

# Electricity settlement

SMCG

19 May 2014

We intend to:

- Recap on the Launch Statement published in April 2014
- Seek SMCG input on two aspects of the next phase of the project:
  - the evaluation criteria for assessing reform options
  - the composition of the settlement expert group and the proposed structure of the meetings

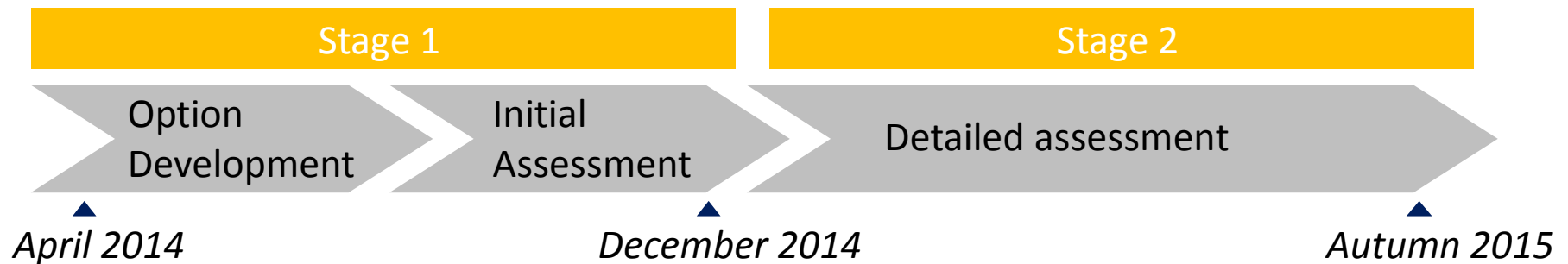
*In April we published a launch statement setting out that we consider it is in consumers' interests to be settled against their half-hourly (HH) consumption data from smart meters*

Benefits for consumers  
come from...

1. Helping create the right environment for **demand-side response**
2. Enabling more accurate **demand forecasting** by suppliers
3. Improving the **efficiency of the settlement process**

**Settling consumers against their HH data will support the transition to smarter energy markets**

*Our project will examine how domestic & smaller non-domestic consumer can be settled against their HH consumption data*



**STAGE 1** – shortlist options for using HH data in settlement

**STAGE 2** – detailed assessment of shortlisted options

*In stage one, we will examine the options for optimising the existing HH process so that it can accommodate more consumers*

### Process of settlement

- Centralisation of data processing and aggregation
- Estimation methodology
- Number and timing of settlement runs
- Data quality standards

### Transition

- Timing of transition
- Method of transition



**We are working closely with ELEXON to ensure the outcomes of our work and those of the Profiling and Settlement Review Group (PSRG) align**

*We want to develop a 'smarter' settlement process that supports vision for smarter energy markets which are more engaged, efficient and dynamic*

## Objectives

## Outcomes

Accurate

More cost-reflective and equitable  
Improves energy forecasting

Timely

Less commercial risk  
Reduces barriers to entry

Efficient

Reduces supplier costs > Lower customer bills

Facilitates innovation

Stronger incentives on suppliers to offer new products  
Supports of low carbon technologies

*We will use evaluation criteria to assess extent to which reform options deliver objectives of smarter settlement*

Criterion	What will be assessed	Reason	Link to objectives
<b>Coverage</b>	The sectors for which each option delivers settlement on HH data	To understand which customers will receive benefits	Efficient, Accurate
<b>Cost reflectivity</b>	How the option improves the cost reflectivity of settlement	To assess the benefits of using HH data and how this facilitates DSR	Facilitates innovation, Accurate
<b>Timing of settlement</b>	Length of the settlement process	To assess the benefits of greater certainty, reduced credit cover and timescales	Timely, Accurate, Efficient
<b>Design simplicity</b>	How straightforward the solution design is and how robust	A simple design will lead to cost and process efficiencies, and will support new entrants	Efficient
<b>Design flexibility</b>	How adaptable the solution is to future changes	Flexibility in design will ensure that future changes can be implemented	Efficient
<b>Costs and benefits</b>	Costs and benefits of the solution	To confirm the business case for implementation	Efficient

There are three overarching factors we will look at in assessing these criteria. These are: (1) **implementation issues** - when the reforms will be implemented and the difficulty of implementation; (2) **consequential impacts** – impacts on other parts of the regulatory framework; and (3) **impacts on market participants** – impacts on different types of market participants.

*We welcome SMCG's views on:*

- the evaluation criteria we plan to use to assess options
- whether there are any issues critical to the assessment of options not captured by the proposed evaluation criteria



*In stage one, we will work with an expert group to develop and assess options*

**Rationale for expert group**

- Will ensure we harness stakeholders' knowledge of settlement
- Will ensure analysis of impact on consumers is robust

**Terms of reference for expert group**

- To assist in the development of options
- To assess options against an evaluation criteria
- To assist in the shortlisting of options
- To comment on our plan for the detailed assessment of options

**Set-up**

- Issued open invitation to get ensure a broad group
- Will decide membership based on individual's ability to consider implications of reform on consumers and market

*We intend for the group to represent the wide range of parties with an interest in settlement reform*

Category	Interest
Suppliers	Settlement is central to the allocation of costs and therefore risks of operating in the market
Consumer groups	Settlement reform is crucial to realising the potential of smart metering to benefit consumers
Central bodies	These stakeholders have the greatest technical expertise in the arrangements
Network operators	Distribution charging is based on settlement data, reform would therefore have significant implications for network operators
Supplier agents	These organisations are responsible for retrieving and processing data for settlement
Demand aggregators	Settlement reform could widen uptake of products which reward consumers for shifting
System developers	These organisations could be involved in the design and implementation of new settlement arrangements

*The group will meet six times over the summer to discuss the components of settlement in scope and to plan for a detailed assessment*

#	Morning session	Afternoon session
1	Review terms of reference Inform and seek views on evaluation criteria	Introductory discussion on options for settlement runs and performance standards
2	Detailed discussion on shortlisted options for settlement runs and performance standards	Introductory discussion on estimation options
3	Detailed discussion on estimation options	Introductory discussion on centralisation
4	Detailed discussion on centralisation	Introductory discussion on transition
5	Detailed discussion on transition	Further discussion on outstanding issues Introductory discussion on reform packages
6	Detailed discussion on finalised reform packages	Discussion on plan for detail assessment

*We welcome SMCG's views on:*

- what we propose group will do
- composition of expert group
- expert group meeting structure

*Next steps*

Q2-Q4 2014

- Analysis of reform options
- Shortlisting of reform options
- Plan for detailed assessment

Dec 2014

- Open letter on progress and next steps