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Dear Cathryn

ElectraLink's response to Ofgem's 'Information request for mandatory half-hourly settlement Business Case'

ElectraLink welcomes the opportunity to respond to Ofgem RFI on half-hourly settlement Business Case. ElectraLink supports the half-hourly settlement programme and welcomes the opportunity to inform the half-hourly settlement Business Case.

ElectraLink is responding in its capacity as the operator of the Data Transfer Service (DTS) and manager of the Energy Market Insights datahub. This response does not reflect the views of the codes that we administer.

There is only one RFI question that relates to ElectraLink's role within the energy market and, with this in mind, we have only developed a response to this question. The question we have answered is **Question 2.03 – 'How would settlement reform affect your 'data transfer network' activities or costs?'**. Our response to the RFI is in the remainder of this letter and we are happy for Ofgem to make this response public.

ElectraLink was established in 1998 to provide an independent, secure and low cost data transfer service between UK electricity market participants. The DTS transfers data relating to business-critical energy market processes, including customer switching, settlement, agent management and meter administration. The DTS fulfils the requirement of the Settlement Volume Allocation (SVA) Network used by the Balancing and Settlement Company (BSC) to transmit settlement traffic. Currently, this settlement traffic accounts for approximately 40% of all DTS traffic. ElectraLink has 19 years' experience of providing services to meet this requirement.

Standard License Condition 37 of the DNO licence requires them to provide a data transfer service to the retail electricity market. As a wholly owned subsidiary of the DNOs, ElectraLink has an obligation to competitively procure the technology and service components of the DTS. ElectraLink provides the DTS under a multi-party agreement, the DTS Agreement (DTSA) governed by a user group with oversight from Ofgem – details of the members of the user group can be found [here](#). The number of users of the DTS and data transferred by the service has increased rapidly over the last 5 years largely driven by new market actors, such as a new entrant suppliers and aggregators. Currently,

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there are over 240 energy market participants connected to the DTS across many areas of the energy market:

Participant type	Number of DTN connections
Distribution	14
Metering	33
Other	34
Tier 1 (Big6)	6
Tier 2 supply	12
Tier 3 supply	123
x-Green Deal	19
Generation	1

ElectraLink regularly competitively procures the underlying service to ensure that the reliability, availability and scalability meets industry requirements whilst minimising industry’s costs for data transfer. Figure 1 illustrates the rising number of companies connected to the DTS, increasing from 122 in July 2013 to 237 in July 2017 and the associated increase in volume from 54 Gbytes to 120 Gbytes per month over the same period. Given the fixed underlying cost of the infrastructure, this has enabled ElectraLink to reduce out per-unit price for volume from £8.9 by almost 50% to £4.75.

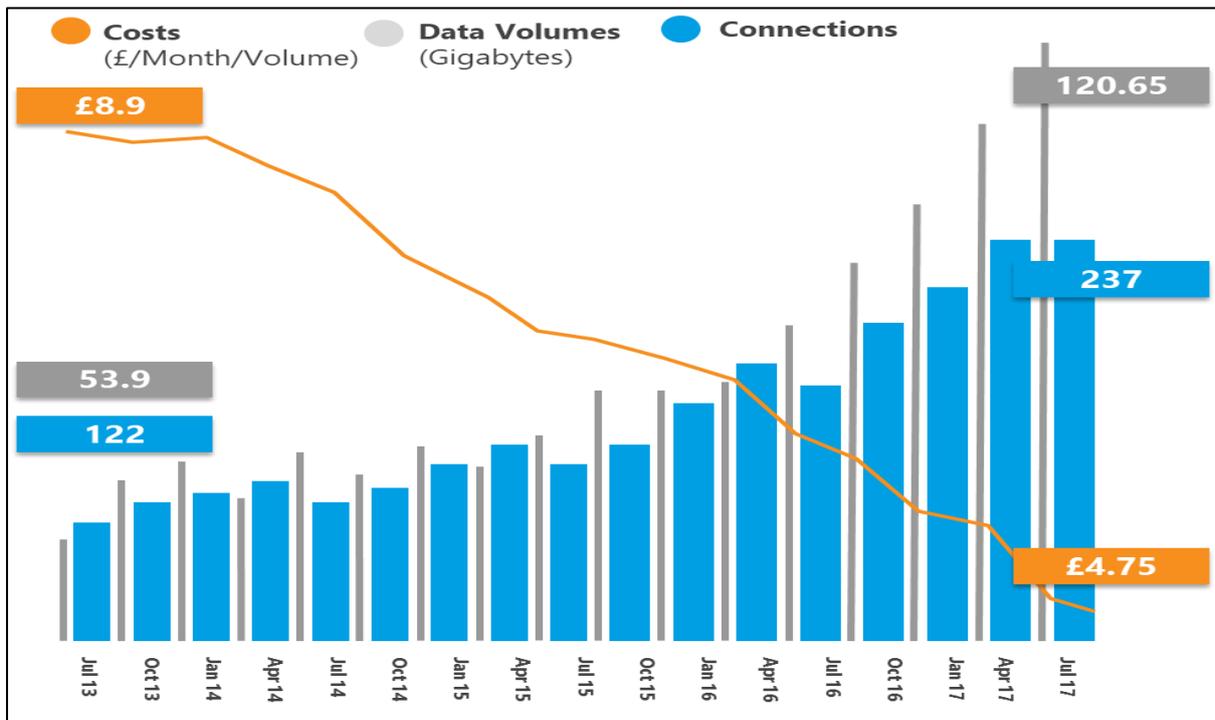


Figure 1 Growth in DTS Users and DTS Data Traffic (2013 – 2017)

From the viewpoint of the average cost of the DTS on a per Users basis, this has reduced from a little under £45k in 2012 to approximately £25k in 2016¹. Figure 2 shows this ongoing trend.

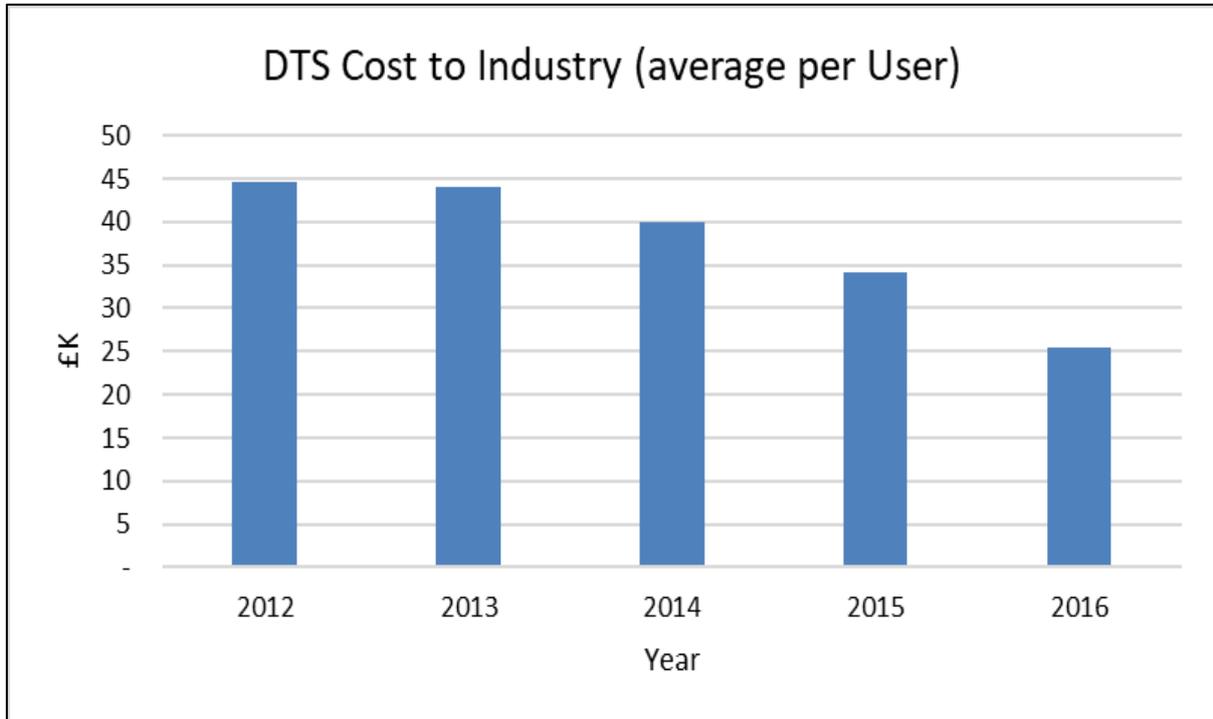


Figure 2 DTS Cost to Industry per Average User (2012-2016)

The full cost of setup and operation of the DTS is recovered by ElectraLink from the users of the service on a cost-recovery basis regulated by the Charging Principles in the DTSA. ElectraLink also receives a return on its investment governed by Ofgem. DTS Users are charged a connection fee, data-usage charges and supplier-specific charges. Figure 3 shows how the costs have been recovered since 2002 and the rate of return made on the investment.

¹ 2016 is the most recent year for which we have full year figures.

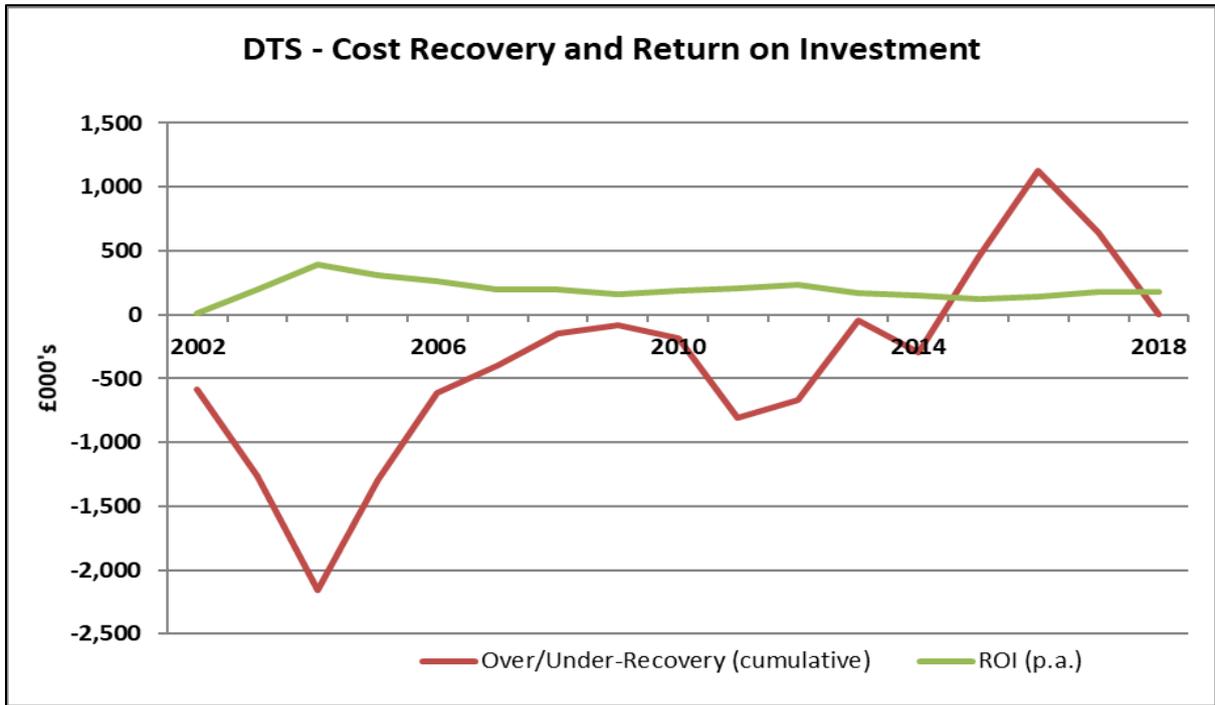


Figure 3 ElectraLink Cost Recovery (2002 – 2018)

In the fast-changing UK energy market, Electralink has worked with its service providers to evolve the DTS into a scalable service, easy to connect to, supporting multiple file types (including XML) and which operates in near real time. ElectraLink provides connection options ranging from a fixed line server through to a remote virtual gateway, offers conversion services so suppliers can send and receive files in the format that they stipulate, and has developed an online tool enabling suppliers to enter data directly into a DTS file in a customer friendly format, avoiding the need for systems to create and translate files.

It would be easy to assume, from an impact assessment perspective, that when settlement traffic increases, the amount paid for use of the DTS will increase accordingly. **This is not true.** The underlying costs of the DTS are broadly fixed and so do not increase in proportion to usage, so as the volume of traffic increases, the unit charge reduces; the more the DTS is used, the less it costs per transaction.

ElectraLink's forecast for DTS traffic is detailed in Figure 4. This forecast excludes the impact of mandatory half hourly settlement. Settlement related traffic currently forms a significant portion of the DTS traffic (pre and post settlement traffic combined is over 70% of total volume). If settlement related data was to be transferred over an alternate transfer mechanism, many industry processes would remain on the DTS, including switching (COS and agent), metering and the transfer of use of system data.

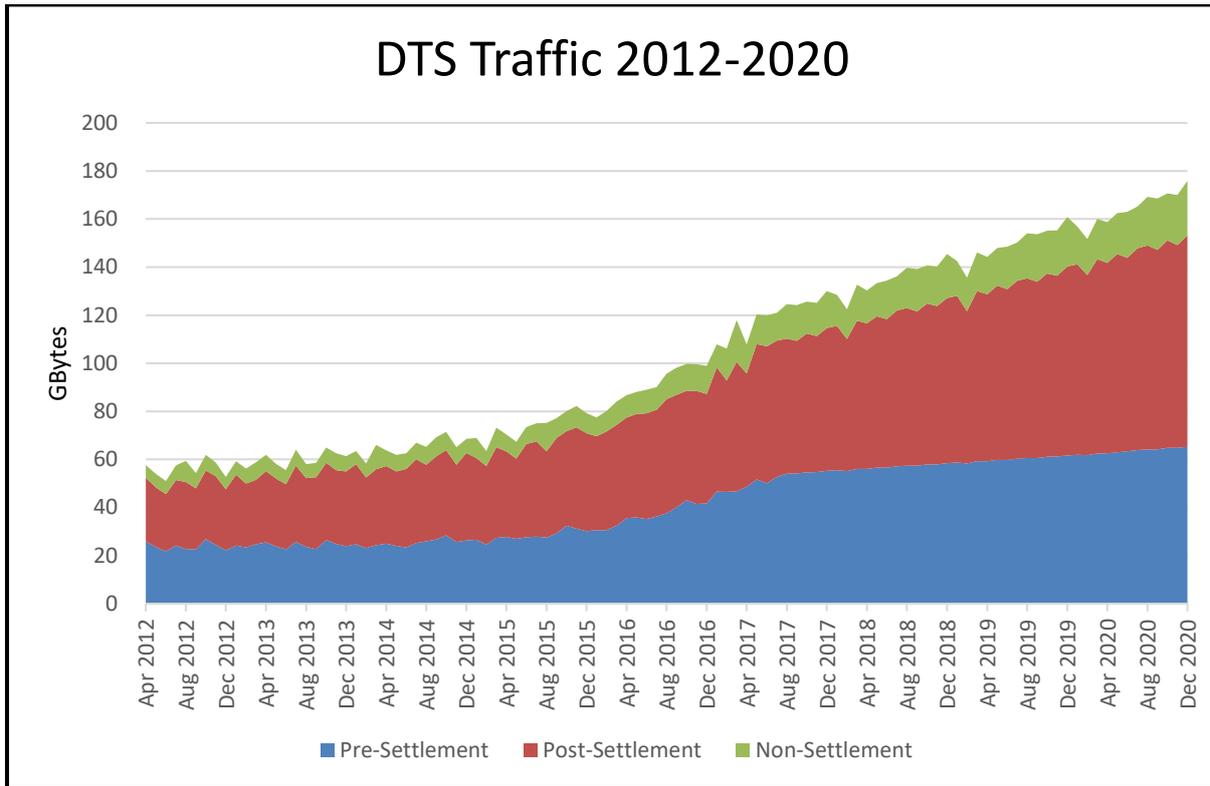


Figure 4 DTS Traffic Growth & Forecast (2012 – 2020)

The introduction of settlement reform will significantly increase the volume of settlement traffic used by the BSC, suppliers and other market participants. We estimate that the monthly settlement traffic will grow from approximately 25 Gbytes to 3000 Gbytes if all domestic properties were to be settled on a half hourly basis using the current processes. Although a 2700% increase in DTS traffic would present ElectraLink with a challenge, we are confident that the DTS would be able to accommodate this increase in data throughput.

ElectraLink expects that the significant code review will result in a range of Target Operating Models (TOMs) which will range from the simple scaling up of existing processes, through more widespread reform which could result in a fully centralised solution. The underlying data transfer mechanism must be flexible to meet a range of new requirements and may be called upon to support migration activities to the new operating model.

The programme will consider how data transfer requirements will be met in the new operating model. Broadly, there will be two options; build something new or re-use an existing solution, making amendments where necessary.

Building something new is **unlikely** to be the most cost-effective solution. Costs would fall into the following areas:

- Procurement costs;
- Capital investment in the new solution;
- Industry costs integrating with the new solution;
- Testing of the new solution to prove its functionality and scalability;
- Market testing of the new solution to prove industry integration; and
- Ongoing operational costs of providing and managing the new solution.

Building a new solution also results in a number of **unnecessary risks**, including:

- The risk that a new solution will be late;
- The risk that a new solution will over-run its costs;
- The risk that one or more market participants may not integrate to the new solution in time;
- The risk that managing the implementation and integration of this new solution would detract from the management of the implementation of the new settlement solution

The DTS is a highly scalable platform, built on open source applications and hosted in a cloud environment. This architecture of the DTS enables ElectraLink to support changes in volume quickly and cost-effectively, for example by implementing more or fewer virtual servers in the cloud. As evidence of this scalability, ElectraLink successfully implemented an additional 20% capacity to support the recent growth in half hourly settlement traffic as a result of P.272 without raising the cost of the DTS to industry.

ElectraLink has proven experience in managing industry change and introducing new processes and actors onto the DTS. Our successful onboarding of the gas NOSI flow onto the DTS and the introduction of gas-only market participants and processes onto a previously electricity-only data transfer network is evidence of this. The DTS was mandated by the Supplier Point Administration Agreement (SPAA) as the mechanism for transferring the NOSI data flow and, over a period of 5 months (November 2015-April 2016), the service was signed off by the DTS User Group on 07 December 2015, and successfully implemented on the 1st April 2016. Implementation included the configuration of the service for all users to transfer the new flow as well the connection of 4 new gas suppliers.

Thank you for the opportunity to respond. Should you require any additional information or if you have any questions, please contact Paul Gath (Paul.Gath@ElectraLink.co.uk) in the first instance.

Kind Regards,



Stuart Lacey - Chief Executive, ElectraLink