

Michael Gibbons
Chair, BSC Panel

Email: rachel.fletcher@ofgem.gov.uk

Date: 17 December 2015

Dear Michael,

Half-hourly settlement – working with Elexon to deliver our reform programme

Today we have published an open letter setting out our intention to take forward a project to reform the electricity settlement arrangements in Great Britain.¹ As a priority, this project will identify and remove the barriers facing suppliers wishing to settle their domestic and smaller non-domestic electricity customers on a half-hourly basis.²

Given the Balancing and Settlement Code (BSC) Panel's interest in half-hourly settlement (HHS), your relationship with Elexon and the important points you raised in your letter to the Competition and Markets Authority (CMA) on 25 August, I wanted to write to you in parallel to set out our approach to this work.³

Our aims for half-hourly settlement

Following discussions with Ministers, we have agreed a package of work on HHS. Our first goal is to deliver cost-effective elective HHS for small sites. We want this to be in place in early 2017.

Improving the settlement arrangements for small sites will have a game-changing effect on competition and innovation in the sector. As you note in your letter of 25 August, strong programme management will be key to this work. We are stepping forward to take this role, but settlement reform can only be delivered if we all – industry, Ofgem and the Government – work together to develop joint solutions to these joint problems.

We are grateful for the work that Elexon has already started in this area through the Settlement Reform Advisory Group (SRAG), which was established by your Panel. As suggested in your letter of 25 August to the CMA, we will use this work as the first step in our programme on elective HHS.

In the longer term, we would like to move to mandatory HHS for all consumers. Our aim is that by the first half of 2018, we will be in a position to take a final decision on mandatory HHS, including any transitional arrangements. You will have seen from our open letter that we intend to launch a Significant Code Review on mandatory HHS in early 2016, which will involve a rigorous cost-benefit analysis. As part of this we will answer a number of policy

¹ https://www.ofgem.gov.uk/sites/default/files/docs/final_open_letter_on_hhs.pdf

² Electricity consumers in profile classes 1-4

³ https://assets.digital.cabinet-office.gov.uk/media/55e6b840e5274a558000000d/Balancing_and_Settlement_Code_BSC_Panel_resp_to_PFs.pdf

questions (including the distributional effects), develop the necessary code modifications, and industry parties will need to make the necessary changes to central systems.

Elexon's role

My team and I have recently had several helpful meetings with Elexon to discuss its role in relation to our work on HHS. Most recently, I had a meeting with Mark Bygraves and David Jones on 26 November. We agreed I would write to you as Chair of the BSC Panel, to inform you of our discussions and to emphasise the importance that Ofgem attributes to settlement reform.

I am pleased that Elexon is committed to HHS and will support the work we will lead in this area. We see Elexon – with its wealth of knowledge and expertise about the current market arrangements – as a key partner for this project, and so we are glad to have its backing. We also consider that code administrators should be helping to drive major changes in the industry, and so we see this as a chance for Elexon to demonstrate its capabilities.

As set out above, we would very much like Elexon to continue its work with the SRAG on the barriers to elective half-hourly settlement – both by preparing the Work Area 1 report for the Panel in February, and taking forward any recommendations. We are also generally supportive of the SRAG continuing its work – my team will continue to liaise with Elexon to discuss whether particular issues are best covered through the SRAG or Ofgem-led work.

Beyond this, we will definitely be seeking further input from Elexon on further work on elective HHS, and on mandatory HHS. In each case, we will need to develop our plans (including factoring in stakeholder views), before setting out those tasks we would like Elexon to deliver as part of the work programme.

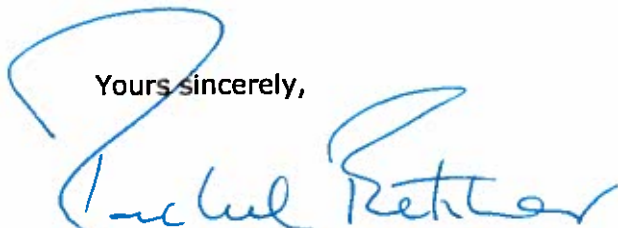
We see HHS as a priority project, and our Chief Executive has provided assurances to Ministers about our commitment to this work. We would therefore expect that Elexon will also treat this work as a priority. This includes ensuring that there is sufficient staff time dedicated to this work, and that agreed outputs are delivered on time. I recognise that this may require additional budget to be available within Elexon. In addition, I would like to ensure that we work together in a collaborative way with Elexon, with regular discussions between the teams. We should also remain in close contact to understand the Panel's views as the work progresses.

Next steps

We are very happy to be working together with Elexon on this important project, which has the potential to deliver significant benefits for consumers. We hope that the BSC Panel will be able to support this work by ensuring that Elexon has sufficient resources available.

I hope that this letter is a useful update on our discussions with Elexon. If there is anything where you would like further detail at this stage, then please get in touch with Rob Salter-Church or me. My team would be happy to attend a BSC Panel meeting to provide a presentation to other Panel members – please let us know if you think this would be valuable.

Yours sincerely,



Rachel Fletcher
Senior Partner, Markets