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Dear Mark,

Half-hourly settlement – Elexon's role

Thank you for coming in to meet with me about half-hourly settlement (HHS) on 26 November. I thought that it was a very useful meeting. In particular, I am pleased that you indicated that you are committed to HHS and will support the work we will lead in this area. We see Elexon as a key partner for this project, and so we are glad to have your backing.

We agreed that it would be good to follow up this meeting with an exchange of letters. I am therefore writing to confirm what we discussed at the meeting, and to set out a plan for our future work together on this project. As discussed, I have also written a similar letter to Michael Gibbons in his role as Chair of the BSC Panel.

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. We are grateful for the work that Elexon has already started in this area through your Settlement Reform Advisory Group (SRAG). Its report to the BSC Panel in February should be a significant step towards removing barriers to HHS for DCC-enrolled smart meters. As I noted in our meeting, we would like to ensure that elective HHS is viable in the near future for all sites with smart meters, including SMETS1 meters operated outside of the DCC. We will also address any additional barriers that stakeholders identify in response to our open letter on HHS.

In the longer term, we would like to move towards 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. This will require us to have answered a number of policy questions, including the distributional effects and develop the necessary code modifications and for industry parties to make the necessary changes to central systems.

Elexon's role

Within Elexon, you have a wealth of knowledge and expertise about the current market arrangements. You have also thought about the potential for moving towards HHS, including through your 2012 paper on 'Delivering Electricity Settlement Reform' and your more recent work with the SRAG. We therefore see Elexon as an invaluable source of support for achieving our aims on HHS. 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 you to demonstrate your capabilities.

We would very much like you to continue your work with the SRAG on the barriers to elective half-hourly settlement – both by preparing the report for the Panel in February, and then by taking forward any recommendations. We have positioned this as the first batch of work in our plan for elective HHS – it therefore forms an integral part of the solution. We are also generally supportive of the SRAG continuing its work – my team will be happy to continue to liaise with you 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 the second batch of 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 precisely which tasks we would like Elexon to deliver.

In our meeting, you suggested a sensible approach to managing the working relationship between Elexon and Ofgem, based on your experience of working with DECC on the Smart Meter Programme. Following this model, we plan to write to you on a quarterly basis to commission specific pieces of work from you (including an approximate indication of the staff time required). We plan to send the first of these quarterly letters in February, once we have received stakeholder views in response to our open letter.

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 you will also treat this work as a priority within your organisation. This includes ensuring that there is sufficient staff time dedicated to this work, and that agreed outputs are delivered on time. In addition, I would like to ensure that we work together in a collaborative way, with regular discussions between our teams. HHS offers the potential to unlock new entry and business models – it is therefore particularly important that Elexon makes every effort to consider the issues raised by small and entrant parties. I am confident that you would be seeking to meet these expectations in any case, but I think it is important to be clear at the outset how seriously we are taking this subject.

Response

I hope that this letter matches your understanding of our meeting. If there is anything that you would like to clarify, then please let me know in your response to this letter. My team would also be happy to answer any questions that you have – Rob Salter-Church would be the best contact for these in the first instance.

Finally, I would just like to reiterate that we are very happy to be working together with you on this important project, which has the potential to deliver significant benefits for consumers.

Yours sincerely,

Rachel Fletcher
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