

Jonathan Amos  
Smarter Markets  
Ofgem  
9 Millbank  
London  
SW1P 3GE

By email only to: [smartermarkets@ofgem.gov.uk](mailto:smartermarkets@ofgem.gov.uk)

23 December 2013

Dear Jonathan

### **Impact Assessment Consultation on Balancing and Settlement Code (BSC) Modification Proposal P272**

Thank you for the opportunity to comment on this consultation. This response should be regarded as a consolidated response on behalf of UK Power Networks' three distribution licence holding companies: Eastern Power Networks plc, London Power Networks plc, and South Eastern Power Networks plc. For convenience, the three licensees are collectively referred to as "UK Power Networks" throughout. Please note that our response is not confidential and can be published via the Ofgem website.

We have provided answers, where appropriate, to the consultation questions in the appendix to this letter, but would like to bring out a number of key points:

- UK Power Networks supports the implementation of BSC Modification P272 and concurs with Ofgem's impact assessment. In our view, P272 is an important and prerequisite step to the wider smart metering programme and the migration away from profiled non-half hourly settlement.
- While Ofgem recognises that distribution charges are a market issue, we note that it does not consider that the introduction of the planned new DUoS tariffs will lead to higher levels of elective HH settlement given the other factors relating to suppliers. Nevertheless UK Power Networks is committed to completing the development of the new HH distribution tariffs for larger customers and implementing these (within the constraints of the charging methodology and DCUSA) as promptly as practical, although the current timetable suggests that an implementation of these changes within Schedule 16 of DCUSA prior to 1 April 2015 is unlikely. We are pleased that Ofgem has recognised that P272 will not increase the revenue that DNOs can collect through network charges, as this is capped as part of the price control.

If you have any questions regarding this submission then please do not hesitate to contact me in the first instance. In addition we would be more than happy to come and see you again to discuss any points requiring clarity and to answer any questions that you may have.

Yours sincerely

A handwritten signature in black ink, appearing to read 'K Hutton', written in a cursive style.

Keith Hutton  
Head of Regulation  
UK Power Networks

Copy: Paul Measday, Regulatory Returns & Compliance Manager

## **Appendix: UK Power Networks' response to the consultation questions**

### **CHAPTER: Three**

**Question 1:** *Do you agree with our approach to assessing the impacts of P272?*

We agree with Ofgem's approach to assessing the impacts of P272 – in particular, the use of a Monte-Carlo analysis to test sensitivities of the result and the scenario analysis to assess the impact of future changes in the market. This is particularly important and reflects that Ofgem has wider statutory duties than those of the BSC Panel – the Panel is required to consider only the change in question and cannot give consideration to wider and potential future market changes not explicitly contained within the Modification Proposal.

**Question 2:** *Are there any additional, material impacts that we should consider?*

Our analysis has not identified any additional material impacts that should be considered.

### **CHAPTER: Four**

**Question 3:** *Do you agree that P272 would drive suppliers to encourage DSR among their customers?*

We would expect the implementation of P272 to follow a pattern similar to other market changes over the last 20 years. In the short term, only the more innovative suppliers will promptly implement more cost reflective seasonal and time of use tariffs, leading to DSR and lower costs for their customers. As a result these suppliers will attract more customers, because they will offer products that better allow customers to control their costs – prompting other suppliers to follow suit as they see their market shares drop.

**Question 4:** *Do you agree with our approach for quantifying the value of load shifting and load reduction, including the assumptions we made? Is there any evidence we have not identified that could inform our analysis?*

Ofgem's assumptions and approach to quantifying the value of load shifting and load reduction are reasonable. Our analysis has not identified any additional evidence that could inform the analysis.

**Question 5:** *For those impacts stemming from suppliers reducing the costs of supplying energy (for example, by promoting DSR) that we did not quantify, do you have any suggestions on how we might do so?*

We have no suggestions in this area.

**Question 6:** *Do you agree with our approach to quantifying the value of improved forecasting, including the assumptions we made?*

Ofgem's assumptions and approach to quantifying the value of improved forecasting are reasonable.

**Question 7:** *Could the costs of investing in forecasting capability for HH demand impact disproportionately on smaller suppliers or on new entrants?*

We do not have visibility of whether such costs would affect smaller suppliers or new entrants disproportionately.

## **CHAPTER: Five**

**Question 8:** *Do you agree that we have correctly identified the cost savings that suppliers could realise in managing the settlement process?*

We agree that Ofgem has correctly identified the cost savings that suppliers could realise in the settlement process.

**Question 9:** *Do you agree with our assumption regarding the typical size of data quality teams employed by suppliers?*

We do not have direct visibility of the sizes of suppliers' data quality teams. However, the generally slow response from larger suppliers to data quality issues that we raise compared to the very prompt responses that we receive from smaller suppliers, suggests that Ofgem may have overestimated the effort put in by large suppliers and underestimated that of smaller suppliers.

**Question 10:** *Do you agree that meters of consumers in Profile Classes 5-8 are mostly read at the end of each month?*

Historically Industrial & Commercial meters were read monthly and placed on the meter reading cycle to be read either at the end or in the first couple of days of each month. The R1 Settlement Run was specifically intended to incorporate this monthly data. Examination of the meter reading data provided to us by suppliers' data collectors indicates that this is still the case, with around 75 per cent of meter readings being received within two days of the last day of the month.

## **CHAPTER: Six**

**Question 11:** *Do you agree with our approach to quantifying the costs of P272 for suppliers and DNOs? If not, we encourage respondents to suggest alternative approaches.*

We agree with Ofgem's approach to quantifying the costs of P272 for suppliers and DNOs. The cost quantification for DNOs is reasonable.

**Question 12:** *We welcome evidence from smaller suppliers of larger non-domestic consumers on the costs they could incur if P272 is implemented.*

We do not have visibility of such costs.

**Question 13:** *We welcome information from suppliers on (1) how many consumers would need to move electively for them to incur upfront costs and (2) the costs that would be incurred, broken down by the cost categories listed in this chapter.*

Not applicable – we are a DNO.

**Question 14:** *Would consumers incur costs from termination of contracts with Supplier Agents? If so, we welcome information that could help us to assess these costs.*

We do not have visibility of such costs.

**CHAPTER: Seven**

**Question 15:** *Do you have any comments on the results of our quantitative analysis?*

The quantitative analysis appears balanced and appropriate.

**CHAPTER: Nine**

**Question 16:** *If P272 is approved, would it be possible to implement the modification in less than fourteen months?*

All of the customers within this group should have a half hourly capable meter installed by their supplier by 6 April 2014. It would therefore be possible to implement this transition in less than 14 months.