

## Smarter Markets Coordination Group:

Electricity settlement – update on problem definition & approach to reform

28 October 2013

ofgem

*As set out in our March 2013 [open letter](#), we are undertaking scoping work to define the problem that may require changes to the existing settlement and to identify how best to address this problem*

*– our focus is on the process for allocating energy volumes as set out in the Balancing and Settlement Code (BSC)*

## **May SMCG**

We presented our plans for scoping phase of project

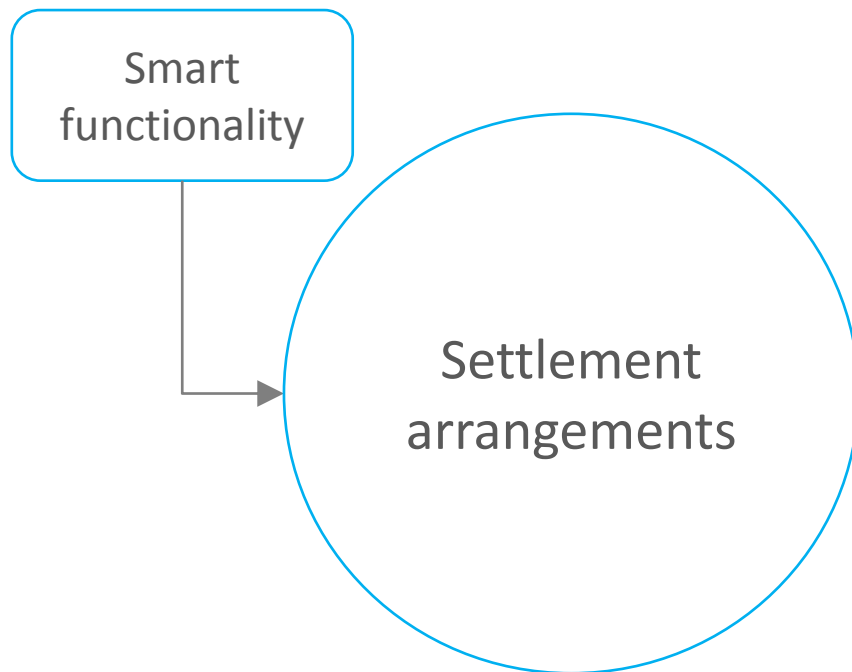
## **Oct SMCG**

At the October meeting we will:

1. Present our initial thinking on problem definition
2. Present initial view on approach for progressing reform and seek views

**Outside of the Programme, we will publish shortly a draft impact assessment on BSC Modification P272, which proposes to mandate half-hourly (HH) settlement for larger non-domestic consumers**

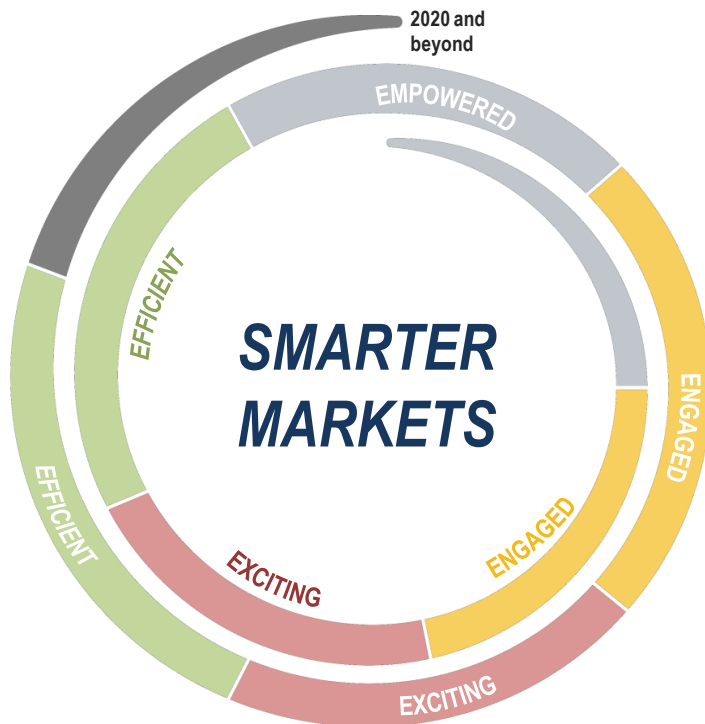
*Ofgem's longer-term objective for settlement is to use smart metering data to allocate energy in an accurate, timely and cost-effective way*



Uncertainty around problem that needs addressing

- Materiality of potential benefits
- Potential to realise benefits through existing arrangements...
- ...vs missed opportunities?
- Future role for settlement in context of smarter markets

**Our scoping work provides a robust platform for progressing any reforms**



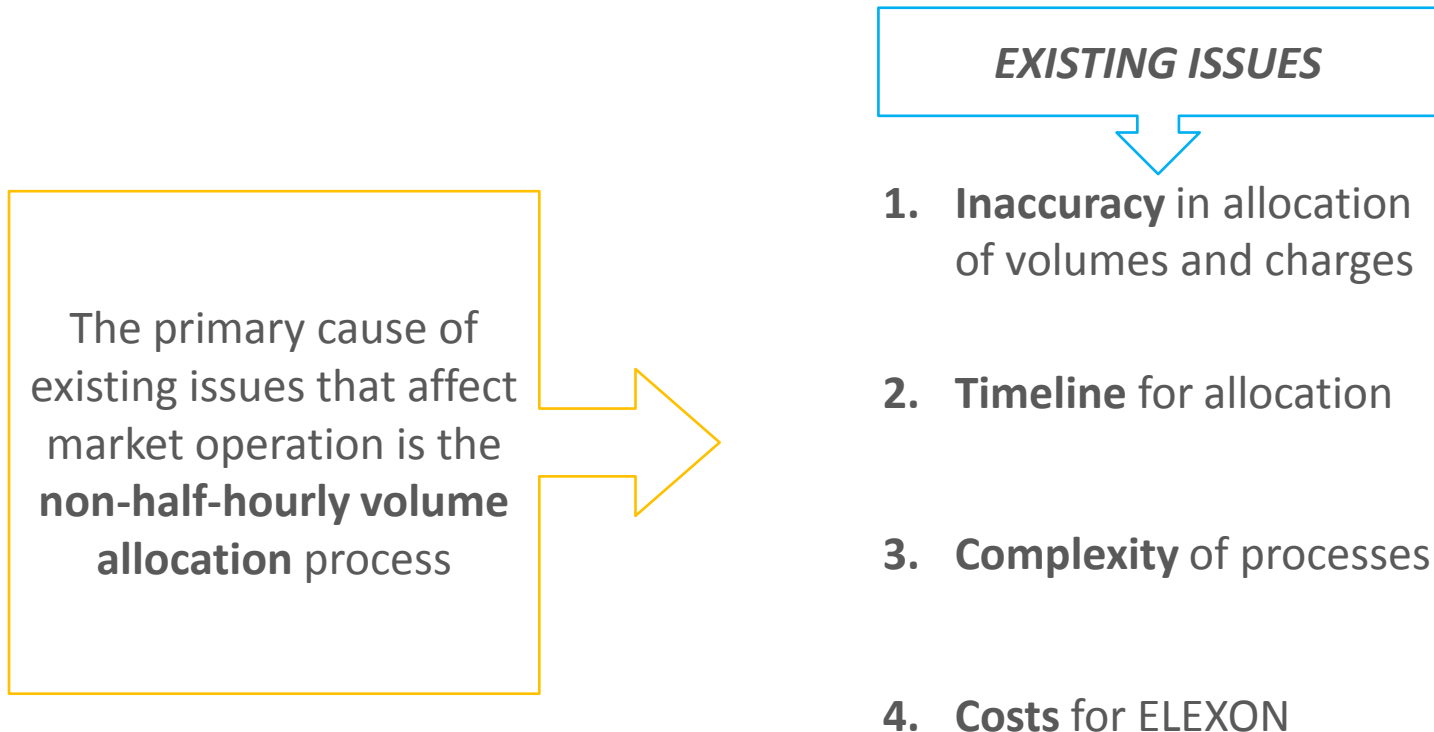
### **EXCITING MARKET**

- Innovation in products and services
- Less risk for market entrants

### **GREATER EFFICIENCY**

- Promoting demand-side response
- More streamlined market arrangements

Settlement is critical to effective market operation and hence to the realisation of our ambition for smarter energy markets



Settlement has a detrimental impact on market operation today but we have not identified any 'quick wins' from improving arrangements for traditional meters

*We have identified some uncertainties around the role of settlement in promoting smarter energy markets that are relevant to approach for reform:*

**1. Centralisation of data processing & aggregation**

Decision on potential centralisation may be best considered as part of settlement project

**2. More sophisticated distribution charging**

Not clear what data DNOs will require from settlement for network charging

**3. Changes in consumption patterns**

Need to take into account potential changes to consumption patterns in assessing reforms

**We consider that it is possible to manage these uncertainties in progressing reform**

*Initial view is that focus of next stage should be on identifying and assessing the options for using HH data for settlement of metered consumption*

**SCOPE – topics that could be covered**

- Develop options for using HH data
- Cost options
- Identify and assess magnitude of benefits
- Identify and assess risks
- Options for transition

**REASONING**

- Focuses on ‘biggest wins’
- Could provide a benchmark to assess other options (if necessary)

**Welcome views on:**

- Our initial assessment of the problem reform is seeking to address
- Our initial thinking on the proposed approach for progressing settlement reform

**Next steps:**

*Workshop, 14/11*

- Seek views on the approach for progressing reform

*Q4 2013 – Q1 2014*

- Work up approach in detail
- Decision by end of Q1 2014