

By e-mail to: energymarket@cma.gsi.gov.uk

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29 October 2015

Dear Will,

ELEXON's response to the CMA's RFI on the costs of half hourly Settlement on Profiles 1-4

In our response to the CMA's provisional findings we noted that ELEXON has previously worked with industry and Ofgem in developing proposals for the evolution of Settlement¹. The findings of the Profiling and Settlement Review Group (PSRG) in relation to half hourly Settlement of Metering Systems registered as Profile Classes 1-4 is available on the ELEXON website¹.

The PSRG's Cost Benefit Analysis was unable to quantify the overall costs as the future business process could not be defined in sufficient detail and there was too much uncertainty around the smart metering solution. However, we felt that there were benefits in using half hourly data in settlements, particularly in terms of data accuracy and in relation to customers on time of use tariffs.

We also highlighted the formation of the Settlement Reform Advisory Group (SRAG), a strategic body charged with investigating the potentially wide-ranging improvements to the Balancing and Settlement arrangements. The SRAG are looking at changes that may be needed to support the mandated rollout of smart meters and the introduction of new technology (such as storage and more prevalent embedded generation). The latest thinking of the SRAG is also available on the ELEXON website².

We note that many of the broader matters and costs considered in the RFI are industry wide. We therefore set out below (in Appendix A) responses to those questions in the RFI that are relevant to the BSC central systems and ELEXON.

In particular, we believe that we should move to a half hourly (HH) settled market as it will make the market simpler, more efficient and will open it up to new technologies, ultimately benefitting the end consumer. The costs from a central systems perspective and ELEXON are based on a minimal change approach to achieve HH settlement and are largely cost neutral (one off costs versus longer term ongoing savings). The main cost areas:

1. Changes to performance assurance (required in the shift to HH Supplier agents);

¹ See the work of the [Profiling and Settlement Review Group](#).

² See the work of the [Settlement Reform Advisory Group](#).

2. Central costs to test that the systems are robust to the ramp down in NHH data and closure of the NHH processes; and
3. Potential service savings from our service providers (profiling, NNH software and data transfer).

We also wish to highlight the potential benefits of a centralised Data Collection and Aggregation function in a mandated HH settled world. This is both from a cost perspective and unlocking benefits from new technology and potential new markets for demand side response.

We note that harmonisation activities from Europe may also necessitate other wide scale changes to the balancing and settlement mechanism. For example, the potential change to a 5, 10 or 15 minute settlement period. This will have implications for mandating HH settlement.

The views expressed in this response are those of ELEXON Ltd, and do not seek to represent those of the BSC Panel or Parties to the BSC.

We have clearly marked the information in this response which should remain confidential. We would be happy to prepare a non-confidential version of this response if this is required.

We would be happy to discuss our comments and will continue to support the CMA in its work. If you would like to discuss any areas of our response please contact Adam Richardson, Senior Market Advisor, on 020 7380 4117, or by e-mail at adam.richardson@elexon.co.uk.

Yours sincerely,

Mark Bygraves
Chief Executive, ELEXON

List of enclosures

Appendix A - ELEXON's detailed response to the CMA's RFI on the costs of half hourly Settlement on profiles 1-4

ELEXON's detailed response to the CMA's RFI on the costs of half hourly Settlement on profiles 1-4

Appendix A

Question 1: Most respondents to our remedies notice have suggested that mandatory half-hourly (HH) Settlement for customers in profile classes 1-4 with a smart meter should only be introduced when the majority of customers will have a smart meter installed. What would be the net costs of implementing HH Settlement for profile classes 1-4, say in 2018, for your business?

Assumptions

We have assumed that this question relates to mandated Half-Hourly (HH) Settlement. We do not believe full HH Settlement is achievable by 2018 as the roll out of smart meters will not have finished. However, one approach to a mandate could be to move to HH Settlement on the installation of a smart meter. It is therefore likely that the non-half hourly (NHH) processes will have to continue for some time. This is explored later in our response.

We have also assumed that the HH business process remains largely unchanging from a central systems perspective, as we process aggregated HH meter volumes data.

Overview

The P272 cost categories are not directly relevant to ELEXON. We therefore set out a broad commentary in relation to both ELEXON and BSC systems and processes below. In summary these material costs are:

Area	Upfront Costs	Ongoing Costs Change	Cost Savings
Performance Assurance	£400k-700k	£260k-460k³ (per annum in the 2 years after implementation)	Confidential⁴ (year 3 per annum)
Central Systems	£150k	No change	Confidential⁴
ELEXON Operational Activities	None	No change	None
Total	c.£550k-£850k	c.£260k-460k³	c.£625k years 1 and 2 and £755k per annum thereafter

Performance Assurance

The rollout of Smart metering and expansion of HH Settlement will impact the relative significance of existing Settlement Risks (and may create new Settlement Risks). The Performance Assurance Board (PAB) will need to consider the effect that these will have on Settlement. It is likely that automated/remote meter reading will move the emphasis of risk away from collecting data and towards accuracy of commissioning and Meter Technical Details

³ These potential additional costs may be borne while non-half hourly Settlement continues to run with an expanding set of half-hourly Suppliers and Supplier Agents and will continue to be incurred up to two years after the last settlement day for which non-half hourly calculations must be performed.

⁴ These cost savings would only occur at a future point when NHH Settlement is shut down (confidential).

and timeliness and accuracy of any meter re-programming activity (issues which are currently concerns in HH Settlement).

Consequently, the PAB may determine that changes should be made to the design and application of Performance Assurance Framework (PAF) techniques in order to better mitigate these changing Settlement Risks. In particular, the PAB may wish to monitor the Change of Measurement Class (CoMC) process during any transition to HH Settlement.

- *PARMS Serials and Standards:* The Performance Assurance Reporting and Monitoring System (PARMS) is used for monitoring Supplier and Supplier Agent performance against a set of Key Performance Indicators (Serials and Standards) that are defined in the BSC and subsidiary documents. There may be a need to revise the Serials and Standards that are collected, monitored and reported in order to discontinue redundant NHH indicators and enable the PAB to provide appropriate assurance in a wholly HH world.
 - *Upfront Costs:* Amendments to Serials would need to be defined and agreed via a BSC Modification (we have assumed only one, well defined Modification, is required). These costs are approximately £15k of expended ELEXON effort per BSC Modification but are considered as 'Business As Usual' (BAU) and would be absorbed by ELEXON through existing processes. Changes to PARMS to accommodate new Serials and Standards (and to retire those that relate to NHH Settlement) might be in the order of approximately £10k to £100k of additional development costs depending on the scope of such changes.
 - *Ongoing Costs:* It is likely that there would be no material change in the ongoing costs associated with operating PARMS.
 - *Cost Savings:* It is unlikely that there would be material savings in the ongoing costs associated with operating PARMS.
 - *Implications of an implementation date other than 2018:* We anticipate the total lead time to review and revise serials and standards under a BSC Modification and implement subsequent changes to PARMS to be in the order of two years. This should be borne in mind when considering alternatives to 2018. However, while it may be preferable to co-ordinate the introduction of revised Serials and Standards with mandatory HH Settlement, it is not a prerequisite for half hourly Settlement.
- *Supplier Charges and Peer Comparison:* Supplier Charges are costs associated with underperformance on certain PARMS Serials. Along with public and non-public Peer Comparison of submitted data, they incentivise Parties to increase their performance against certain standards. Taking the form of liquidated damages, Supplier Charges are used to compensate other market competitors, who may have been negatively impacted by a Party's poor performance. The basis of such compensation is, in part, based on the design of the market and the application of Grid Supply Point Group Correction Factor (GSPGCF). This mechanism smears energy allocation errors arising in HH Settlement and in NHH Settlement across Suppliers operating in NHH Settlement according to their market share. As the industry moves away from NHH Settlement, the impact of GSPGCF will diminish and the mechanism may, itself change. Supplier Charges will therefore need to be reviewed to ensure that they remain a reasonable reflection of the detrimental impact underperformance has on the market operations. It may be decided that in fact, Supplier Charges are outdated and no longer relevant. In this case it will need to be assessed whether Peer Comparison alone provides enough incentive, or if a new method should be introduced
 - *Upfront Costs:* Amendments to Supplier Charges would need to be defined and agreed via a BSC Modification (we have assumed only one, well defined

Modification is required). These costs are approximately £15k of expended ELEXON effort per BSC Modification but are considered as 'Business As Usual' (BAU) and would be absorbed by ELEXON through existing processes. Changes to PARMS to accommodate a revised Supplier Charges and Peer Comparison regime might be in the order of approximately £10k to £100k of additional development costs depending on the scope of such changes.

- *Ongoing Costs:* It is likely that there would be no material change in the ongoing costs associated with operating a revised Supplier Charges or Peer Comparison regime.
- *Cost Savings:* It is unlikely that there would be material savings in the ongoing costs associated with operating a revised Supplier Charges or Peer Comparison regime.
- *Implications of an implementation date other than 2018:* We anticipate the total lead time to review and revise Supplier Charges and Peer Comparison under a BSC Modification and implement subsequent changes to PARMS to be in the order of two years. This should be borne in mind when considering alternatives to 2018. However, while it may be preferable to co-ordinate the introduction of revised Supplier Charges and Peer Comparison with mandatory half hourly Settlement, it is not a pre-requisite for half hourly Settlement.
- *Technical Assurance:* The Technical Assurance (TA) Agent currently looks at a sample of Measurement Class 'C' meters each (approximately 1 % of the 100k registered Metering Systems i.e. 1000 sites). The only change to the Technical Assurance process would be if other Measurement Classes became subject to the Technical Assurance Process. It is more likely that these checks will be extended to customers currently in Profile Classes 5 to 8 with Current Transformer (CT) Metering (Measurement Class E) which are unaffected by this proposal. If smart Meter customers were to be included then TA checks would probably only be applied to non-domestic customers (currently in Profile Classes 3 and 4) with CT Metering. Expanding the scope of Technical Assurance in this way would at most double the scale of the Technical Assurance Agent's operations depending on the sample size that was deemed necessary for to provide appropriate assurance in respect of these Metering systems. Additional complexity would be introduced from the need to access Metering Systems at domestic and small business properties. Careful consideration should be given as to whether there would be a benefit to auditing these Metering Systems which, individually, measure very small quantities of energy. We note that there has been no call to expand the Technical Assurance service for the roll-out of half hourly Settlement for profile class 5-8 Metering Systems. We therefore believe that changes to the Technical Assurance service are unlikely. However, we comment on the potential cost implications below.
 - *Upfront Costs:* Amendments to the Technical Assurance service would need to be defined and agreed via a BSC Modification (we have assumed only one, well defined Modification is required). These costs are approximately £15k of expended ELEXON effort per BSC Modification but are considered as 'Business As Usual' (BAU) and would be absorbed by ELEXON through existing processes. If such changes were taken forward, it is likely these would constitute a material variation to the service which, in turn, might lead to a re-procurement of the service. At the very least, implementation costs would be incurred in scaling up the existing service. We anticipate that these implementation costs might be in the order of £100k.
 - *Ongoing Costs:* If such a change was progressed we anticipate that the annual sample size could double. Hence, the ongoing impact on costs would be in the

order of £200k per annum. However we believe this is unlikely to be needed and have included this for completeness.

- *Cost Savings:* None (see above).
- *Implications of an implementation date other than 2018:* We anticipate the total lead time to review and revise the Technical Assurance service under a BSC Modification and implement subsequent changes to the service to be in the order of eighteen months to two years. This should be borne in mind when considering alternatives to 2018. However, while it may be preferable to co-ordinate the introduction of a revised Technical Assurance service with mandatory half hourly Settlement, it is not a pre-requisite for half hourly Settlement.
- *Qualification and Re-Qualification:* We anticipate that a move to mandatory half hourly Settlement would see an increase in the number of Qualification applications. These may be from Suppliers that are currently only qualified to operate as non half hourly (NHH) Suppliers. There are also a number of NHH meter operators, NHH data collectors and NHH data aggregators that are not qualified to provide half hourly services. In addition, existing half hourly meter operators, data collectors, data aggregators and meter administrators may need to make material changes to their systems and processes and thereby be subject to the re-Qualification process. The costs incurred by ELEXON in relation to Qualification and re-Qualification range from approximately £4k to £12k per application. A new process would be required to accommodate smaller unmetered customers within the existing HH unmetered arrangements.
 - *Upfront Costs:* We anticipate that the overall incremental cost of progressing additional Qualifications and re-Qualifications might be in the order of £200k to £400k depending on the number of applications.
 - *Ongoing Costs:* There would be no material change in the ongoing costs associated with operating the Qualification and Re-Qualification process.
 - *Cost Savings:* There would be no material savings in the ongoing costs associated with operating the Qualification and Re-Qualification process.
 - *Implications of an implementation date other than 2018:* It takes approximately 6-9 months to progress a Qualification and 3-4 months for a Re-Qualification from application to approval. This timescale may be impacted if a large number of Qualifications and Re-Qualifications are being progressed and reviewed simultaneously to meet a given implementation date. Costs may increase in order to address any bottleneck that might arise. The more time between the agreement of defined rules and operational requirements for mandatory half hourly Settlement, the greater the opportunity to mitigate and manage any Qualification and re-Qualification bottleneck efficiently. Failure to Qualify or re-Qualify would constitute a non-compliance with the BSC and would lead to additional resources being expended by ELEXON and the non-compliant party in dealing the breach.
- *BSC Audit:* The number of audited entities included in the scope of the BSC Audit is likely to change as half hourly Settlement is rolled out. Due to the change in portfolios which could decline over time (dependent on the implementation date) we will either see the gradual removal of all NHH roles from the BSC Audit or a big bang removal of all NHH roles. However we would also likely see an increase in the number of HH audited roles in the scope of the BSC Audit.

- *Upfront Costs:* It is unlikely that there would be any material up-front costs incurred in relation to the BSC Audit.
- *Ongoing Costs:* Based on current costs, we could see costs of approximately £xxk per annum removed from the BSC Audit costs due to the removal of NHH roles. We estimate that the number of half hourly roles could double this with and approximate cost increase of £xxk per annum.
- *Cost Savings:* Once NHH Settlement is discontinued, we could see a net reduction of approximately £xxk per annum (assuming that there is no longer any NHH Settlement).
- *Implications of an implementation date other than 2018:* These costs would be unaffected by different implementation dates. However, it is important to note that, given the Settlement timetable, an audit of NHH Settlement would be required for one or two years following the year in which the final NHH Settlement day fell.

Settlement Services, Systems and Contracts

The rollout of Smart metering and expansion of HH Settlement will have implications for the delivery of profiling and other Settlement-related services (e.g. the Teleswitch Agent). In addition, there are a number of NHH processes and data items which would no longer be required if NHH Settlement ceased entirely. This includes the provision and maintenance of NHH software to Suppliers Agents (EAC/AA and NHHDA software). Many of these could 'wither on the vine' and so be cost neutral in moving to mandatory HH Settlement. However, there may be cost implications where current system constraints limit the volume of half hourly data that is processed or where algorithms rely on the presence of NHH data. For this reason, we have assumed a testing overhead as part of the upfront costs.

- *Central Settlement Systems:* The changes to central systems would be part of any Modification and costs dealt with as part of mandate (see profiling below). The Supplier Volume Allocation Agent (SVAA) costs associated with switching off NHH, increased volume of HH data, any revisions to settlement methodology and testing.
 - *Upfront Costs:* £150k⁵. This includes £50k costs relating to testing to ensure no unforeseen issues with NHH switch-off. There may be further one of costs in switching off the NHH processes in the central systems which we estimate at £100k. However, other market changes may necessitate larger scale changes, for example European harmonisation and the potential move to 5, 10 or 15 minute settlement periods.
 - *Ongoing Costs:* None
 - *Cost Savings:* None – There may be an opportunity for savings but not clear without further detailed work based on better knowledge of target model and transition approach
 - *Implications of an implementation date other than 2018:* We have assumed no change to the central systems. However, if a change is required, it will take approx. Two years to define, develop, test and implement.

⁵ In the longer run a wholesale review of the SVAA and SVAA Central Systems is required and would be significantly more expensive (in the £100ks). We believe this would occur regardless of the potential move to HH Settlement and have not included any costs associated with replacing this software, hardware or re-procuring the service.

- PrA and Profiling Processes: These processes are required in order to maintain the NHH profiles that are applied. As NHH Settlement runs down the case for regular review and maintenance of profiles diminishes and disappears entirely when there is no longer NHH Settlement.
 - *Upfront Costs:* We have assumed that any Modification or change introduced to the BSC to implement mandatory half hourly Settlement will include associated changes to the provisions relating to profiling. Consequently, we have not included any costs associated with a modification to the BSC exclusively for profiling. On this basis there will be no upfront costs associated with discontinuing the Profiling service.
 - *Ongoing Costs:* There will be no ongoing costs associated with discontinuing the Profiling service.
 - *Cost Savings:* Based on current costs, once NHH Settlement is discontinued, we could see a reduction of approximately **£xxk per annum (please note this figure is confidential)**.
 - *Implications of an implementation date other than 2018:* The above costs would be unaffected by different implementation dates.
- Metrological Office Data: There would be a modest saving from not having to procure temperature data from the Met. Office. This saving is included in the cost saving for profiling given above.
- Teleswitch Agent: The Teleswitch Agent provides a data file to ELEXON for each Settlement Day that defines the switching times for each teleswitched Metering system. This service will need to be retained until the last of the existing Teleswitched Meters have been replaced with a Smart meter. If the Service were discontinued ELEXON **would save £xxk (please note this figure is confidential)**. However, we believe this is a sunk cost saving since the Teleswitch arrangements will be discontinued at a point in the near future regardless of the Settlement process.
 - *Upfront Costs:* We have assumed that any Modification or change introduced to the BSC to implement mandatory HH Settlement will include associated changes to the provisions relating to the Teleswitch arrangements. Consequently, we have not included any costs associated with a Modification to the BSC exclusively for the Teleswitch arrangements. On this basis there will be no upfront costs associated with discontinuing the Teleswitch service.
 - *Ongoing Costs:* There will be no ongoing costs associated with discontinuing the Teleswitch service.
 - *Cost Savings:* Based on current costs, once NHH Settlement is discontinued, we could see a reduction of approximately £xxk per annum which we believe is a sunk cost saving not associated with movement to HH Settlement and so not included in our totals.
 - *Implications of an implementation date other than 2018:* The above costs would be unaffected by different implementation dates as linked to smart roll out rather than the proposed change to HH Settlement.
- Provision and maintenance of NHH software to Suppliers Agents (EAC/AA and NHHDA software). Once there is full HH settlement the need disappears to maintain and provide to Suppliers' DC and DA agents the EAC/AA calculation and NHH Data Aggregation software.
 - *Upfront Costs:* None.

- *Ongoing Costs:* There will be no ongoing costs associated with discontinuing this software service.
- *Cost Savings:* Based on current costs, once NHH Settlement is discontinued, we could see a reduction of approximately **£xxk per annum (please note this figure is confidential)**.
- *Implications of an implementation date other than 2018:* The above costs would be unaffected by different implementation dates.
- *Data Transfer Network:* The Data Transfer Network is the communications network that industry data flows are sent between parties. Use of the network is charged at a pounds per mega-byte rate (currently £2.31 per MB). So additional costs or cost savings would depend on the net change in overall volume of data sent across the network. Currently, sending out the Market Domain Data (MDD) costs around £100k per year. The profiling data that is sent to Suppliers and their agents costs around £350k per year. The Data Transfer Network provider may re-baseline their costs if this revenue were removed, e.g. to recover fixed costs. Therefore we have assumed we may achieve 50% saving of these current costs, e.g. £225k.
 - *Upfront Costs:* We do not anticipate any upfront costs in relation to the DTN service.
 - *Ongoing Costs:* Based on current costs for data transfer, an increase in data volumes relating to HH Settlement is unlikely to increase costs materially assuming such data would be aggregated prior to provision to ELEXON. The out-turn reporting mechanisms for this data are largely unaffected by this proposal⁶.
 - *Cost Savings:* Based on current costs, as NHH Settlement runs down, the decrease in data volumes relating to NHH Settlement could lead to a reduction of approximately £450k per annum.
 - *Implications of an implementation date other than 2018:* The above costs would be unaffected by different implementation dates.

ELEXON Operational Activities

We anticipate that ELEXON would need to provide support to industry in any move towards half hourly Settlement. Activities may include:

- Helping to develop strategies and methodologies to support the new and legacy arrangements through a number of industry groups (SVG, PSRG, PEG and UMSUG).
- Designing and maintaining robust profiling samples as customers move to SMART metering and then to HH Settlement.
- Progressing any changes to Settlement Parameters: GSP Group Correction Factors, scaling weights or issues relating to Feed in Tariffs/micro-generation.
- Developing new or interim defaulting processes for HHDCs should these be required.
- Resolving outstanding issues with the closure of NHH UMS arrangements

⁶ There will be an increase in the volumes in data flows between Suppliers and their agents due to the granular HH data in comparison to NHH meter advances, EACs/AAs.

- *Upfront Costs:* We anticipate that most of this work would constitute upfront costs and that it will be able to be accommodated by ELEXON without a material increase in costs.
- *Ongoing Costs:* We anticipate that the introduction of half hourly Settlement would not lead to a material increase in costs in relation to ELEXON's operational activities.
- *Cost Savings:* We anticipate that the introduction of half hourly Settlement would not lead to any material cost savings in relation to ELEXON's operational activities.
- *Implications of an implementation date other than 2018:* The above costs would be unaffected by different implementation dates.

Would there be a need to maintain NHH and HH Settlement regimes and, if so, what are the costs of having to run two concurrent systems simultaneously?

The NHH arrangements will need to be maintained until the end of the smart Meter roll-out. At the end of the roll-out the size of the 'rump' of customers remaining with 'dumb' Meters would determine the level of sophistication required to deal with the remaining NHH Meters. These customers should be settled within the new HH Settlement arrangements. The customers could be settled using the HH smart Meter data collected from similar smart customers, and the 'dumb' metered customers own meter advances, in order to HH 'profile' them. We believe this profiling role would probably be undertaken by the HH Data Processor/ Data Collection (DP/DC) Agent(s). Central Settlement systems would only receive aggregated real or profiled HH data. The mechanism for Grid Supply Point Group Correction (GSPGC) would also need to be revised to apply to HH Customers.

Since, we already run both NHH and HH concurrently we have not included any additional costs for running both regimes.

We've noted above where cost assumptions relate to the discontinuation of NHH Settlement.

Consideration will be needed vulnerable customers, customers rejecting a smart Meter and data privacy issues. When closing the NHH arrangements there would be a need to run-off the existing arrangements (e.g. up to 14 months from the closing Settlement day, plus support for any disputes).

Question 2: Do you currently outsource data collection/aggregation services or do you do them in-house? Please explain the rationale for outsourcing or doing these activities in-house?

N/A

Question 3: Have you settled or have you considered settling some of your customers with a smart meter on an elective HH basis? How much does it cost to settle customers on an elective HH basis? Are there any data collection/aggregation providers capable processing HH data from smart meters for Settlement? Please describe your experience of using them if you have any?

N/A

Question 4: Do you think that a centralised system for data collection and aggregation would reduce the cost of HH Settlement?

ELEXON believes that there are economies of scale and overall efficiencies to be gained from centralising data handling activities that do not require specific geographical footprints. In a smart metered world there is already centralised data retrieval (DR) with the DCC, so a logical step could be to centralise DC/DA. The current model has central DR, Supplier responsibility for DC/DA then back to central settlements which we believe will restrict the benefits of new markets that new technologies will demand.

Data Aggregation is a good candidate for centralisation (nationally or by distribution business/region). Holding the HH Settlement data in one place would facilitate new technologies and processes such as measurement of Demand Side Response (DSR) initiatives across DSR providers with different Suppliers or a new market for storage or embedded generation. The centralised data (aggregated or per customer) could be accessed by any party with appropriate permission to receive the data and would be more efficient by removing/ reducing multiple hand-offs of the same data. This would also help community energy schemes, Time of Use (ToU) initiatives and technology innovation schemes (e.g. Electric Vehicles (EVs)) since data can be accessed across Suppliers. Data security and privacy issues would need consideration if all the HH data is kept in a central location.

Centralisation of DC is more complex due to the need for exception handling where there is faulty Metering or erroneous Meter data. Suppliers will still be responsible for their customers Metering and Metering data. One approach would be a centralised DC to process, validate (and estimate where necessary) the vast majority of meter data that passes validation. The DC would pass back any exceptions to Suppliers for rectification and then reprocessing by the DC, once the Supplier has resolved the exception. An interim data estimation process would also need to be defined.

Alternatively, new market roles can be defined such as a smart Meter Settlement Agent that could perform both HH and NHH roles including DP/DC (and potentially DA). This role could be Supplier specific or centralised service to multiple Suppliers. This would have benefits in the transition to HH, such as mitigating the risk of agents not being available to run down the NHH arrangements.