

Submission by the Energy Policy Group (EPG) of the University of Exeter to Ofgem Electricity Settlement Reform SCR launch statement.

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To Whom it may Concern,

I have just realised that I have missed the 1 September 2017 deadline to provide feedback on the electricity settlement reform (ESR) SCR options.

If it is at all possible I would like my below feedback to be included in your assessment.

I agree there is a need for electricity settlement reform.

I support Option 3 – that Ofgem leads an end to end SCR process. I am convinced that to undertake such reform with Option 1 or 2 would be far inferior. I agree with Ofgem (on page 6 of the Launch Document) that managing the necessary changes coherently and consistently will require an end to end process.

The aim of the ESR should be to enable a smart and flexible energy system. I would argue this requires linking settlement at the wholesale level with local balancing at the distribution level and at the balancing at the supra-national regional level. It should also enable demand side response, including via aggregation, down to the domestic level, and to a far higher % of what would have been total electricity use than currently occurs (ie the US average by State is 6%, and several States are above 10%); it should reveal value sufficiently so that coherent integration at the local level between heat, electricity and mobility can occur; and it should enable a more or less 100% renewable electricity system to function securely and economically (ie Denmark regularly now integrates 150% electricity days).

Running a smart and flexible energy system, capable of meeting the CCC targets, requires a number of governance ducks to get in line. One is the incentive mechanism for networks (ie a wholly restructured RIIO to include more performance based regulation); another is the market and settlement mechanism; another

is tariffs; another is institutional change – for example DNOs transforming into distribution service providers (ie market facilitators). I welcome this market aspect but it is important that the ducks do work together; and in such a way that change happens fast enough so that the CCC targets can be met, and this will require more direction from Government.

It seems to me Option 3 is without doubt the best option.