



Submitted by email to
Half-HourlySettlement@ofgem.gov.uk

SSE
Penner Road
Havant
Hampshire
PO9 1QH

17th October 2018
adam.carden@sse.com

Dear Anna Stacey,

Re OFGEM MwhHS Outline Business Case.

We welcome the opportunity to respond to this consultation on the second iteration of the Business Case for Market-wide Half Hourly Settlements (MwhHS).

We note the acknowledged position that this “economic assessment at this stage is in draft form, as the TOM yet to be refined and there are open policy questions”. This leaves ambiguity, assumptions and uncertainty, affecting the overall efficacy of any economic assessment and any conclusions drawn at this stage. We wonder why OFGEM pressed ahead with this 2nd iteration, when it would have clearly benefited from further work on key deliverables prior to assessment. We urge caution proceeding to a “when” decision, when it is clear the economic business case still requires refinement and detailed evidence.

Prior to the Final Business Case, we welcome further detailed modelling, including input from the RFI responses, to better understand the actual MwhHS Project costs and economic benefits of proceeding to mandatory HH Settlements for all. We are concerned the model may have relied on assumptions which if are proved untrue may erode the benefits, especially given the acknowledged limitations (omission of distribution network costs savings, EV demand, untested load shifting) to market fuel prices. We welcome further detail that the claimed benefits under this project are in addition to those claimed under other industry projects (i.e. the Smart Metering Opportunity Costs and Switching).

We are concerned that post implementation the modelled benefits are realised over a 20-year modelled period, potentially 6 years after policy determination and implementation. This is an astounding length of time, given the speed of technical and market change, meaning a certain level of redundancy of system solution/approach before long. Compounded by the unknown effect if a substantial proportion of Domestic Customers refuse a Smart Meter and/or “Opt-out” of providing HH data for Settlements.

We have provided responses to the consultation questions in Annex 1 and if you have any questions, please contact my colleague Claire Hemmens on claire.hemmens@sse.com.

Yours sincerely,

Adam Carden
Head of Regulation – Industry Codes



Annex 1: SSE response to the Ofgem MWHHS Outline Business Case consultation questions.

Chapter 2 - Strategic Case

What are your views on the potential costs and benefits of half-hourly settlement of export? What are the risks and opportunities?

Question 1. Do you agree with the scope of the costs and benefits of half-hourly export settlement that we have outlined? Are there any costs or benefits that we might have overlooked?

We agree, the scope set out is sensible and appropriate.

Potentially you are already considering working with the DCC. We welcome this work as, although you anticipate the effect on DCC is less than that on a Supplier or a Supplier agent, an explicit cost from the DCC may dwarf other system costs of implementation and must be considered prior to the final Business Case. The final design TOM will likely introduce a new set of Communication/Data network requirements on the DCC's service providers and the anticipated analysis/design/implementation of these changes will likely not be insubstantial financially to Parties/Users and their end customers. We would hope Ofgem would not proceed with a project no matter the cost to consumers.

Question 2. What are the impacts for your organisation of implementing market-wide half-hourly export settlement?

The impacts to our organisation are limited given the export capability we manage, especially as we are already building for export MPAN system changes.

Question 3. What are the impacts for consumers of implementing market-wide half-hourly export settlement?

Potentially a move to MWHHS will be a disincentive on the Customer to choose to take a Smart Meter, where it is proposed that the Customer will need to sell on their actual not deemed consumption. If this does happen, this will undermine the investment business case for Smart and MWHHS.

Chapter 3 – Draft Economic Case

Whilst you have not asked any questions, we would like to take this opportunity to make the following observations and comments.

We note you acknowledge that to build an economic business case for MWHHS is complex, relies on factors outside your control or scope and presents challenges to accurately predict and quantify the economic costs and benefits, whilst also acknowledging that some of the assumptions made are hard to rely upon.



We agree that there are some direct benefits of MwHHS, where there is a high proportion of HH data available for settlements purposes, including (after a period of modelling/refinement and new data) accurate forecasting and settlements, which is hoped will reduce Suppliers exposure and limit the amount of collateral posted.

We agree that a more robust assessment will be derived from responses once the dependent policy decisions have been made and the final TOM has been determined/defined. We hope the model will be reassessed at this time, where there may be some testing of the potential load shifting scenarios or distribution network cost savings. We believe it would be beneficial to commission a study by Elexon of the percentage which might define the “critical mass” of customers being half hourly settled in the two new HH settlement classes (Domestic and Microbusiness AMR).

We note and agree that many of the estimated impacts are hard to define further, until you have the information of the final TOM design and the final policy decisions.

When discussing untested load shifting, we consider the potential load shifting cited is unrealistic and makes no consideration of proportion of time constraint non-discretionary load in the domestic space.

We agree it is appropriate for the market to aspire to reduce some of the standard Settlement timescales. Potentially however we believe that initially it may be challenging to define a first financial settlement run of 3 weeks and the full to 6 months (or less), we suggest this as it would require a high saturation of HH data, with express and efficient processes; seamlessly managing processing, data management, reconciliation and clear categorisation to rely on for NHH Customers.

Chapter 4 - Commercial Case

Have we identified the right commercial drivers? Are there others that we have not identified and should consider? How can we look to either capitalise on the positive impacts of these drivers or mitigate any negative impacts?

The potential impacts of increased imbalance costs faced by the market, the uncertainty about the data which will be available for accurate forecasting may be factors which affect the business case cost and realisation of benefits.