estimation model where the reliance on profiling is totally removed. Half-Hourly sites vary in nature, size and consumption pattern vastly; the consumption patterns for domestic and small industrial and commercial sites are more stable in nature making the frozen profile coefficient and regression equation a viable option. However the estimation used in the current Half Hour Measurement Class C operations is actually very accurate; and we see no reason not to preserve this benefit, everything can be done by computers, automatically.

The data validation parameters for Half-Hourly settled sites are stringent and require a certain level of information to be received by the Data Collector in order to be able to carry out the validation, which is fully supported by Data Collectors also fulfilling the role of data retriever. The validation applicable to Half-Hourly sites for Measurement Class C is not necessary for domestic but some of its principles could be adapted to domestic and small commercial and industrial sites. Clear boundaries between what validation is expected to be carried out by the DCC and/or by Data Collector need to be in place. If Data Collectors are required to carry out some/all of the validation, the

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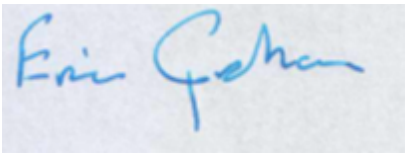
information necessary to carry out the validation must be made available at the same time as the data.

TMA has been an advocate of a shortening of the Settlement Timetable and fully support Ofgem in that direction.

Kind regards



Eric Graham

TMA Commercial Director

Chapter 2

Question 2.1 Do you have views on our proposed approach?

We agree with the approach proposed in the consultation. We understand that following the CMA recommendation, Ofgem has an obligation to investigate the possibility of centralising some or all the Supplier Agent Activities.

The premise to have a centralised entity for data collection and/or aggregation is based on the erroneous and persistent assumption that the services provided by HHDC and HHDA are homogeneous and are therefore suited to be delivered by a monopoly service provider as the pricing would be regulated by the Industry.

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The core BSC obligations that the HHDC and HHDA deliver on behalf of their Suppliers are homogenous; however, the core BSC obligations are only the minimum that a Supplier Agent must deliver.

Suppliers, in order to offer innovative tariffs and products to their customers, require bespoke services from their agents. The core BSC requirements form the basis of what the HHDC and HHDA do, however the competition within the Agency services which started in 1998 allowed for new entrants and for product differentiation.

Suppliers and Supplier agents work hand in hand.

As a Supplier Agent who has the privilege of working with new entrants as well as more established Suppliers, we deliver different things for different Suppliers in terms of frequency, level of details of data analysis, additional reporting etc.

The differentiation is also on customer types. So it might appear that the market of Supplier agents is a perfect oligopoly where the product is perfectly homogeneous, however, non-legacy Suppliers enter the market because they have an innovative product and require flexibility and adaptability from their Supplier Agents in order to support them. We work on many innovative set ups in the HH market and we are happy to provide more information on a confidential basis.

A centralised system provider will not offer the same opportunities for Small Suppliers to innovate and it will probably represent a significant barrier to market entrance. (An outcome, an unintended consequence, already realised in the requirements to become a DCC User, which now represents the most significant barrier to market entry.)

Innovation in the electricity retail industry has been brought in by new small suppliers, not by the dominating large Suppliers. The result can be seen in the decreasing share of the "big 6".

A centralised Agent can of course offer the illusion of economy of scale, but it comes at a price: loss of control for Suppliers in terms of choice, lack of flexibility and adaptability to Supplier's needs for innovation and historically it has also come at the cost of lower performance levels; and very high financial costs.

The centralisation of the data collection and aggregation would remove a critical component of flexibility for Small Suppliers and has the real potential to stop innovation.

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The principle of centralisation therefore comes in direct opposition to the Authority's aim as listed in the FRR broad principles published on 18/08/2016 by Ofgem. :

"1.1 The retail market is changing. We are seeing many new entrants and emerging, innovative business models which have the potential to transform the energy market. These include bundled services, community energy and increased customer participation through collective switching. We are also seeing technological and process changes which have the potential to deliver a smarter, more competitive market with more innovative tariffs and services. The smart meter roll-out can bring about faster switching and electricity settlement arrangements which would encourage suppliers to offer tariffs that cut charges for consumers who use electricity when it is cheaper

1.2. We need a way of regulating that is flexible enough to encourage this innovation and deliver good consumer outcomes. Relying more on principles in our regulation and less on prescription will:

 Promote innovation and competition among suppliers

 Provide effective protection for consumers in a rapidly changing market

 Put responsibility firmly on suppliers for achieving good consumer outcomes "

We are fully supportive of a system that retains some flexibility but fail to see how centralising data collection and aggregation help fulfil this.

Centralisation is also a lengthy and complex process. The introduction of DCC has shown the complexity and the difficulty to deliver on time and on budget. It would add significant and unnecessary complexity and time to the implementation of Mandatory HHS.

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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

We will share in confidence commercial arrangements we already have in place for data collection and data aggregation for Half Hourly Settlement of domestic premises that are lower cost than the current costs of NHH Settlement

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Chapter 3

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 necessary areas of reforms have been identified to be further explored, not all areas are necessary to achieve Mandatory HH Settlement, such as centralising Data Collection and Aggregation as further demonstrated in our response to question 2.1.

For Suppliers stumbling blocks are the Elexon charging structure, and network tariffs that for some archaic reason refer to meter types (even though it was never part of the network business). If all kWh were charged settlement costs on the same basis, and networks charging (and LLFs) was simply a type and voltage of connection that would enable HH settlement much more readily.

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

Those with expertise in HH settlements, from Elexon and industry, HHDCs and HHDAs in particular.

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

TMA is able to provide expertise on estimation and validation and other process modifications for Mandatory HH Settlement. We can also provide expertise around the shortening of the Settlement timetable.

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

The key risk is to not go far enough in the reform due to a lack of understanding.

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

Yes we do agree with the dependencies described in Figure 1. We would add the Settlement Timetable timescales review high level to the first step as it would form part of the draft Impact Assessment and the Draft TOM in step 2.

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

Inertia.

Question 3.7 Do you have any other comments on the proposed plan?

No.

Chapter 4

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?
The Changes required to enable HH Settlement by the PSRG are in progress with a few to be implemented in June 2017. Therefore some of the major changes required for Supplier Agents are already in progress.

Roles and responsibilities (see paragraphs 4.2. – 4.7.)
Question 4.2 Do you agree with the scope of issues identified in this section? Are there any others we should be considering?

We have already commented on the legitimacy of the principle of centralisation of the Data Collection and Aggregation Services.

Settlement process (see paragraphs 4.8. – 4.17.)
Question 4.3 Do you agree with the scope of issues identified in this section? Are there any others we should be considering?

We agree with the scope of issues Identified, namely Estimation, Settlement Timetable shortening, COMC process and the treatment of NHH customers. We would like to add Validation as it goes hand on hand with Estimation. We would also like to add COS. The COS process in Half-hourly is robust and should be adopted for Mandatory HH Settlement in order to benefit from shortening of switching timescales. We, of course, understand that the very nature of contracts are different between large HH sites and Domestic Sites but the broad principles can be applied.

Policy enablers (see paragraphs 4.18. – 4.27.)
Question 4.4 Do you agree with the scope of issues identified in this section? Are there any others we should be considering?

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We agree with the scope of issues namely the treatment of non DCC serviced smart meters, the settling of Export energy, Distribution and Transmission network charging

Consumer issues (see paragraphs 4.28. – 4.38.)
Question 4.5 Do you agree with the scope of issues identified in this section? Are there any others we should be considering?

We agree with the scope of issues Identified, namely Data Access which is so critical for the delivery of Elective and Mandatory HHS and the protection of Consumers.

Chapter 5

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

We find that targeted (very specific topics and delivery targets) workgroups with some regular Industry consultation works well.

Sources:

https://www.ofgem.gov.uk/system/files/docs/2016/08/frr_working_paper_on_broad_principles_-_final.pdf

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