

Electricity Settlement Expert Group: Meeting 1

Minutes of the first electricity settlement expert group meeting.	By Date and time of meeting Location	Ofgem 10:00-15:30 16 June 2014 Ofgem, 9 Millbank
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1. Welcome and introductions

1.1. Jonathan Amos (JA) welcomed the members of the group and the first meeting. Attendees are listed in Annex 1.

1.2. JA said that all materials for the meeting would be published on the website, [here](#). As detailed below, Ofgem took actions to make several minor amendments to the slides and paper that were presented to the group. These have been incorporated into the uploaded papers. All actions from the meeting are set out in Annex 2.

2. Introduction to the settlement project

2.1. JA presented an introduction to the electricity settlement project. This presentation was based on the launch statement for the project, published in April 2014.¹ The presentation can be found [here](#), on slides 3-13. He covered: the context of the project, the rationale for it, the project scope and the project timeline.

2.2. In response to a question about whether the performance framework, set out in the Balancing and Settlement Code, was in scope, JA clarified that it was in scope insofar as the project would look at the standards for the volume of energy that must be settled on actual meter readings over time.

2.3. One member of the group queried whether smart meters could record half-hourly (HH) export data. JA clarified that smart meters would have the capability to record and store three months' worth of HH export data.

3. Roundtable: Initial views

3.1. JA asked each member of the group to give a short overview of their initial thoughts on the project and the challenges it faces.

3.2. The group was enthusiastic about Ofgem's focus on electricity settlement and agreed that using HH data for settlement was an appropriate goal. They welcomed Ofgem's approach of convening the expert group for the first phase of policy development to test option development and give a wide range of stakeholders the chance to input their views.

3.3. Potential benefits mentioned by members of the group were: reducing risk for new entrants and smaller suppliers, lowering the costs of balancing by placing incentives on suppliers to buy energy to meet actual demand, improving the accuracy of billing for use of the distribution network, and supporting demand-side response.

3.4. Several members expressed the view that the current non half-hourly (NHH) arrangements had inherent problems and that the advent of smart metering was a welcome opportunity to replace them. These problems concern data quality and the socialisation of errors. Moreover, one member argued that future market developments,

¹ Ofgem, April 2014, Electricity Settlement Reform launch statement. (<https://www.ofgem.gov.uk/ofgem-publications/87053/electricitysettlementlaunchstatement.pdf>)

such as increasing micro-generation or the uptake of time-of-use (ToU) tariffs, would make profiling increasingly inaccurate.

3.5. Some members emphasised that the consumer should be at the heart of the settlement project and others stated that it would be important to demonstrate the benefits that using HH data would deliver, including through quantification. Several members also argued that not all consumers would benefit from settlement being more cost-reflective because profiling averages the costs of supply. On this point, it was suggested that there would need to be sufficient messaging to explain the reasons for any changes that are made.

3.6. While recognising that settlement could help support the use of demand-side response, members noted that not all customers would be able to shift load. One member also noted that ToU tariffs could be offered through the NHH arrangements, while another highlighted potential risks of demand-side response including around who controls load.

3.7. Several members said that one of the key questions for the project would be how customers remaining on traditional meters would be settled. One member said that there would need to be adequate consumer protections in place for these customers. Several members said that they would not like to see a dual system being operated for the two types of customer; another said that a dual approach had both pros and cons.

3.8. Some members commented on the cost of using HH data in settlement. One suggested that this would add to operational costs for suppliers. Another emphasised the importance of creating a cost-effective process.

3.9. One member said that the timing of implementation must be right to avoid investment before benefits can be realised. They also noted that there was a congested change plan over the coming years and that prioritisation would be necessary. A different member emphasised the need to consider links and dependencies with other reforms, while another suggested that the role of the group is to help set out a clear roadmap for reform.

3.10. One member said that the new arrangements must be adaptable to possible future changes, for example changes to the length of the settlement window.

3.8. When discussing approaches taken in other jurisdictions, it was felt that it would be useful to hear from the Irish energy regulator, the Commission for Energy Regulation (CER), on their experience with smart metering and ToU tariffs. Ofgem agreed to ask CER to speak at a subsequent meeting.

Action: Ofgem

4. The role and programme of work of the expert group

4.1. JA presented on the role and programme of work of the expert group (slides 16-21, [here](#)). The terms of reference for the group were circulated to the group in advance of the meeting (Paper 1.2, [here](#)).

4.2. One member said that the table on page 2 referred to current HH estimation methods relying on manual processes: this was not correct and several firms had entirely automated these processes. JA said that this would be amended.

Action: Ofgem

4.3. Several members said that in the work programme it would be important to capture the issue of consumers without smart meters. JA said that this issue would be picked up in both the estimation and the transition focus areas.

5. Capability of the Data and Communications Company (DCC)

5.1. Ian Marshall (IM) from the DCC presented on the DCC's capabilities (slides [here](#)).

5.2. In response to IM's explanation that more infrequent reads would entail bigger data packets (slide 7), one member commented that their experience with current HH meters was that longer transmissions were more liable to fail. Their preference was therefore for shorter and more frequent polls.

5.3. Following the presentation a group member asked if the DCC was engaging with Project Nexus: IM confirmed that they were fully engaged with the project.

5.4. IM also confirmed that the transactions figures on slide 5 applied to both electricity and gas.

6. Analytical framework for the settlement project

6.1. JA presented on Ofgem's analytical framework for the settlement project (slides 24-30, [here](#)). Paper 1.3 on the subject (available [here](#)) had been circulated to members in advance. He covered the objectives of the project, the evaluation criteria to assess options and the assumptions underpinning the project.

6.2. The group discussed the objectives. One member said that using actual HH data for settlement would not necessarily make forecasting easier than at present: currently the only variable for suppliers to forecast is the volume of energy consumed by their customers – the shape of the profiled consumption is known in advance. Using actual HH data would mean that suppliers would have to forecast both volume and shape.

6.3. However, others felt that the objective should stand, since what suppliers are forecasting at present is not actual consumption but an estimate of it because this is what they will be allocated through settlement. Therefore, there would be a system-wide benefit to better forecasting of actual consumption.

6.4. One member argued that this benefit would take time to materialise as historical data must first be accumulated. Additionally it would benefit larger suppliers, with big customer bases and therefore big datasets, the most.

6.5. In the light of the discussion, JA suggested that the objective on forecasting should be changed so that it states that settlement should provide incentives on suppliers to forecast actual demand accurately. The group supported this suggestion.

Action: Ofgem

6.6. On the last objective relating to market arrangements, several members asked for clarity on what those market arrangements were. JA said that they were arrangements that use the information on consumption generated by settlement, such as the arrangements for charging for use of the distribution network and environmental programmes. The wording would be amended to clarify.

Action: Ofgem

6.7. One member suggested that the objectives could include measures to assess whether they are being achieved. JA suggested that this could be considered as part of the evaluation criteria.

6.8. Several members of the group said that there should be explicit reference either in the objectives or criteria to consumer benefits. In theory the objectives might all be achieved without the benefits being passed on to consumers and this would not be a

satisfactory outcome. Several members also said that consumer confidence and trust in the market should be captured.

6.9. JA said that the evaluation criteria allow us to judge whether an option enables settlement to deliver its objectives and hence support smarter markets and the benefits this can bring to consumers. However, he agreed that it would be useful to add a criterion for the impact on consumers, to ensure that this is explicitly considered when evaluating options.

Action: Ofgem

6.10. One member asked how the criteria would be weighted. JA said that they had not been weighted for this stage of the project but this may be necessary when creating the final shortlist of options and for the impact assessment in the second stage.

6.11. The group discussed the assumption that there would be 99 per cent smart meter penetration by the end of 2020. One member said that for the advanced meter roll-out to larger non-domestic consumers, his company had not achieved 99 per cent. Moreover, suppliers may face greater challenges in installing smart meters to smaller non-domestic consumers, because these businesses may not be willing to turn off supply. He concluded that 99 per cent is the aspiration but it may be preferable to explore the impact of lower assumptions for the project.

6.12. One member said that the wording around suppliers *retrieving* data via the DCC was wrong. They would *receive* the data. JA said that this would be amended.

Action: Ofgem

6.13. One member suggested that the measures introduced by Ofgem's Retail Market Review (RMR) might prevent some of the benefits of demand-side response being realised by introducing restrictions on the number of tariffs that suppliers can offer. Another member said that the working assumption should be that the RMR reforms allow for tariff innovation, including ToU tariffs.

7. Settlement timetable

7.1. Jonathan Priestly (JP) presented an overview of the current settlement run timings and highlighted the variables that could be changed (slides [here](#)). Paper 1.4 on the topic had been circulated in advance ([here](#)). He presented key considerations for the information run (II run).

7.2. The group initially discussed the II run. The group discussed how much earlier the information run could be carried out. There was agreement that it was already early, since the data was fed in by Data Aggregators after only three working days.

7.3. Several members questioned why, in the smart future, this sort of processing could not be next-day. They felt that there was no need to be constrained by the current way of doing things. Instead, the starting point of the discussion should be how fast settlement could happen in a smart future when all consumers are settled HH.

7.4. The group agreed that the best approach would be to start by examining the key considerations and constraints on settlement run timings, rather than looking to tweak the existing process, one variable at a time. This would enable them to be more ambitious with outcomes.

Considerations for the speed of settlement

7.5. The group then discussed in turn considerations that might affect the potential speed of the runs: errors, the speed of data retrieval, needs of generators who are settled using the same timetable, and data processing and data aggregation (DP/DA) processes.

Errors

7.6. Several members said that understanding the likely rate of errors was important to designing the right process.

7.7. One member said that the key question was what standard of accuracy was required for each run. How much cost incurred by meter operators conducting site visits would be acceptable for the sake of a given standard of accuracy? The sooner the data needed to be correct, the greater this cost would be.

7.8. One member said that most errors would be the legacy errors that would come to light during the transition phase. Much error today is introduced by problems with standing data, such as meter technical details (MTDs). This sort of error should be less problematic in the future owing to the remote communications between the meter and the supplier: MTDs can be read remotely.

7.9. One member said that the time elapsed between the actual day and the settlement run did not reduce the amount of work required to fix errors, it just allowed firms to delay longer before doing the work.

7.10. There was a discussion of energy theft in the context of detecting errors. One member said that theft (at least from metered supplies) would be identified more quickly and easily with smart data.

Speed of data retrieval

7.11. The DCC said that they have high performance standards for retrieving the actual data within target response times. This includes fixing Communications Hub faults. They agreed to present on these standards at the next meeting.

Action: DCC

Needs of generators

7.12. Several members said that any new arrangements should be the same for both generation and supply, and the needs of generators must therefore be taken into account in designing the timetable. Generators' needs can be different from suppliers'. For example, generators value the information run for the purposes of identifying errors possibly more than suppliers.

DP/DA processes

7.13. There was a discussion around the added costs to DP/DA of having shorter timescales, for example if these timescales required weekend or 24 hour working. One member said that automated processes already ran 24 hours a day so the change may not be so significant.

7.14. Members agreed that DP/DA did not constrain the speed of settlement. There was a cost-speed trade-off because any additional processing speed could be attained by buying processing power.

7.15. As long as there was one working day for DP/DA functions to be carried out, exceptional manual interventions, such as chasing missing files, could still be carried out during business hours.

Settlement runs

7.16. Moving on from the discussion of considerations around speed, the group discussed the value of the different runs and how options around them should be considered.

Interim runs

7.17. One member suggested that there was value in interim runs from the point of view of error identification – the Profiling and Settlement Review Group had concluded the same. Another member agreed and said that they were of benefit to suppliers from a cash-flow perspective.

Final run (RF)

7.18. One member said that there was value in having RF much earlier, as this would make financing significantly easier for new entrants.

7.19. One member said that the starting point of option development should be a decision on whether RF should be brought forward.

7.20. One member suggested that three months might be reasonable for RF, on the grounds that very little tends to change after this period in the current HH market. Most of what does cause changes (such as issues with current transformers) is not applicable to the sites under consideration as part of the settlement project.

7.21. Another member suggested that developing options for less than three months, three months and six months might be a sensible approach.

Extra runs

7.22. The group agreed that there was value in having a mechanism for adjustments after RF. Certain faults may only be discovered long after the event and there should be a process for adjustment which avoided arbitration.

7.23. The group felt that there should nonetheless be a threshold of materiality for the use of extra runs.

Performance standards

7.24. Moving on from the discussion of settlement runs, one member raised a point about performance standards. They commented that post-2020 the current way in which errors are socialised – via Group Correction Factor – may no longer be appropriate because errors would be more attributable to fault rather than inherent in the profiling system. They suggested that the costs of errors should be allocated to those who have not met performance targets for accuracy of settlement data rather than being smeared across all suppliers.

Next steps

7.25. The group discussed how best to progress thinking at the following meeting. JA suggested that, to inform discussion, it could be helpful to draw on international comparisons, information from the DCC about data retrieval and suppliers' current experiences with remote data retrieval. The group agreed with this approach.

7.26. JA asked if suppliers held potentially useful data from smart metering and experiences with the current HH market regarding data retrieval, error rates and processing times. Members agreed that such data could be useful. JA said that Ofgem would follow up offline with relevant group members.

Action: Ofgem

7.27. JA summarised the discussion and said that ELEXON, with Ofgem's support, would work to develop a range of options and revert to the group with them at the next meeting.

Action: ELEXON

8. Wrap up and date of next meeting

8.1. JA closed the meeting. He thanked attendees for their contribution and said that the next meeting would be held on 10 July at Westminster Central Hall. JA also welcomed feedback from members on the first meeting.

Annex 1 – Attendees and apologies

Group members

Jonathan Amos (Reserve Chair)	Ofgem
Andy Colley	SSE
David Crossman	Haven power
Eric Graham	TMA
Harish Mistry	EDF
Hazel Ward	Npower
John Lawton	ENW
Jonathan Bennett	DCC
Kevin Spencer	Elexon
Mark Bellman	Scottish Power
Paul Akrill	IMServ
Paul Pettitt	Electralink
Rachael Burn	EON
Robert McNamara (AM only)	Tech UK
Xander Fare (PM only)	Tech UK
Sara Bell	UKDRA
Simon Bevis	Utilita
Steven Bradford	Flow Energy
Tabish Khan	British Gas
Tony Diccio	ETI
Tony Thornton	MRASCO
John Christopher (observer, PM only)	DECC

External presenters (attended part only):

Ian Marshall, DCC

Jonathan Priestly, ELEXON

Ofgem attendees:

Francis Jackson

Ciaran MacCann (attended part only)

Jeremy Adams-Strump (attended part only)

Apologies:

Grant McEachran, Ofgem (Chair)

Richard Hall, Citizens Advice

Annex 2 – Summary of actions

Agenda Item	Action	Responsible	Due by /Status
3	Roundtable: Initial views		
	a) Ofgem to ask Ireland's energy regulator to present at a subsequent meeting.	Ofgem	Update group by 10 July meeting
4	The role and programme of work of the expert group		
	a) Remove reference to manual estimation methods in the terms of reference.	Ofgem	Actioned
6	Analytical framework for the settlement project		
	a) Change objective relating to forecasting so that it states settlement should provide incentives on suppliers to forecast actual demand accurately.	Ofgem	10 July meeting
	b) Clarify objective relating to other market arrangements.	Ofgem	Actioned
	c) Modify objectives and/or evaluation criteria to explicitly capture consumer benefits.	Ofgem	10 July meeting
	d) Change references to suppliers retrieving data in assumptions section to suppliers receiving data.	Ofgem	Actioned
7	Settlement timetable		
	a) DCC to bring information to the next group meeting around its performance standards for data retrieval.	DCC	10 July meeting
	b) Ofgem to approach members who have relevant data/information on current smart or HH operations and error rates to discuss if this could be shared.	Ofgem	10 July meeting
	c) ELEXON to develop options for settlement timing, based on discussion at the meeting, with support from Ofgem.	ELEXON	10 July meeting