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*Promoting choice and value for  
all gas and electricity customers*

31 July 2012

Dear Andrew,

### **Open letter to BSC Panel on longer-term electricity settlement reform**

This letter asks the Balancing and Settlement Code Panel to scope out a project for how it would develop and deliver longer-term reform of electricity settlement arrangements.

#### **Context**

In December 2011, Ofgem consulted on the scope of a strategy to promote smarter energy markets from the platform of smart metering. Our core contention was that without changes to existing market arrangements, the potential for market development would be constrained. Today we have published an initial programme of work setting out how key reforms to market arrangements should be developed, together with Ofgem's role in securing these reforms.<sup>1</sup>

Electricity settlement is a key area where we consider that reform is needed to facilitate market development in the interests of consumers. Our longer-term objective for settlement is to have in place arrangements that use smart metering data to allocate energy in an accurate, timely and cost-effective way. This in turn should facilitate product innovation and efficient use of energy.

In Q1 2013, we aim to set out our view on how to progress thinking on longer-term reform, including the role Ofgem needs to play in order to protect consumer interests. As part of the assessment we will consider whether the process should be led by industry through existing code governance arrangements or whether Ofgem should intervene and use regulation to progress reform.

I am writing now to ask the Panel to scope out a project by the end of the year for developing and delivering reform. This will help inform our assessment of the best way to proceed.

#### **Scoping a project**

The roll-out of smart metering provides an opportunity to improve significantly the process of energy settlement. In particular, better access to consumption data facilitated by smart metering can enable the accurate and timely use of this data in settlement. The roll-out also provides an opportunity to reassess the current settlement arrangements and improve the efficiency of their operation. It is our view that changes, consistent with our longer-term objective, should be made by the end of the roll-out, and earlier, where possible and appropriate.

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<sup>1</sup> *Promoting smarter energy markets: a work programme*, Ofgem, July 2012.

At a high level, we would like the scope of the project to cover the changes that can be made as a result of the roll-out of smart and advanced meters, with specific focus on:

- The Supplier Volume Allocation (SVA) arrangements, including all domestic and non-domestic sites and all metered and unmetered sites (including import and export).
- Other processes linked to the SVA arrangements, such as performance assurance and the energy credit arrangements.

We also ask that the report considers how the Panel would take into account potential changes to market arrangements in developing and delivering reform. This includes the potential centralisation of data processing and aggregation. As set out in our initial programme of work, we will consider the case for centralisation. Therefore, work on settlement reform will need to accommodate a range of potential outcomes in relation to data processing and aggregation.

In our view, the scope of the work should exclude pricing, cash-out and other wholesale-focused activities, such as gate closure and contract notifications. These are either being considered elsewhere or are not expected to have benefits specifically linked to smart metering.

We would like the report to be signed-off by the BSC Panel before being sent to us and to include:

- The detailed scope of a project to develop reform proposals (building on the high-level scope described above)
- The approach to developing and assessing options for reform, and delivering the best solution for consumers
- An analysis of the roles and responsibilities of different interested parties
- An analysis of the risks to successful delivery of the project
- A detailed timetable including, where practicable, a plan to deliver robust reform proposals by end 2013 at the latest.

We note that developments in the market other than smart metering may have implications for settlement reform. This includes take up of electric vehicles and microgeneration, as well as more widespread use of demand-side response. We encourage the Panel to consider how these could be taken into account in developing and assessing options for reform.

We would welcome the Panel's early assurance that it intends to meet our request to provide a report to Ofgem and to fully resource its development. We would expect the Panel to use Elexon to deliver this work and that the industry would provide resource to support the Panel in this endeavour.

Our expectation is that the development of this report would build on the work already undertaken by the Profiling and Settlement Review Group. We recognise the important work that this group is doing to secure the operation of the settlement systems in the short term and in the transition to smarter markets. We would encourage this work to continue alongside thinking on longer-term reforms.

If you would like to discuss this letter further please contact Andrew Wallace ([andrew.wallace@ofgem.gov.uk](mailto:andrew.wallace@ofgem.gov.uk); 020 7901 7067). I look forward to your response.

Yours sincerely

**Colin Sausman**  
**Partner, Retail Markets and Research**

Cc: Chris Rowell, Smart Programme Director, Elexon

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