The voice of the energy industry

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Sent via email to: halfhourlysettlement@ofgem.gov.uk

14 September 2020

Dear Anna

Market-wide half-hourly settlement (MHHS): Draft Impact Assessment Consultation

Energy UK's members are supportive of the MHHS programme and we agree it is an important deliverable to help improve the market for customers, reduce bills and help support the governments net zero targets. In this response we are raising risks and issues, but overall acknowledge that this is an important programme to be delivered successfully for customers and the wider energy system.

MHHS is not the first programme of significant settlement reform in the energy industry. The industry has already implemented gas settlement reform as part of Project Nexus and migrated all profile class 5-8 meters to half-hourly settlement, often referred to as P272. To ensure MHHS is implemented as smoothly as possible it is important to learn lessons from these previous reforms, as well as the ongoing faster switching programme. To achieve this, we suggest that Ofgem should conduct an analysis of what worked well in other programmes and where, in hindsight, the processes may have been improved.

We are generally supportive of Ofgem's proposals for implementing MMHS at this stage, and agree that the four-year implementation timeline is realistic. However, with regards to the proposed 1-year migration timeline, we would recommend that Ofgem keeps this under review and, when the detailed design has been impact assessed, re-assess whether it remains appropriate as we get closer to migration. Given the scale of the benefits of MHHS, Ofgem should ensure that the timetable is realistic and where possible potential impediments to implementing as fast as possible, whilst getting it right first time, are minimised. Ofgem should also remain live to any continuing impacts that COVID-19 may cause, or any indirect impacts leading from delays to the switching programme, and take account of these for the MHHS delivery timeline.

Energy UK continues to believe that daily granularity should be the minimum level of data granularity for settlement and forecasting purposes. If the granularity is set to monthly, it might hamper moving to the final proposed Settlement Timetable or negatively affect Settlements by the use of data with limited benefits. We would also take this opportunity to remind Ofgem that the full benefits of MMHS are best seen if half-hourly data were allowed as a regulated duty.

I hope you find the detailed responses to the consultation questions below helpful. Please do not hesitate to get in touch with me if you have any follow-up queries to our response.

Yours sincerely,

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Feedback Form
Electricity retail market-wide half-hourly settlement: consultation

The deadline for responses is 14 September 2020. Please send this form to ***HalfHourlySettlement@ofgem.gov.uk*** *once completed.*

Organisation: Energy UK

Contact: Steve Kirkwood – 0207 747 2931 – steve.kirkwood@energy-uk.org.uk

Is your feedback confidential? NO ☒ YES ☐

Unless you mark your response confidential, we will publish it on our website, www.ofgem.gov.uk, and put it in our library. You can ask us to keep your response confidential, and we will respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004. If you want us to keep your response confidential, you should clearly mark your response to that effect and include reasons.

If the information you give in your response contains personal data under General Data Protection Regulation (EU) 2016/679 and Data Protection Act

2018, the Gas and Electricity Markets Authority will be the data controller. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. If you are including any confidential material in your response, please put it in the appendices.

Target Operating Model (TOM)

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.

Energy UK's members are broadly supportive of Ofgem's intention to introduce MHHS on the basis of the TOM recommended by the DWG.

However, we would highlight that as work continues to progress, and greater detail is developed, Ofgem should remain open to making changes to ensure that the final processes are as appropriate as possible, while remaining flexible in design.

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.

Energy UK agrees with Ofgem’s preferred position.

Settlement timetable

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.

Energy UK agrees with the proposal at this stage, provided that it is achievable once further levels of detail have been developed.

Ofgem will need to ensure that as work progresses further the timings remain appropriate for how the processes will work in practice. For example, whether it will be realistically possible with a hight target for accuracy of data.

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.

Energy UK agrees with the proposal at this stage, but would urge Ofgem to ensure that it remains appropriate as work progresses. The appropriateness of the timing will be dependent upon the proportion of actual readings that will be available and the accuracy of that data.

There is a risk that if the Government's smart meter rollout has not progressed sufficiently, then 4 months would be too short a period due to the lower proportion of actual readings. If the period is too short, then this could impact upon disputes and other processes.

Ofgem will need to review where the industry is as a whole on the smart meter rollout before making a final determination to ensure the timings remain deliverable in practice.

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.

Energy UK agrees with the proposal and view it as a positive development.

However, the assumption that all traditional meters will be read on a quarterly basis as part of this plan for frequent meter reads is one that will add significant additional costs to the industry to ensure they are all read, while providing limited benefits to settlements and negligible benefits elsewhere to supplier operations. The costs of meter reading will be further exacerbated by the physical distance between traditional meters as the smart meter penetration increases. The RF % target should factor in less frequent read schedules of traditional meters to reduce costs while having only a tiny impact on the benefits.

In addition, given the materiality to parties, we would urge Ofgem to ensure that the proposed materiality thresholds and how they would be set (e.g. daily) are consulted on, to ensure that they are appropriate, that industry can feed in views and have sufficient sight of the rationale for any final decisions.

Export-related meter points

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

Energy UK agrees with the proposal.

However, we do note that there are outstanding issues trading export MPANs, as seen in FiTs and SEG at the moment. We believe that these need to be addressed in order to best facilitate MHHS for export related MPANs and ensure that the same issues are not just transferred into the MHHS-based system.

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.

Energy UK agrees with the proposal in principle, but this relies on the establishment of traded export-related MPANs, building actual data to inform the development of the relevant Load Shapes. Therefore, Ofgem must ensure that the timing is appropriate and existing issues with data and the trading of export MPANs are addressed before transition and implementation.

Transition period

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.

Energy UK is generally supportive of the proposed transition period, noting it is appropriate for Ofgem to articulate what it is currently minded to progress with.

However, our members feel it would be more appropriate to consider what each phase needs when the detail of what is going to be implemented is available and has been assessed. Thus, setting a timetable which has taken into account any limitations of the various processes which all Electricity Settlement participants will need to complete ahead of commencing migration (for example Qualification of new Service roles (potentially with Auditors assessing each parties preparedness and PAB approving their qualification) daily limitations of relevant industry service providers (for data transfer/processing or Smart Meter Service Request processing).

We would encourage Ofgem to keep the exact length and timing of the migration period under review and, when the detailed design has been impact assessed, re-assess whether it remains appropriate as we get closer to migration. While 1 year may be an appropriate backstop, given the scale of the benefits of MHHS, Ofgem should ensure that the timetable is realistic and where possible potential impediments to implementing as fast as possible, whilst getting it right first time, are minimised.

As was shown in the feedback at Ofgem's stakeholder event on 3 September, many suppliers are concerned about the challenges of delivering two large and complex programmes (MHHS and Fast Switching) in the same time periods. In keeping timings under review, Ofgem should also consider whether one programme may need to be prioritised over another, and take into account the greater benefits for customers that could be provided by the successful delivery of MHHS.

There are potential issues with an MPAN being switched from one system to the other if suppliers are at different stages in migration, and

our members seek clarity of the provisions in place to specify how these circumstances will be dealt with.

The majority of our members consider there continue to be benefits of separating out the different proposed SVA market segments (now smart and non-smart, Advanced and Unmetered) for migration phases.

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.

Energy UK would underline the importance for suppliers to have certainty of the detailed design and code provisions, prior to being able to develop, build and test the necessary systems. Currently this impact assessment suggests some of the key detail will be received after they envisage suppliers commencing development. There will be difficulties in verifying the detailed design and starting this development with certainty if the central systems (including Settlement and Smart Communications) have not been able to provide an appropriate impact assessment, sufficient information and certainty.

The potential uncertainty is likely to impact the economic and efficient delivery of the programme and affect a timely, successful transition.

Any delays to receiving the detailed design will have a knock-on impact upon suppliers' ability to successfully develop their systems, which should be taken into account by the impact assessment and programme re-planning.

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

Energy UK would note that COVID-19 is already having impacts on these timelines, with some delays already occurring which need to be factored into revised programme plans. COVID-19 remaining a factor going forward is also likely to impact the smart meter penetration expectations of the industry, which Ofgem will need to take into account.

Delays in the Faster Switching programme will also have direct and indirect knock-on impacts on the development and delivery of MHHS for both suppliers and central services given the overlap and dependencies between the two workstreams and required resources.

The introduction and progress with other workstreams, such as Ofgem's reforms to Consolidated Segmental Statements, will also impact upon suppliers' resource and ability to have these targets successfully and efficiently met.

Data access and privacy

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.

Energy UK agrees with Ofgem's proposal, and we believe that daily should be the minimum defaulted level of granularity as granular, actual data ensures the most informed Load Shapes are developed and refined.

Our members take this opportunity to remind Ofgem that the full benefits of MMHS are best seen if half-hourly data were allowed as a regulated duty.

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.

Energy UK believes that daily granularity should be the minimum level of data granularity for settlement and forecasting purposes. If the granularity is set to monthly, it might hamper moving to the final proposed Settlement Timetable or negatively affect Settlements by the use of data with limited benefits.

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.

Energy UK believes that there is a benefit to creating clear, consistent communications. Existing parties, such as industry, Ofgem and Citizens Advice could develop/host informational material to ensure common messaging can be widely shared or referred to. Thus, allowing the Customer the opportunity to verify the information they have been given about Settlements and their choices from a trusted third parties.

However, Energy UK does not believe that there is any clear rationale or justification for any new, central body to provide transparency and information to consumers. This would seem uneconomic and unnecessary for the messaging required.

Consumer impacts

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

Energy UK's members will be best placed to provide additional evidence directly.

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.

Energy UK's members will be best placed to provide additional evidence directly.

Programme management

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

Energy UK believes that some elements may be over-complicated, as they have been drawn over from the more complex (and dual fuel) switching programme.

However, with a high number of code changes to be overseen, there will need to be central oversight, management and assurance by Ofgem.

Energy UK's members will be best placed to provide detailed responses to these issues.

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 scale and complexity of the programme is at a level not faced in the electricity market for some time. There is a need for specific skills around change management and experience to successfully manage delivery functions.

To ensure that these skills and experience are present, we believe that there could be a role for a steering group of industry experts to help Ofgem's senior decision makers hold the responsible parties to account.

Whichever party is selected for the role will need to be independent to the existing delivery service providers and have clear objectives that reach past just settlement, including consumer impacts.

The majority of our members note that there are key differences between the switching programme and this, expressing concerns about replicating the same model.

Other

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?

Energy UK would welcome clarity from Ofgem on how it envisages measuring the ongoing benefits of MHHS and how it will ensure that the regulatory regime remains flexible for its success. There will be major changes over the coming years to facilitate decarbonisation and digitalisation, which will also impact upon consumer behaviours. It will be important for Ofgem to ensure that the wider regulatory framework is agile enough to keep pace with these changes, and any indirect impacts they have on the success of MHHS.

Some members have raised concerns that the supplier costs in the Impact Assessment for delivering the programme look to be lower than the real costs for suppliers to deliver such a large and complex programme over a number of years. If suppliers are recording costs that are indeed higher than the IA predicts then the programme costs should fall under the Price Cap to ensure that suppliers remain able to recover efficiently incurred costs.

In addition, we believe that Ofgem must have due regard to the number of customers who will not be Smart metered at the time the transition occurs - whether this is by choice of refusing the technology or lack of available technology. The consultation document does have some information around this but Ofgem assume that the likely number of smart meter installs will be high. Even if that is the case and 90% of installs successfully occur, that would leave approximately 6 million customers on traditional metering. We have concerns that there is a risk this issue may be more significant and has the potential to undo the cost benefits analysis.