

Market-wide Settlement Reform: Outline Business Case

17 October 2018

Introduction

Energy UK is the trade association for the GB energy industry with a membership of over 100 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership covers over 90% of both UK power generation and the energy supply market for UK homes. We represent the diverse nature of the UK's energy industry – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

Our members turn renewable energy sources as well as nuclear, gas and coal into electricity for over 27 million homes and every business in Britain. Over 730,000 people in every corner of the country rely on the sector for their jobs, with many of our members providing long-term employment as well as quality apprenticeships and training for those starting their careers. The energy industry invests £12bn annually, delivers £88bn in economic activity through its supply chain and interaction with other sectors, and pays £6bn in tax to HMT.

This is a high-level industry view; Energy UK's members may hold different views on particular aspects of the Outline Business Case. Energy UK is supportive of the intention behind market-wide settlement reform and agrees with the rationale underpinning the programme. However, to date the cost/benefit analysis has not provided a sufficient business case. This is in part due to key decisions having not yet been made, such as on the final design of the Target Operating Model and the extent to which data can be accessed for settlement purposes, which has restricted Ofgem's ability to provide a robust economic case at this time.

We would be happy to discuss any of the points made in further detail with Ofgem or any other interested party if this is considered to be beneficial.

Costs and Benefits

Energy UK has a general concern that Ofgem has not fully accounted for the shorter period for the costs of implementing the market-wide reforms compared to the far longer period for the as-yet unsubstantiated long-term benefits to be realised. We would, therefore, welcome clarity from Ofgem in future iterations as to the impacts of the costs and benefits on significantly different timelines.

In addition, Ofgem has assumed that suppliers will change billing and tariff systems despite those changes not being mandated, which could lead to a flawed basis for the business case. Previous RFIs have not included billing or tariff systems within their scope to form part of Ofgem's analysis. Energy would urge Ofgem to include such areas within its mandatory RFI scheduled for next spring.

Ofgem has not made sufficiently clear within its Outline Business Case whether or not benefits of other reform programmes, such as the faster switching programme, have been reused within its analysis and are therefore being double counted. Ofgem should ensure future iterations provide this clarity to ensure that the benefits of market-wide settlement reform are not being wrongly overstated.

With regards to these expected benefits, Energy UK is concerned that expectations of previous reforms have not been fully realised which could undermine the business case for settlement reform. For example, the benefits of P272 have not been realised to the level that Ofgem had expected. The expected benefits in reduced agents costs and load shifting in particular have not been realised, likely due in part to the overestimation of some SMEs ability or willingness to change demand pattern. Ofgem should provide clarity as to how it has used P272 as a source for its cost/benefit analysis.

A high proportion of the costs savings highlighted in the Outline Business Case are reliant upon customer actions. Ofgem has not provided sufficient clarity as to the value of these cost savings that a supplier would be able to pass on to consumers given external factors, such as network charges or variances in wholesale costs. Energy UK, therefore, believes that Ofgem should give due consideration to these issues in future iterations of the business case. It is important for there to be clear information on customer savings in order to incentivise customer actions, and for these savings to be fully realised.

Of particular concern to Energy UK is Ofgem's apparent lack of consideration on potential DCC costs, its overall ability to handle the increase to half hourly data and the timelines necessary to initiate and implement changes to the DCC. To provide a robust economic case for market-wide settlement reform it is imperative that Ofgem has consulted with the DCC and factors in any associated costs and timeline implications for the reform programme. Furthermore, Ofgem should consider the significant DCC and/or supplier investment required to manage HHS export settlement where suppliers aren't the import suppliers.

Energy UK is also concern about the cost of data security. In particular, if there is a data-lake, the security arrangements could be as costly as those seen with the DCC. Ofgem should provide clarity on their considerations of security costs and ensure these have been fully considered in the cost/benefit analysis. Ofgem should also consider whether the SEC Security Committee will need to assess consequential impacts upon their systems.

Chapter 2: What are your views on the potential costs and benefits of half-hourly settlement of export? What are the risks and opportunities?

Energy UK agrees with the rationale behind half-hourly settlement of export but, just as with import, Ofgem needs to produce an economically robust business case. To achieve this, Energy UK believes that Ofgem should produce separate and equally robust business cases for both import and export settlement reform. Ofgem should produce a standalone positive case for export in order for its costs/benefits to be properly assessed. While not much detail has been produced on the costs/benefits of half-hourly settlement of export to date, it is probable that the costs associated with implementing such a reform will be significantly different to import which warrants detailed consideration.

In addition, Ofgem should consider implementing separate timelines for the implementation of half-hourly settlement of import and export due to distinct and extra changes that would be required for export, such as the creation of Export MPANs and necessary changes to DCC systems to make export functionality work effectively (for example, currently only the Import supplier has the necessary information and permissions to set up an Export MPAN in the DCC). The timelines could run concurrently but they should properly take into account the challenges associated with delivering separate reforms.

- a. *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?*

Energy UK is concerned with a lack of consideration to date over the associated costs of half-hourly export settlement, such as the creation and registration of the necessary MPANs, the required DCC modifications to support export functionality, the updating of supplier system and the as-yet unknown security costs.

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

Energy UK anticipates that its members will be best placed to answer this question in their individual responses. However, there are a number of general impacts that Ofgem should consider. These impacts include the creation of MPANs for export and the consequential updating of supplier systems, in addition to the challenges raised in suppliers' forecasting.

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

Energy UK anticipates that its members will be best placed to answer this question in their individual responses.

- d. *What are the impacts for small scale generators of implementing market-wide half-hourly export settlement?*

Energy UK anticipates that its members will be best placed to answer this question in their individual responses.

Chapter 4: Have we identified the right commercial drivers in the commercial case? How can we look to either capitalise on the positive impacts of these drivers or mitigate any negative impacts?

Energy UK agrees that Ofgem have generally identified the right commercial drivers within its Outline Business Case. However, Ofgem should give more detailed consideration of the impacts of demand and technology changes within its cost/benefit analysis to produce a robust case.

If you would like to discuss the above or any other related matters, please contact me directly on 020 7747 2931 or at steve.kirkwood@energy-uk.org.uk.