Discussion paper for electricity settlement expert group – options for settlement timetable

Author: ELEXON
Audience: Electricity settlement expert group and other interested stakeholders
Date: 31 July 2014
Paper #:3.2

1. Purpose of the paper

1.01 As part of the Smarter Markets Programme, Ofgem has convened an expert group to support its work to examine how consumers can be settled against their half-hourly (HH) consumption data. This paper assesses the options for the settlement timetable for discussion at the expert group meeting on 31 July 2014. This analysis has been conducted by ELEXON on behalf of Ofgem.[1]

1.02 We are seeking views from the expert group on the following questions:

- Do you have any comments on our assessment of the options?
- Are there other options for reform that should be considered?

2. Structure of the paper

2.01 This paper contains the following sections:

- Section 3 – summarises the options discussed at the second expert group meeting and how they were developed
- Section 4 – presents our assessment of the options against the evaluation criteria
- Section 5 – explains our next steps.

[1] For further information, please see the paper on the settlement timetable circulated in advance of the first expert group meeting, which is available on the Ofgem website here: https://www.ofgem.gov.uk/ofgem-publications/88230/14settlementtimetable.pdf

3. Options agreed at the second expert group meeting

3.01 At its second meeting the expert group identified three options for the settlement timetable. This followed discussion on how each of the variables could be altered. The expert group:

- Expressed a desire to bring forward the **first settlement run**, noting the potential to reduce the amount of credit cover that parties lodge. The group suggested that **10 working days** was the optimum timing. It considered whether the run could take place earlier, but concluded that this would not give time to resolve issues with generation or GSP metering.

- Discussed options for the **last settlement run**. It concluded that this run should take place no later than **6 months**, and proposed **3 months** as an alternative option. It felt that these options provided a balance of ambition in reducing overall timescales and opportunity to resolve errors.

- Felt that there is value in having an **interim settlement run** between the first and last settlement runs. It proposed two options that bring distinct benefits. The first was to have the run **close to the first settlement run** to allow any errors at the first settlement run to be addressed promptly. The second was to have the run **closer to the last settlement run**. This would provide parties with a better view of their likely imbalance charges and performance levels at the last settlement run, to allow targeted action if required.

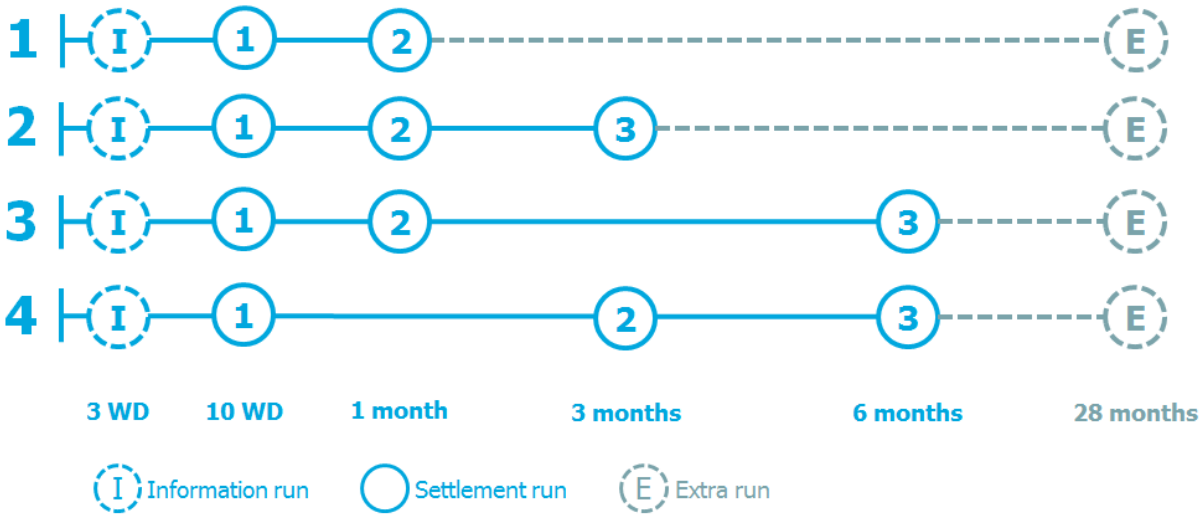
- Wanted to keep an **information run** before the first settlement run. This would give parties sight of likely Trading Charges and provide opportunity for errors to be addressed before the first financial settlement. The expert group proposed that the information run should take place after **3 working days**.

- Felt that there should be the opportunity to address errors after the last settlement run has taken place. The group argued that the current arrangements were still appropriate, ie an **extra settlement run** at **up to 28 months** as well as the possibility of performing a **financial adjustment** that did not affect settlement data. The group suggested that the timing of the extra run should be subject to review, with the intention to bring it forward, after any new arrangements were bedded in.

3.02 Based on the discussions summarised above, the expert group identified three reform options. These are options 2-4 below. To this, we have added option 1. The Profiling and Settlement Review Group has proposed settlement timescales of approximately 6 months and 3 months. This is for the current arrangements with the majority of consumers not settled against their half hourly data. We feel that it is right for this project to test an option that delivers further reductions in the standard timetable.

3.03 The timings for the different types of run relate to when parties are notified of the Trading Charge amounts that they must pay in relation to the Settlement Day. For the information run, when parties are not invoiced, this corresponds to when parties are notified of what their charges would be based on the data available at the time.

Figure 1 – options for reform identified by expert group



3.04 The expert group noted that any of the options could be accompanied by a commitment to review at a later date, with the stated intention being to reduce timescales further.

4. Assessment of options

4.01 This section presents a comparative evaluation of the options against the criteria. We assume that half hourly metered data is available at all runs.

Table 1 – assessment of the options

Options	1)	2)	3)	4)
Accuracy	All options bring the information run and first settlement run forward. For generation, GSP metering and the current HH market there will be less time to identify and address errors before the first settlement run. This may lead to lower accuracy compared to the current arrangements. Further work will be required at a later date to explore how the remote capability of smart metering could reduce this impact.			
	As the shortest overall timetable, this option has the highest potential for errors to remain at the last settlement run. This could be mitigated by appropriate performance standards that provide the right incentives on suppliers to identify and resolve errors.	As the second shortest overall timetable, this option has more potential for errors to remain at the last settlement run than options 3 and 4.	Compared to options 1 and 2, options 3 and 4 allow more time for resolution of errors.	Compared to option 3, having the second run closer to the last run gives parties a more up-to-date view of what their charges are likely to be at the last run. This can have advantages as it allows parties to target issues that have yet to be resolved, thereby improving the overall accuracy of consumption data used at the third run..
	Having the second run shortly after the first run allows parties to address errors identified in the first run promptly.			This option gives the least opportunity to address issues identified at the first settlement run promptly.
Speed	This option has the shortest standard timetable. However, as this option leads to less accurate data being used at the last run, there may be greater need for extra runs, effectively lengthening the timetable.	This option has the second shortest standard timetable. It may give more potential to need extra runs than options 3 and 4, but less so than option 1.	The overall timetable is the same length for both options, and is slower than option 1. Option 3 may be more accurate at the last run, and therefore lead to less use of extra runs.	
Coverage	All options apply to the whole market. The expert group emphasised that there should only be one timetable for the settlement process that applies to the whole market.			
Simplicity	This standard timetable has the fewest runs, so is simpler than the other options.	Options 2-4 have the same number of runs, so have the same level of complexity in terms of the number of activities that must be performed under the standard timetable.		
	All options have the same timings for the information and first settlement run. The simplicity of these initial processes is the same for all options.			
	As noted above, as the option with the earliest last settlement run there is more potential for extra runs to be needed. This makes this potentially the most complex and costly option.	Based on the potential use of extra runs, as the second shortest standard timetable, it has the potential to be less complex than option 1 but more complex than options 3 and 4.	Based on the potential use of extra runs, this option should be less complex than options 1 and 2 but more complex than option 4.	As the option most likely to capture errors in time for the last run, there should be less need for extra runs. This makes it the most simple option.

Options	**1)**	**2)**	**3)**	**4)**
Costs (operational)	All options should lead to credit cover savings by bringing the first settlement run forward.			
	There are cost savings in having fewer runs than the other options. This reduces the number of acitivities that must be performed.	These options all have the same number of runs in the standard timetable. Operational costs would be higher than option 1 because more activities need to be performed.		
	As the shortest overall timetable, this option has the greatest risk of parties' final settlement position being inaccurate. More capital would need to be set aside to cover this volatility.	As the second shortest overall timetable, this option has the second greatest risk of parties' final settlement position being inaccurate. More capital would need to be set aside to cover this volatility than for options 3 and 4.	Potential for cost savings over options 1 and 2 as the longer timetable gives more time to address errors. Parties would need to set aside less capital to cover inaccurate positions at the last run.	Potentially the cheapest ongoing costs if use of extra runs is minimised.
Flexibility	As the option with the shortest standard timetable, this would be best for any new market arrangements that use data from settlement and require the final position to be arrived at quickly.	As the option with the second shortest standard timetable, this would be better than options 3 and 4 for any new market arrangements that use data from settlement and require the final position to be arrived at quickly.	These two options have the same timing for the last run. Market arrangements using data from settlement would get the final data at the same time, though option 3 may have more error at the last run.	
	If any new market arrangements require accurate data from settlement, then this would be the least attractive option due to it having the highest potential for errors to remain at the last settlement run.	If any new market arrangements require accurate data from settlement, then this would be the second least attractive option due to it having the second highest potential for errors to remain at the last settlement run.	If any new market arrangements require accurate data from settlement, then this would be the most attractive option due to it having the least potential for errors to remain at the last settlement run.	
Integration	For all options, the processes would remain the same but there may need to be changes to current practices to meet the proposed timings of the information and first settlement run.			
Implementa-tion (including costs)	All options would require changes to central systems to meet the proposed timings of the information and first settlement run.			
	The shortest timetable may require more costly systems and processes for parties to ensure that they achieve an acceptable level of accuracy at the last run.	This system requirements for this option may be cheaper than option 1 but more expensive than options 3 and 4.	The longest timetable may allow for less costly systems and processes for parties to ensure that they achieve an acceptable level of accuracy at the last run.	
Consumer impact	There are no direct impacts on consumers. However, option 1, with the shortest standard timetable, may be the worst outcome if suppliers are unwilling to change incorrect bills unless they can also change settlement volumes. Conversely, option 1 may incentivise earlier meter reading which would benefit consumers.			

4.02 The expert group proposed the four options assessed in the above table. We wish to propose sub-options which have extra settlement runs at 14 months. The coincides with the current timing of the last settlement run. It gives parties a year to identify errors and then two months to get amended data into settlement. We assume that a party would still need to follow the disputes process to trigger an extra run, and that there would still be the opportunity to make financial adjustments outside of settlement runs.

4.03 Moving the extra run forward for all options does not change our comparative assessment of them. In table 2 we consider the pros and cons, as judged against the evaluation criteria, of bringing the extra run forward.

Table 2 – Pros and cons of bringing the extra run forward

Pros	**Cons**
Bringing the extra run forward may provide greater incentives to ensure that data is correct within the standard timetable. This would have benefits for **accuracy**.	There would be less opportunity to correct error, so **accuracy** would be affected.
This would have benefits for the **speed** of the overall process.	Reducing the ability to use an extra run may lead to more errors being corrected as a financial adjustment. The payments arising from a financial adjustment may be lower **accuracy** than repeating the settlement run process.
Reducing the window where data may change reduces the potential for fluctuations in historical charges. This has **cost** benefits by requiring less capital to be put aside to handle any fluctuations.	Keeping the current timescales for extra runs has benefits for **simplicity** because parties do not need to change.
Shortening the timetable would have benefits for **integration** with other market arrangements that rely on settlement data from the extra run. Bringing the extra run forward means these arrangements will be able to finalise positions sooner.	Bringing the extra run forward would have **implementation** costs, though we anticipate that they would not be significant.

5. Next steps

5.01 We will present a summary of the paper at the expert group meeting on 31 July. The aim for the meeting is to conclude the discussions on the settlement timetable and inform Ofgem's work to develop a shortlist of options to be taken forward to the next stage of work.