

Electricity settlement expert group – terms of reference

1. Background to group

- 1.1. The roll-out of smart and advanced metering provides an opportunity to make retail energy markets work better for consumers. Our vision is for 'smarter energy markets' that are more efficient, dynamic and competitive. Our vision will not be realised without changes to the arrangements that underpin how market participants interact with each other and consumers. Ofgem has established the Smarter Markets Programme ('the Programme') to help drive these changes. One of the projects under the Programme relates to the electricity settlement process.
- 1.2. Following a period of scoping, in April 2014 Ofgem published a launch statement for the next phase of the settlement project.¹ The document explained that we consider it is in consumers' interests to be settled against their actual half-hourly (HH) consumption data from smart and advanced meters. We also stated that, in the next phase of our settlement project, we will examine how this can be achieved.
- 1.3. Our work will be divided into two stages. In the first stage, we will develop and shortlist options for using HH data in settlement. In the second, we will undertake a detailed assessment of the shortlisted options.

2. Purpose of group

- 2.1. To assist Ofgem in the first stage of work, the electricity settlement expert group (hereafter 'the group') is required to provide expert advice on the options for using HH data in settlement.
- 2.2. The role of the group is to:
 - review and comment on the analytical framework for the settlement project, including the criteria that will be used to assess options
 - support work to develop and shortlist options, by assessing and commenting on the options that Ofgem presents
 - identify interactions between reform options and other aspects of the market arrangements
 - review and comment on Ofgem's plans for the detailed assessment of options in the second stage.

3. Scope of the first stage of the settlement project

Supplier Volume Allocation (SVA) arrangements

- 3.1. The next stage of the settlement project is concerned with the Supplier Volume Allocation (SVA) arrangements. We will focus on settlement of import and export energy that is currently settled using profiling through the non-half-hourly process under these arrangements.

¹Electricity settlement reform – moving to half-hourly settlement, Ofgem, April 2014. This can be found at <https://www.ofgem.gov.uk/ofgem-publications/87053/electricitysettlementlaunchstatement.pdf>

3.2. For the avoidance of doubt, the scope does not include gas consumers, consumers currently settled through the existing half-hourly arrangements or unmetered sites.

Policy areas for consideration

3.3. There are two broad areas for which we will identify and assess options:

- the process for obtaining and preparing data for settlement
- when and how to transition to a new set of arrangements.

3.4. Within the SVA arrangements, there is already a process for settling consumers using HH data. Using this process as a starting point, our project will look at how to optimise it to accommodate the millions of sites currently settled using profiles. Table 1 describes those aspects of the process on which we will initially focus.

Table 1 – Aspects of the settlement process that we plan to focus on initially

For consideration	What will be explored
Centralisation of agents responsible for data processing (DP) and aggregation (DA)	At present, suppliers appoint agents to obtain and prepare consumption data for settlement. With the advent of smart meters, and associated reforms, the roles of agents are changing. Some stakeholders have suggested that, in the context of these changes, centralisation of DP and DA functions could support improved data quality and decreased costs in managing the settlement process. We will look at the potential for centralising these functions to support better outcomes for consumers. ²
Methodology for estimating consumption for each settlement period when no meter data is available	HH data from smart meters may occasionally be incorrect or unavailable for some sites, for instance if it is not possible to obtain a remote reading from the meter. Currently, the SVA arrangements contain rules for estimating consumption for HH sites in such instances. These rules are designed for the current HH market and may not be appropriate for settling much larger numbers of consumers using actual HH data. We will examine the options for estimating consumption when data is not available.
Number and timing of settlement runs	The remote capability of smart metering is an opportunity to shorten settlement timescales by reducing the number of runs and moving them closer to real time. The length of the settlement process has implications for the risks and costs of operating in the market. We will examine the options for reducing the number and timing of settlement runs.
Performance standards for submission of consumption data	The remote capability of smart metering is an opportunity to look at how suppliers perform against standards for how much energy is settled on actual meter readings at different settlement runs. This has implications for the costs that suppliers incur in managing the settlement process. We will look at performance standards when we examine the number and timing of settlement runs. This is the only element of the PAF we will consider in developing options.

² Initially, consideration of centralisation of DP and DA functions was assigned to the change of supplier project in the Smarter Markets Programme. However, this project has provisionally concluded that centralisation is not required to improve the speed and reliability of the transfer process. Nevertheless, stakeholders have suggested that other drivers for centralisation still remain, and that further consideration would most appropriately sit in the settlement project.

3.5. For the transition to a new set of arrangements, two areas will be considered:

- options for when the transition to using HH data in settlement could begin, in terms of when to implement changes to the SVA arrangements
- options for managing the transition, in terms of the process and the rules suppliers need to follow.

4. Deciding membership

- 4.1. The membership of the expert group is listed in Annex 1. Membership was through an open application process undertaken in April 2014.
- 4.2. Members should attend each meeting in person. Alternates shall only be allowed when the member is not able to attend.
- 4.3. Ofgem has the discretion to invite observers to attend the expert group. Ofgem also has the discretion to invite interested parties to attend the expert group on an ad hoc basis to discuss specific issues.

5. Resources

- 5.1. The group will be led by Ofgem. Ofgem will also chair the group and discharge the secretariat function.
- 5.2. Other than when facilities are not available, we aim to hold all meetings at Ofgem's offices at Millbank, London and potentially in Glasgow.

6. Logistics

- 6.1. We propose that the expert group meetings will operate in the following way:
 - In advance of each meeting (no less than one week before), Ofgem will send out papers introducing the items for discussion. This will include details of Ofgem's thinking on options for reform where relevant.
 - At the meeting, Ofgem will introduce the items for discussion and seek initial views from the expert group.
 - Where options for reform are presented, members of the group will be asked to review these in detail after the meeting to prepare for a further discussion at the following meeting.
 - Ofgem will minute the discussion of all meetings for publication on our website.

7. Review

- 7.1. The Terms of Reference and membership of the group may be reviewed and revised at any time to ensure that they remain appropriate for the requirements of the project.

8. Rules of Participation

- 8.1. Any discussion in meetings and views expressed or implied in such discussion or associated documents are without prejudice to, and shall not limit Ofgem's discretion with regard to its consultation proposals or final decisions. Equally, views expressed by participants during meetings will not be taken as the formal position of the

company that they are representing, and will in no way prejudice consultation responses.

9. Transparency

9.1. The terms of reference, schedule of meeting dates, meeting agendas and other materials including minutes will be published on the Ofgem website. The minutes of the expert group will not attribute comments to an individual or organisation unless specifically requested or in relation to an action that has agreed to be taken.

10. Meetings and frequency

10.1. Our intention is for the group to meet six times between June and October. The intended meeting schedule is set out in Table 1 below. We may review and revise this schedule to ensure that it remains appropriate for the requirements of the project.

Table 1 – Schedule of meetings

Meeting	Date
1	16 June 2014
2	10 July 2014
3	31 July 2014
4	3 September 2014
5	1 October 2014
6	23 October 2014

Annex 1 – Membership of the expert group

Name	Organisation
Andy Colley	SSE
David Crossman	Haven Power
Eric Graham	TMA Data Management
Grant McEachran	Chair (Ofgem)
Harish Mistry	EDF
Hazel Ward	Npower
John Christopher	DECC (observer)
John Lawton	Electricity North West
Jonathan Amos	Reserve Chair (Ofgem)
Jonathan Bennett	Data and Communications Company
Kevin Spencer	ELEXON
Mark Bellman	Scottish Power
Paul Akrill	IMServ
Paul Pettitt	Electralink
Rachael Burn	E.ON
Richard Hall	Citizens Advice
Robert McNamara	techUK
Sara Bell	UK Demand Response Association
Simon Bevis	Utilita
Steven Bradford	Flow Energy
Tabish Khan	British Gas
Tony Diccio	Energy Technologies Institute
Tony Thornton	Master Registration Agreement Service Company