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11<sup>th</sup> September 2020

Dear Anna,

**Response to Electricity Retail Market-wide Half-hourly Settlement: Draft Impact Assessment**

Drax Group plc (Drax) owns two retail businesses, Haven Power and Opus Energy, which together supply renewable electricity and gas to over 350,000 business premises. Drax also owns and operates a portfolio of flexible, low carbon and renewable electricity generation assets – providing enough power for the equivalent of more than 8.3 million homes across the UK. This is a joint response on behalf of Haven Power and Opus Energy.

Overall, we are supportive of the case for Market-wide Half-hourly Settlement (MHHS) and agree that this is an obvious next step following the deployment of Smart meters.

We're pleased that Ofgem has proposed a pragmatic 4-year transition period which should afford industry parties adequate time to make the substantial system and process changes that are required. However, we believe that there are two aspects of the proposals requiring further consideration in order to avoid suppliers incurring unnecessary implementation costs:

- Ofgem should avoid committing to a firm settlement timetable until there is greater certainty about the number of meters capable of remotely sharing half-hourly data. Until there is greater certainty, it is impossible for suppliers to be able to determine whether critical milestones, such as RF (Reconciliation Final) at 4 months, are achievable.
- The 4-year transition period should not begin until 2022 to avoid resource overlaps with other large-scale programmes, particularly Faster Switching. This is crucial as the interruptions caused by COVID-19 has meant a large proportion of our available resource (e.g. Programme Managers, Developers and Business Readiness support) will now be committed for the entirety of 2021 to deliver the Faster Switching programme.

Our response to the specific consultation questions are appended. If you would like to discuss our response in more detail, please do not hesitate to get in touch.

Yours sincerely,

**Matt Young**

Group Head of Regulation, Drax Group plc



## **Appendix – Consultation Questions**

**Question 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? We welcome your views.**

We broadly support the TOM recommended by the DWG. However, we remain mindful that the more granular details of the TOM continue to be developed by the Code Change and Development Group (CCDG) and Architecture Working Group (AWG). We look forward to examining their recommendations when they consult later in 2020.

**Question 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? We welcome your views.**

We support Ofgem’s preferred position but anticipate it will be complex to unpick the existing arrangements. We generally procure a bundled DC / DA service, so procuring only a Data Service Provider which broadly mirrors the existing DC role will require sizeable system and process changes. Nevertheless, we recognise that the future arrangements should reduce suppliers’ costs over time, not least because an estimated 30% of our existing collection and aggregation costs are allocated to a DA, solely for them to deliver data to central settlement services in an aggregated form.

**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 and 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.**

We agree that each of the standard settlement runs should take place earlier than under the existing arrangements, but it is too early to determine if the proposed timetable is achievable.

In particular, the feasibility of RF at 4 months hinges on the volume of consumption required to be settled using actual reads. Presuming that a minimum of 97% would be required to guarantee parity with current performance targets, greater dependency will be placed on communicating Smart and AMR meters to achieve these targets in a shorter timeframe. The larger the number of customers without a communicating Smart or AMR meter, the costlier it will be for suppliers to more regularly visit non-communicating or traditional meters to manually obtain and register reads every 4 months.

At this relatively early stage, it would be prudent to avoid committing to a firm settlement timetable until there is greater certainty about the number of meters capable of remotely sharing half-hourly data. This is particularly critical as the Smart rollout has already been significantly impacted by COVID-19 and it is impossible to forecast how quickly the situation will change and when Smart installs will recover.



**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.**

We agree with this proposal; 20 months should be sufficient to identify and correct material errors.

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

We agree that a single set of settlement arrangements for all MPANs is sensible.

**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.**

We agree that a single transition period for all MPANs is sensible.

**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.**

At this early stage, we support the proposed transition period of 4 years as it should provide suppliers with sufficient time to implement required system and process changes. However, we will remain cautious until we've evaluated the granular detail being developed by the CCDG and AWG; and understand whether Ofgem or BEIS will introduce other major regulatory reforms that need to be implemented during the same period.

**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.**

We note that Ofgem's Settlement Reform Programme Plan<sup>1</sup> foresees suppliers designing, building and initiating testing of new systems for MHHS in the first 18 months of the 4-year transition period. While this assumes an early 2021 mobilisation for DBT, we understand from recent Ofgem events that this is now expected to begin in the second half of 2021. However, as outlined in our answer to Question 10, we're concerned that front-ending supplier milestones poses resource risks as it will coincide with other large-scale regulatory change programmes, particularly Faster Switching. With finite resource, the high-level timings in the plan are only feasible if DBT does not begin until we've

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<sup>1</sup> Ofgem Settlement Reform Programme Plan at time of analysis – pg. 69:

[https://www.ofgem.gov.uk/system/files/docs/2020/05/mhhs\\_draft\\_impact\\_assessment\\_consultation.pdf](https://www.ofgem.gov.uk/system/files/docs/2020/05/mhhs_draft_impact_assessment_consultation.pdf)



successfully delivered a number of other concurrent changes. Our preference would be for DBT not to start before early 2022.

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

COVID-19 has significantly impacted the Faster Switching programme, with implementation delayed around 6 months resulting in a new go-live window of early 2022. As a result, Faster Switching is anticipated to require more of our finite internal change resource for the entirety of 2021, which goes beyond the expectations outlined in the draft MHHS Impact Assessment. This will be exacerbated by other industry code changes (e.g. implementing the decisions from Ofgem's charging reviews) and regulatory changes (e.g. proposals following Ofgem's Microbusiness and Consolidated Segmental Statement reviews) which suppliers are likely to need to implement in the same period.

Therefore, we believe that the 4-year transition period should not begin until 2022 to avoid any significant overlap between the programmes.

**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.**

As a supplier of non-domestic customers only, we have no comment.

**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 a supplier of non-domestic customers only, we do not expect this to be a long-term concern as Ofgem has already determined that microbusiness suppliers will have a legal obligation to process half-hourly data for settlement and forecasting beyond the *Migration Date* defined in the new Data Access and Privacy Framework.

However, it is likely to be a number of years before all customers with an existing AMR or Smart meter transfer over to the new Framework given the customer needs to take an active decision to agree a new contract or switch to a new supplier. With some of these customers being on multi-year contracts that span beyond the *Migration Date*, it would be helpful and proportionate to allow suppliers to collect daily consumption for these customers in the meantime.



***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.

Rather than a new central body, we believe it would be beneficial for an appropriate existing third-party (e.g. a trusted consumer advocate such as Citizens Advice) to help educate consumers about the transition to MHHS. When migrating larger non-domestic customers to half-hourly settlement via P272, we encountered resistance from customers despite the mandatory nature of the transition. Consumer facing information was published on Ofgem's website<sup>2</sup> toward the end of the migration period to 1<sup>st</sup> April 2017 but having this information available earlier would have been an inexpensive and simple way of aiding suppliers' conversations with their customers.

We would prefer the information to be hosted centrally on a dedicated webpage so suppliers can opt to signpost to this information. In addition to sharing information about data sharing choices, the webpage should outline the benefits of MHHS to increase consumer understanding and confidence in the process, e.g. transitioning to MHHS will make them eligible for new tariffs and products which could lower their bills.

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

Load shifting amongst smaller non-domestic consumers (e.g. Profile Classes 3-4) is likely to be marginal due to overall consumption levels and limited flexibility in trading/operating hours. The majority of smaller non-domestic consumers will not have the time to respond to within-day price signals or the capital to invest in automation technology. However, as the small non-domestic market varies considerably by business type/size, it would be extremely difficult to estimate the volume of customers who could, or would be willing to, load shift.

***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.

We have no additional views on the consumer impacts.

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<sup>2</sup> Moving to half-hourly energy reads (BSC P272 and P322): A guide for businesses: <https://www.ofgem.gov.uk/publications-and-updates/moving-half-hourly-energy-reads-bsc-p272-and-p322-guide-businesses>



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

We have no strong views on the delivery functions to implement MHHS. However, Ofgem should retain central oversight given the volume of related changes that will need to be made to multiple industry codes.

**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?**

In the draft Impact Assessment, Ofgem assumes that Smart meters and MHHS will lead to better demand forecasting due to the availability of more granular data from a wider number of customers. While we agree that more data will provide suppliers with additional confidence in their forecasts, existing models and methodologies (even for NHH meters) are already well established and intelligent enough to account for complexities including national and regional weather variations.