

17th October 2018

James Earl and Anna Stacey,
Ofgem
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Email: alisonrussell@utilita.co.uk

By email only

Dear James and Anna,

Thank you for the opportunity to provide our comments to Ofgem's consultation on the outline business case on the market-wide settlement reform.

Utilita is a smart meter Supplier with a predominantly prepay client base and we have been operating in the market successfully since 2008. We note in the business case that any potential differences between prepayment and credit customers has not been acknowledged despite the settlement reform impacting both types of customers. Ofgem must assess any special effects to prepayment customers to deliver a full benefits case for market-wide half-hourly settlement.

We are surprised that learnings from elective half-hourly settlement have not yet been addressed. Ofgem must undertake a full lessons learned exercise before mandating market-wide half-hourly settlement.

We also urge Ofgem to reassess all potential costs for industry to ensure there is a robust economic case to inform any regulatory decisions. We are concerned with the lack of appreciation within the business case to the increase of costs arising from handling the scale of data required to send and receive half-hourly data. We are particularly concerned with the cost of changes that will be required by the Data Communications Company (DCC) to handle the increase in data. Ofgem must consult with the DCC to factor in the costs associated with half-hourly data handling and understand DCC timelines for implementing changes.

We agree the half-hourly settlement of export metering should be considered within the scope of the market-wide settlement reform. However, Ofgem must consider the benefits case for half-hourly settlement of export metering in full, in addition to the separate benefits case for half-hourly settlement of import metering. Current analysis within the business case on half-hourly export settlement lacks any substantial detail and we are surprised that Ofgem has not made reference to other cross-over initiatives such as the work in progress concerning changes to the Feed-in Tariff Scheme as a result of smart meter roll out. We believe there is considerable overlap in the changes that Suppliers will have to undertake across both work areas and therefore this must be acknowledged by Ofgem.

We hope these comments have been helpful, and would be happy to discuss any points in more detail.

Yours sincerely,

By email,
Alison Russell
Director of Policy and Regulatory Affairs

Appendix A – Utilita’s consultation response

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 mostly agree with Ofgem’s summary of the scope of benefits and costs of half-hourly export settlement, however the current information provided is very high-level and lacks any detailed analysis to inform the overall business case.

We would also like to highlight that like import metering, customers have a choice to refuse consent to allow the collection of daily or more frequent data from a smart meter. This may mean only monthly data can be submitted into settlements. The collection of export data from a smart meter will also only be possible where there is WAN communication. Ofgem should therefore be cognisant that both scenarios will reduce the overall benefits of half-hourly export settlement and increases costs to industry in delivering separate settlement arrangements.

Finally, Ofgem must update the supply licence to mandate the collecting of half-hourly export data for use in half-hourly settlement and associated processes to drive market-wide benefits.

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

We believe there is considerable cross-over in the work that will required by Utilita to implement market-wide half-hourly export settlement and Ofgem’s proposals regarding changes to the Feed-in Tariff Scheme as a result of the smart meter roll out. Therefore, the impacts are highly dependent on what changes we implement to meet Ofgem expectation under the FiT Scheme.

Export MPANs will require creating (where they do not exist already) for any new or existing FiTs installations that have a smart meter installed. This can be a lengthy and frustrating process however we note a new procedure for requesting export MPANs from distribution businesses is being implemented under the Master Registration Agreement (MRA) in February 2019.

We will also need sufficient time to communicate with our customers regarding any changes we intend to make in either accessing or using metered export data for the purpose of half-hourly export settlement.

We are unable to comment on the impacts of the retrieval and submitting of half-hourly export data into settlements when how this will take place is under consideration under the settlements reform programme. This may however add to our operating costs when in our experience half-hourly metering points have a much greater cost to serve by agents due to the sheer volume of data.

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

We believe consumer impacts would be better considered in conjunction to Ofgem’s proposals regarding changes to export payments within the FiTs Scheme than if Suppliers should consider the impacts to consumers separately. For example, changes to the FiTs Scheme are looking to enforce that Suppliers no longer pay customers using a deemed export basis which may act as a disincentive to consumers choosing to have a smart meter installed. This would then lead to missed

opportunities for that customer brought through half-hourly settlement and new Supplier service offerings.

We would also like to highlight that Suppliers will have already had to had to contact consumers regarding changes to their contracts and payments when implementing changes to the FiT Scheme. These changes, are likely to impact what further changes Suppliers intend to make to its consumer services to support the half-hourly settlement of export metering.

Question 4: What are the impacts for small scale generators of implementing market-wide half-hourly export settlement?

We are unclear on Ofgem's definition of a small-scale generator however we believe this question is better answered by small scale generators.

Question 5: Have we identified the right commercial drivers?

Yes, we agree that Ofgem have identified, in part, the right commercial drivers. Those identified can be categorised into three main areas of benefit:

1. Lower costs to serve (Resulting from more accurate data)
2. Opportunities for innovation and new products/services (Resulting from an increase in consumer data)
3. Undefinable wider benefits (e.g. 4.16)

Lower 'Costs to Serve'

Whilst we agree that Half-Hourly settlement allows Suppliers to manage their portfolio much more accurately, due to the higher quantity and quality of data available, we do not agree that this will reduce the overall 'costs to serve' a customer. There will be necessary changes to billing and tariff systems, an increase in agent costs and metering, storage processes and DCC costs; as well as any additional security costs for the new data being held. Given that wholesale costs will remain unaffected, it is difficult to see where the cost savings for customers will come from under the new arrangements. If the elective arrangements are commercially enticing then there will be a natural shift to them. Those who have the ability and foresight to gain from the arrangements should be allowed and encouraged to do so.

Ofgem outline, in Figure 3, the benefits of implementing settlement reform, we would like to see a similar *costs* representation that can be used to fully evaluate the costs Vs benefit of the proposal.

Opportunities for Innovation

Given that Half-Hourly elective settlement has been open to Suppliers for the past 18 months we would expect Ofgem to have undertaken an analysis of any new innovation that has been a direct result of the opportunities of Half-Hourly settlement.

We question whether this reform will truly lead Suppliers to innovate on the scale that Ofgem predict. It is suggested that innovation in products and services will drastically affect competition between existing industry participants, as well as allowing for the introduction of many new market participants.

Whilst the business case, at this stage, only assumptively evaluates the impact upon innovation, we would argue that there is already a degree of innovation in play in the industry through the route of elective Half Hourly Settlement and those pursuing this would be no more likely to be incentivised if the arrangement was elective or mandatory.

Undefinable wider benefits

We do not agree that undefinable wider benefits should be considered a commercial driver. Not only is this far too broad and generic, the effect of this benefit can't be fully evaluated if it is never defined. Therefore, it seems unrealistic to expect that these 'benefits' will substantiate if they can't be given any prior definition. If Ofgem wish to include 'wider undefinable benefits' as an incentive then they must also provide consideration for the counter under their disincentives; "Undefinable wider dis-benefits" in their full business case.

Question 6: Are there others that we have not identified and should consider?

Ofgem have used the example that there could be increased competition for Suppliers as new entrants develop niche or innovative offerings. However, suppliers may not be the only parties affected by competition, as an example data processing may see an increase in competition also. New entrants aren't always the best equipped, especially when it comes to operating knowledge and so the predicted influx into the market needs to be managed carefully to mitigate any issues arising for existing market participants.

Question 7: How can we look to either capitalise on the positive impacts of these drivers or mitigate any negative impacts?

We feel that further exploration of the options to incrementally or fundamentally change settlement arrangements is a valuable next step for Ofgem, including considering enduring elective arrangements. We would also encourage early engagement in the programme from all industry parties to ensure negative impacts can be mitigated where possible.

As mentioned above there is a large proportion of consumers who are happy with their current arrangements, who do not want a smart meter or who are simply disengaged with switching, possibly through lack of interest in their energy needs. In developing the full business case Ofgem should seek to develop a fall-back position for such consumers who actively show no interest in HH settlement and, for example, refuse access for a suitable smart meter to be installed. Suppliers should not be penalised in this scenario, when they have made all *reasonable efforts* to encourage the customer towards allowing the installation of smart metering.

We encourage Ofgem to consider the timeline for the final business case, and allow it to encompass the smart meter roll out date in 2020. As noted under 2.53 The outline business case is very high level and the reform is dependent on the smart meter rollout meeting critical mass. We are mindful that the reform could be reliant on the necessary increase in data becoming available before the smart meter rollout has reached suitable levels to facilitate this.

Overall, following review of the outline business case we would like to see further financial analysis within the full business case, to strengthen the outlined commercial incentives and disincentives. This must include observations of the uptake of elective Half-Hourly settlement.