



26 March 2019

**Re: Citizens Advice's views on the Design Working Group's recommended Target Operating Model**

Dear Anna

We are writing in response to Ofgem's and Elexon's consultation on the Design Working Group's (DWG) Target Operating Model (TOM) for market-wide half-hourly settlement (MHHS). This submission is entirely non-confidential and may be published on your website.

**General comments on preferred TOM**

We can follow the DWG's arguments for choosing TOM A "Combined Retrieval and Processing with Separate Aggregation" as their preferred TOM and we agree with them in principle. TOM A does not appear to preclude the policy decisions still to be taken by Ofgem. We welcome that the TOM will achieve a shortening of the settlement timetable, and offers opportunities for future innovations including from parties that are not suppliers.

To make a final judgement on whether this TOM is in the best interest of consumers, we would need to see a full evaluation against the TOM design principles, building on the "initial assessment" done by the DWG in 2018.<sup>1</sup> We also expect to see a full cost assessment of both what the TOM's operating costs will be in its end state, and the transition costs. We understand that the costs and accuracy of this model will in part depend on which data access regime Ofgem decides to implement.

In its impact assessment, we expect Ofgem to consider the distributional impacts of the new settlement system. For example, will all types of consumers (such as those with different meter types and usage patterns) be equally well served, and how will costs be distributed between different consumer groups?

Finally, we would like to engage with Ofgem and Elexon on the governance arrangements that will need to be developed around the final TOM.

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<sup>1</sup> See from page 21 in the DWG's Skeleton TOM report to Ofgem in April 2018  
[https://www.ofgem.gov.uk/system/files/docs/2018/04/elexon\\_final\\_report\\_on\\_design\\_working\\_group\\_skeleton\\_target\\_operating\\_models.pdf](https://www.ofgem.gov.uk/system/files/docs/2018/04/elexon_final_report_on_design_working_group_skeleton_target_operating_models.pdf)

## Data privacy and security

The consultation acknowledges that there are outstanding data security questions around Elexon storing all consumers' MPAN level, half-hourly energy consumption data. We expect these questions to be fully resolved before the new TOM is implemented. We are keen to comment on the risk assessment that Ofgem will conduct as part of this process.

We also understand there are additional privacy questions that need to be worked through around how a consumer's decision to opt out of Half Hourly Settlement (HHS) is fed into the settlement system, if an opt-out data access regime is implemented. Again, we would like to be involved in those discussions to ensure that consumer needs around data transparency and control are respected.

Finally, we would like to contribute to the design of data access rights for third parties wanting to access the MPAN level data that Elexon will hold. There is great potential for innovation and research in opening up access to HH data, but again this needs to be balanced with consumers' data privacy choices.

## Consumer communication

Moving to combined retrieval and processing of data, and separate aggregation by Elexon may necessitate updating consumer communications. It is key that suppliers provide up to date information to customers about any changes, for example around who may collect their data from their meter and who this data may be shared with for what purposes.

## Load Shaping

The current profiling<sup>2</sup> system is based on a very small sample of sites from which Elexon draws HH data, which means the accuracy with which they are reflecting consumers' usage patterns is relatively low. We therefore welcome the load shaping service proposal which will use a greater sample of HH data to create load shapes, making them more robust and reflective of real energy consumption patterns. However, we are keen to understand the remaining or possibly new inaccuracies the load shaping service will bring with it. It is possible that, for whatever reason, usage patterns of HHS households are not representative of those of non-HHS households. It will be important to monitor whether there are any significant differences between the households who are and are not HHS.

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<sup>2</sup>Elexon explanation of what profiling is available at <https://www.elexon.co.uk/operations-settlement/profiling/>

## Time of Use Scaling Weights

We welcome Elexon's proactive thinking around the distortions that could be created by peaky users opting out of HHS and thereby avoiding paying their fair share towards system costs. The proposed solution<sup>3</sup> does seem to provide a simple way of undoing an unfair cross-subsidy. We do believe, however, that further analysis is needed, and that the impacts of the proposed solution on fuel poor and otherwise financially vulnerable households who opt out need to be fully understood and attempted to be mitigated.

Before the solution proposed by Elexon is implemented, we would like to:

- understand the potential scale of the problem that it is trying to solve, i.e. how many people with peaky use opt out of HHS and what costs are they therefore putting on other users? This could be achieved through scenario modelling, fed with assumptions around how many peak users may opt out of HHS, which we presume Ofgem has made as part of its data access regime work;
- understand the scale of detriment we are creating with the solution, i.e. how many consumers - and particularly how many in vulnerable circumstances - will be negatively affected by the solution and how much higher will their bill be (though we understand this depends on whether suppliers choose to pass on the costs of the Group Correction Factor to their customers)? In other words, is the solution a proportionate response to the problem, and what new problems may be created as a result?
- based on the modelling above, take a decision on whether scaling weights should be adjusted in parallel with the introduction of opt-out MHHS, or whether the issue is one that Ofgem commit to monitor, and adjust the scaling factor as needed. It would need to be agreed what thresholds the Grid Supply Point Correction Factor would need to pass before triggering a certain magnitude of scale factor adjustment.
- explore how the impacts of the proposed solution on fuel poor and otherwise financially vulnerable households who opt out of HHS could be mitigated. One solution could lie in suppliers not passing on the costs of the Group Correction Factor to households that they know are in fuel poverty or are struggling to pay their bills.
- carefully think through the consumer communications around these changes. If, for example, consumers take the decision to opt-out of HHS in order to avoid

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<sup>3</sup> Elexon proposes to assign NHH settled customers (who can have a smart meter but opted out of HHS) relatively more of the [Group Correction Factor](#) during peak time (4-8pm). This would be done by apportioning more of the "error" to them that exists between the energy produced and consumed across the seven zones in the distribution system (GSP Groups). The solution is explained here

<https://www.elexon.co.uk/documents/groups/dwg/2018-meetings-dwg/october/dwg12-01-scaling-weights/>

higher charges, they will need to be informed that through changes to the scaling weights they may end up paying more than they had anticipated.

## **Transition principles**

We welcome the DWG's initial thoughts on how to best design a transition from the current to the new settlement system. Citizens Advice believes that during the transition it needs to be ensured that:

- consumers can still switch suppliers, demand aggregators, and other energy service providers they may engage with;
- consumers can switch to HHS or change their mind and switch back to NHHS without undue delay;
- consumers receive timely and transparent communication about what data is being collected, for what purposes and who has access to it;
- consumers do not suffer from bill shocks. An "overnight" change to HHS should not result in any group of consumers suddenly seeing a rise in bills. Ofgem and suppliers will need to anticipate any likely shifts in bills and think through impacts on consumers in vulnerable circumstances. Lessons can be learnt here from the switch to metering in water and the implementation of P272;
- the impacts on consumers in vulnerable circumstances are given particular attention, particularly in relation to the distribution of costs;
- throughout the transition process, the privacy framework and the rights and preferences of consumers with regard to transparency and control of their data and how it is used are respected.

Yours sincerely

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