

# Electricity settlement expert group

Meeting 4 – 3 September 2014

ofgem

- 10.00 – 10.10** Welcome and introductions
- 10.10 – 10.20** Review minutes from meeting three
- 10.20 – 11.30** The Irish approach to smarter markets
- 11.30 – 13.00** Introductory discussion on transition
- 13.00 – 13.30** *Lunch*
- 13.30 – 15.00** Detailed discussion on options for Data Processing and Data Aggregation functions
- 15.00 – 15.10** Wrap up and AOB

# Review of minutes from meeting three

## Expert group

# **The Irish approach to smarter markets**

Eamonn Murtagh – Council for Energy Regulation

# Introductory discussion on transition

Francis Jackson – Ofgem

- Explain objective and ambition.
- Discuss transition timing.
- Discuss transition process.

- Policy objective:

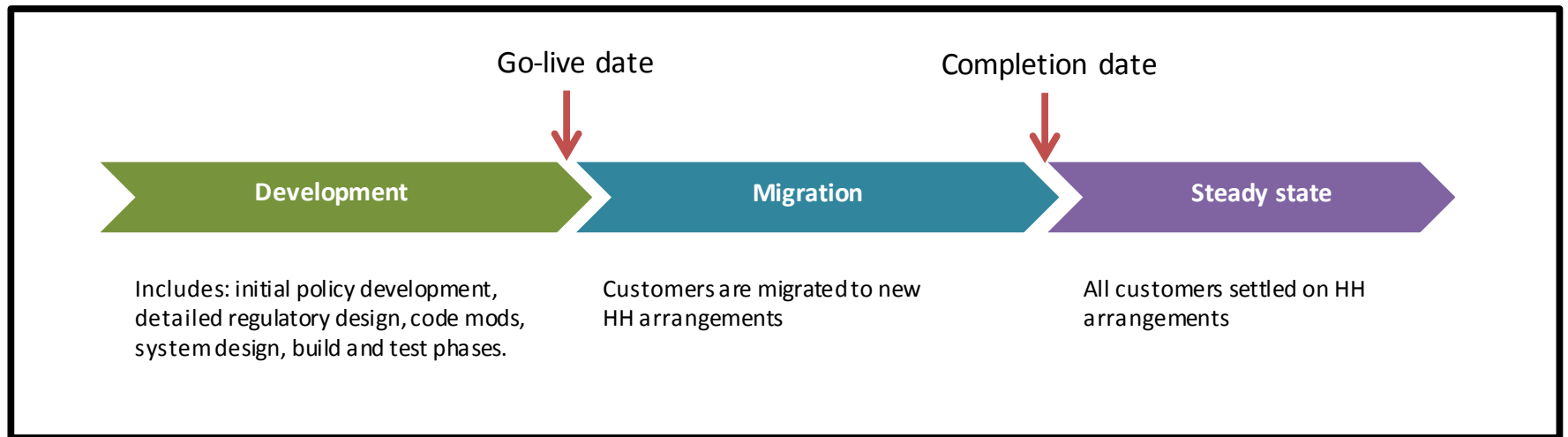
***to identify high-level parameters for the transition of all customers to settlement with HH data on an ambitious timescale, while remaining achievable and cost-effective and also ensuring consumer protection.***

- We recognise the impact that different approaches to transition can have on costs and that the industry requires as much certainty as possible around timescales.

- Ambition:

***Arrangements for customers to be settled using HH data to be in place by the end of 2020.***

- We will explore a range of options with this ambition in mind. They will form part of our proposed reform package(s) - we expect to come to a view on whether to move to settlement with HH data by Q3 2015.



Go-live date: arrangements are in place.

Completion date: all customers have been migrated to new arrangements.



- Systems changes, eg IT development
- Business changes, eg forecasting models
- Governance (mods) process
- Risks



- Customer migration – technical constraints
- Consumer engagement
- Risks



There may be cost-speed trade-offs.

- Does quicker mean more expensive?
- Interactions with other projects.



- Which considerations for the go-live timing are the most important and how might they affect the timing?
- Which considerations for the completion date are the most important and how might they affect the timing?
- Which cost considerations are the most important and how might they affect timings?

- Process relates to rules for transition.
- Rules may be required for distributional and efficiency reasons.
- For example, there could be rules around:
  - Allocation of costs of settlement processes – to suppliers and consumers.
  - Allocation of energy costs – to consumers, as pricing becomes more cost-reflective.
  - Interim migration targets.

- Does the group think that rules would be required to govern the process of transition?
- If so, what rules?

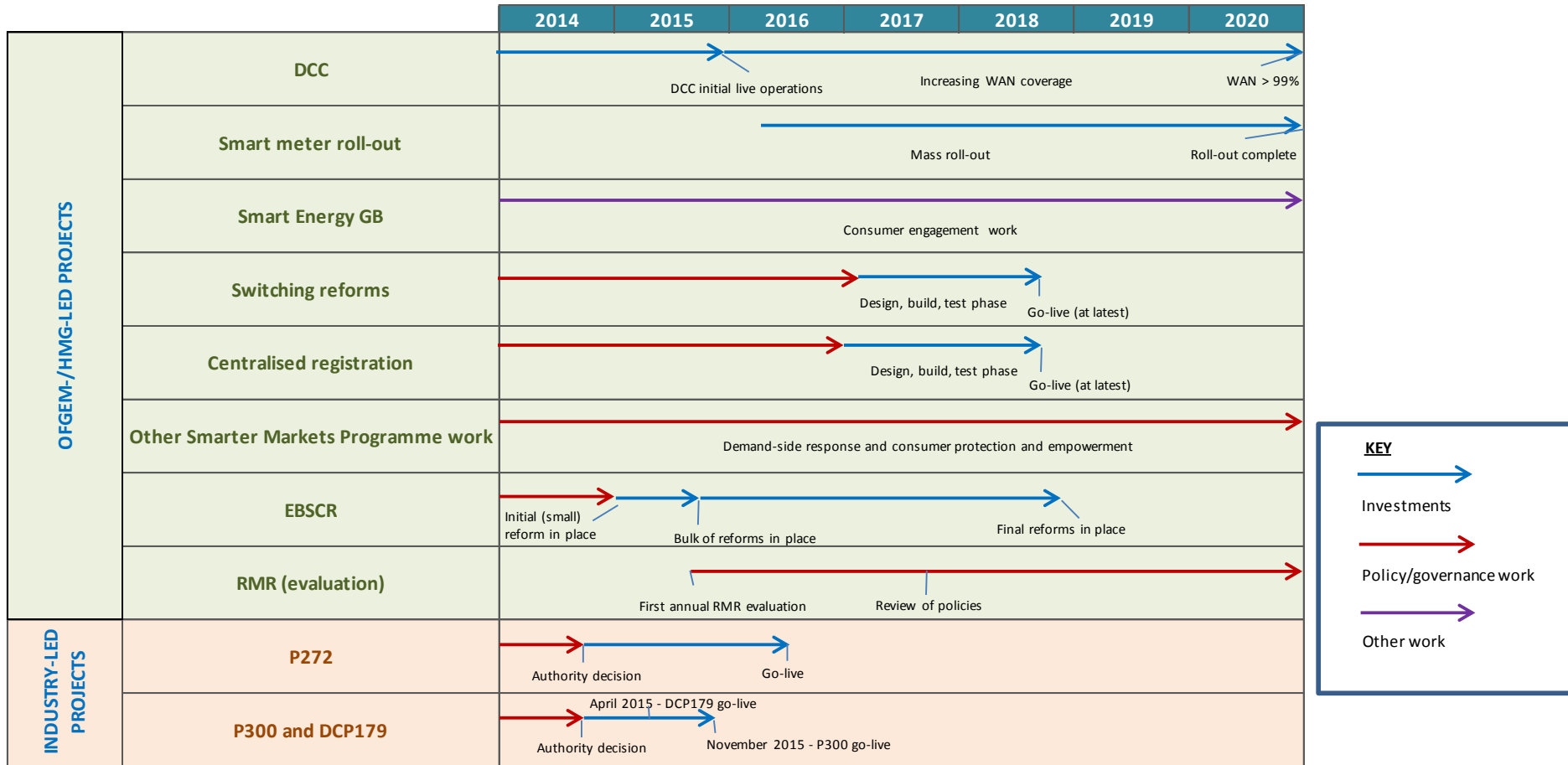


- Settlement reform will require:
  - **Smart meter roll-out** – sufficient SMs need to be installed to make new arrangements viable.
  - **DCC data services** – DCC infrastructure critical to providing HH data for settlement.
  - **DCC communications services** – sufficient coverage is required to make new arrangements viable.
  - **Changes to distribution charging** – changes being made to enable P272 are also required this project.

- Settlement is likely to overlap with:
  - **Switching reform**
  - **Centralised registration**
  - **Electricity Balancing Significant Code Review**
  - **RMR evaluations and policy review**
  - **Smart Energy GB consumer engagement**



# Key interactions with other projects



**Lunch**

13:00 – 13:30

## **Follow-up discussion on options for DP and DA functions**

Ciaran MacCann – Ofgem

- Recap previous meeting
- Refine Supplier Agent (option 1) and central agent (option 2) design
- Shortlist options

- Group agreed that the range of high-level options presented were sensible for initial consideration and no obvious alternatives were missing
- Group agreed we had identified the right pros and cons and trade-offs between options
- Group discussed Supplier Agent option design (option 1) – discussed relative costs and benefits between different variants.
- Group asked Ofgem to further consider the scope and design of a central provider's service – members felt it was important for suppliers to continue manage exceptions; and it may not address data privacy issues.
- Group was broadly sceptical of the hybrid model (option 3) - it could suffer from the negatives of a central option (impact competition), but attain none of its potential gains (simplicity).

- Key question: **what should Supplier Agent and Central Agent options look like?** To ensure:
  - option(s) provides scope to meet efficiency, simplification and data quality objectives.
  - central option(s) minimises potential policy risks - particularly the impact on Supplier Agent competition;
  - we allocate functions in such a way and to a body to maximise benefits and minimise costs.

## Recap on group discussion

### Cost

- Option 1b would require each Supplier Agent to build a DCC interface (rather than receiving consumption data via suppliers)
- The group argued that this could lead to increased costs as suppliers will have to build a DCC interface regardless of whether Supplier Agents obtain data from DCC

### Data quality

- Group questioned incremental data quality benefits to 1b) from reduced hand-offs
  - impact of only one less hand-off
  - how much of an impact hand-offs have on data quality per se
  - whether 1b would reduce hand-offs in reality as Supplier Agents will need to send data to suppliers after receiving it from DCC

**Does option 1a have net benefits over 1b, and so should we retain 1a and discard 1b? How material is the impact of hand-offs? (See Annex slide 33 for simplified options diagram)**

- Certain criteria may inform which DP and DA activities should be part of a central agent service:
  - **Automated vs manual activities** – including certain automated processes may support efficiency.
  - **Differentiated activities** – excluding activities which are higher value to independent supplier agents may mitigate potential impact on competition.
  - **Suppliers ability to control their settlement positions** – excluding certain activities which allow suppliers to retain control.
- Other considerations may also be important to support its service provision:
  - **Access to data to support provision of out of scope services** – suppliers may need access to certain data held by a central agent.
  - **Restrictions on data use** - restrictions on use of data for settlement may be necessary.
  - **Service level** - defined service level provisions to support data quality management.



- We have considered DP and DA activities which will remain in the future (see Annex slide 31 and 32) against criteria (degree of automation, differentiation and supplier control).
- Table sets out suggested central agent service scope and reasoning:

	DP activities	DA activities
<b>Included</b>	<ul style="list-style-type: none"> <li>• Estimation</li> <li>• Exception identification and notification (incl. validation)</li> </ul>	<ul style="list-style-type: none"> <li>• Aggregation</li> <li>• Line losses</li> <li>• Exception identification and notification (incl. registration validation)</li> </ul>
<ul style="list-style-type: none"> <li>• Higher automation?</li> <li>• Less scope for differentiation?</li> <li>• less need for direct supplier control?</li> </ul>		
<b>Excluded</b>	<ul style="list-style-type: none"> <li>• Data management</li> </ul>	<ul style="list-style-type: none"> <li>• Data management</li> </ul>

**Assuming the above activities remain in future, do you agree with the suggested criteria and scope of service?**

- **Are above in-scope activities relatively automated and so potentially lead to efficiency benefits if undertaken centrally? Are suggested in-scope ones relatively un-differentiated?**
- **Are there any technical or commercial barriers to a supplier or agent in undertaking/exercising the data management role?**

- a) **Split between bodies according to roles and functions** – Elexon – DP estimation, DA aggregation, DP exception identification and notification; DCC - DA exception identification and notification; or
- b) **All in one body**

	Main pros	Main cons
a) Split	<ul style="list-style-type: none"> <li>• <b>Allows some alignment with roles and functions</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Inefficient process</b> – more hand-offs/no end to end standardisation</li> <li>• <b>Complex governance and lines of responsibility</b> - split responsibility for data quality; asymmetric governance from Ofgem</li> </ul>
b) All in one	<ul style="list-style-type: none"> <li>• <b>Most efficient processes</b> – fewer hand-offs/end to end standardisation</li> <li>• <b>Simpler governance and lines of responsibility</b> - Single responsibility and governance for data quality</li> </ul>	<ul style="list-style-type: none"> <li>• Potentially poorer integration and risk of failure – new roles to bodies</li> </ul>

**Should we retain b) and discard a)? How material is the potential impact of hand-offs and standardisation between the variants? (Diagrams set out in Annex slide 34 and 35)**

- Little support for a new body to undertake responsibility.
- Choice remains as to **which existing body** is best placed to carry out central role:

	Main pros	Main cons
a) DCC	<ul style="list-style-type: none"> <li>• <b>Synergies with other smart initiatives</b> (e.g. central registration)</li> <li>• <b>More direct regulatory oversight</b> from Ofgem</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Less of a data quality role</b> (but growing link if taking on central registration)</li> <li>• <b>Implementation risk</b> - from greater increase in role</li> </ul>
b) Elexon	<ul style="list-style-type: none"> <li>• <b>Some data quality role</b></li> <li>• <b>Lower implementation risk?</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Less regulatory oversight</b> from Ofgem</li> </ul>

What are views on the pros and cons set out above?

- Expert group meeting 3 discussed scenario where a central agent is responsible for managing exceptions and suppliers only receive aggregated consumption data – this would maintain current restrictions on access to HH data.
- Group argued that suppliers need access to disaggregated data to manage exceptions and obtain full benefits of using HH data in settlement.
- We are interested in whether it would be possible to anonymise data so that suppliers' settlement teams/Supplier Agents can receive disaggregated data but current data privacy restrictions can remain in place

**What personal information is required to resolve exceptions which will occur in the future?**

**Is there a level of anonymisation which would enable exceptions to be resolved, whilst allowing consumption data to be kept anonymous?**

- We see merit in taking forward:
  1. Supplier Agent option
  2. Central agent option
- However, a question remains over retention of the hybrid option:
  - option premise is to allow the market to choose and so mitigate any potential negative impact on competition, whilst realising policy objectives.
  - option carries risks around uncertainty and regulatory failure.

**Do you agree we retain Supplier Agent (option 1) and central agent (option 2), as defined and agreed today?**

**Do you have further views on Hybrid option?**

- **would our agreed Central Agent option 2 sufficiently address any negative impact on independent Supplier Agents ability to compete with each other, and so weaken the rationale for a Hybrid option?**

- Inform group of any further changes to options and which ones will be taken forward for detailed assessment

The tables in this annex set out the main DP and DA functions and our initial view on whether they will be required in the future if HH data from smart and advanced meters is used in settlement

Function	DP and DA activities	Required in future (for consumers in scope)	Automated
<b>DP</b>	Check read is within tolerance	Will remain?	Y?
Exception	Checking alarms	Will remain?	Y?
identification and notification	Main/check meter comparison	Not required – smart meters will not have check meters	n/a
	Checking outstation time	Moves to DCC	n/a
	Checking outstation channels	Not required – smart meters will not have multiple channels	n/a
	Cumulative/total consumption check	Will remain?	Y?
	Proving tests	Not required for smart meters but potentially still for advanced meters?	n/a
	Meter advance reconciliation	Not required as smart meters should not allow advance and HH interval data to become desynchronised	n/a
	Notify of exceptions	Will remain	Y?
<b>DP</b>	Take action to resolve exceptions following notification from DA	Will remain	N
Data management	Investigate metering system following identification of anomalies	Will remain	N
	Other?	?	?
<b>DP</b>	Estimate data	Will remain	Y
Estimation	Data transfer	Not required if gaining supplier can access historic HH data?	n/a

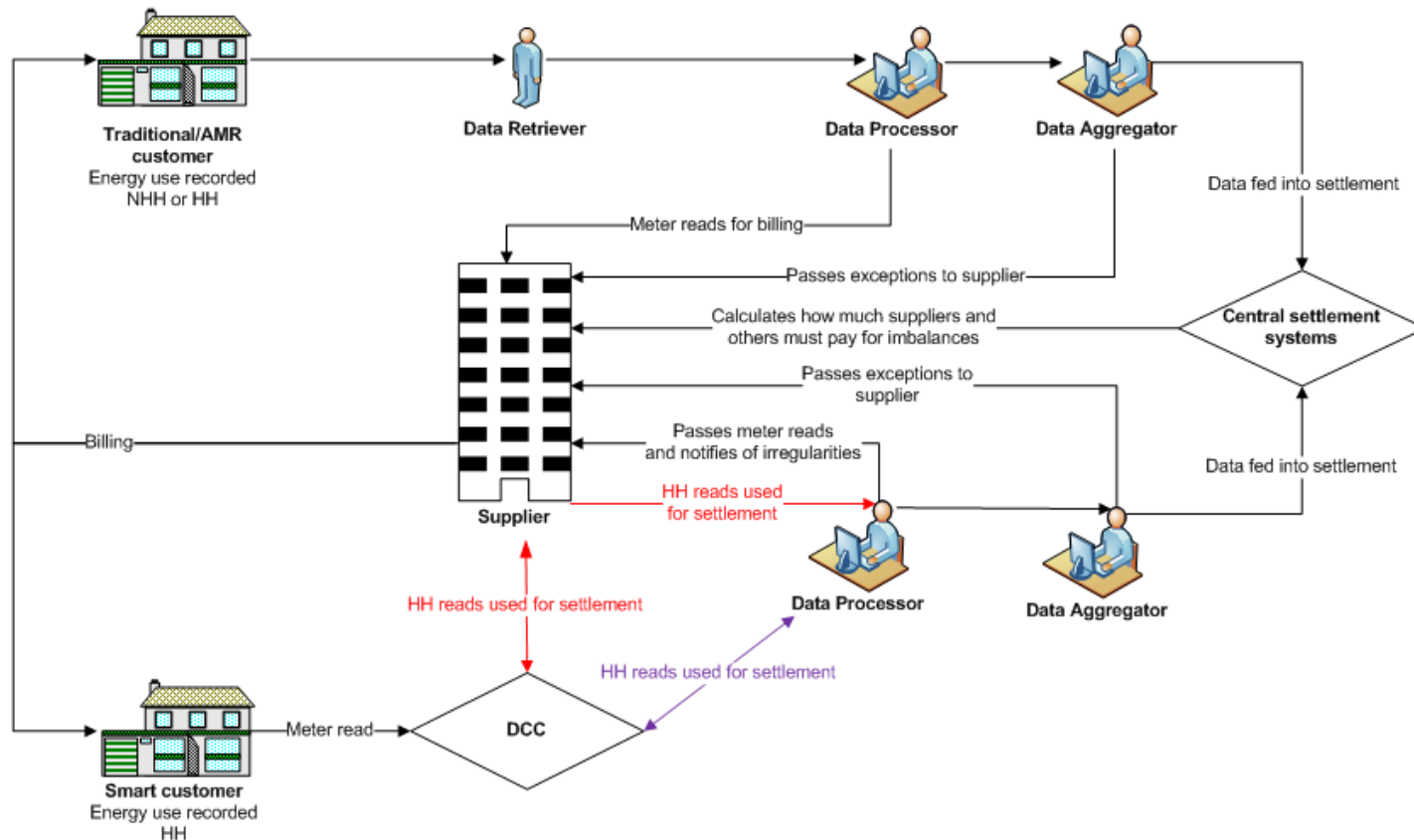
Initial view of DP and DA functions in smart world

Function	DP and DA activities	Required in future (for consumers in scope)	Automated
DA  Exception identification and notification	Check registration data against Market Domain Data and previous registration data	Will remain	Y?
	Check for unexpected HH data	Will remain?	Y
	Check if HH data received from unexpected HHDC	Will remain?	Y
	Check for missing HH data	Will remain?	Y
	Check if HHDC supplier is not equal to SMRA supplier	Will remain?	Y
	Check for non-zero data for de-energised site	Will remain?	Y
	Check import data is not for export MPAN (or vice versa)	Will remain?	Y
	Notify exceptions	Will remain	Y
	DA  Data management	Take action to resolve exceptions	Will remain
DA  Aggregate data	Aggregate data by supplier and GSP Group	Will remain	Y
DA  Line losses	Apply line losses in to a supplier's aggregate position	Will remain but possibly moves to central systems for non-site-specific consumers	Y



### Key features

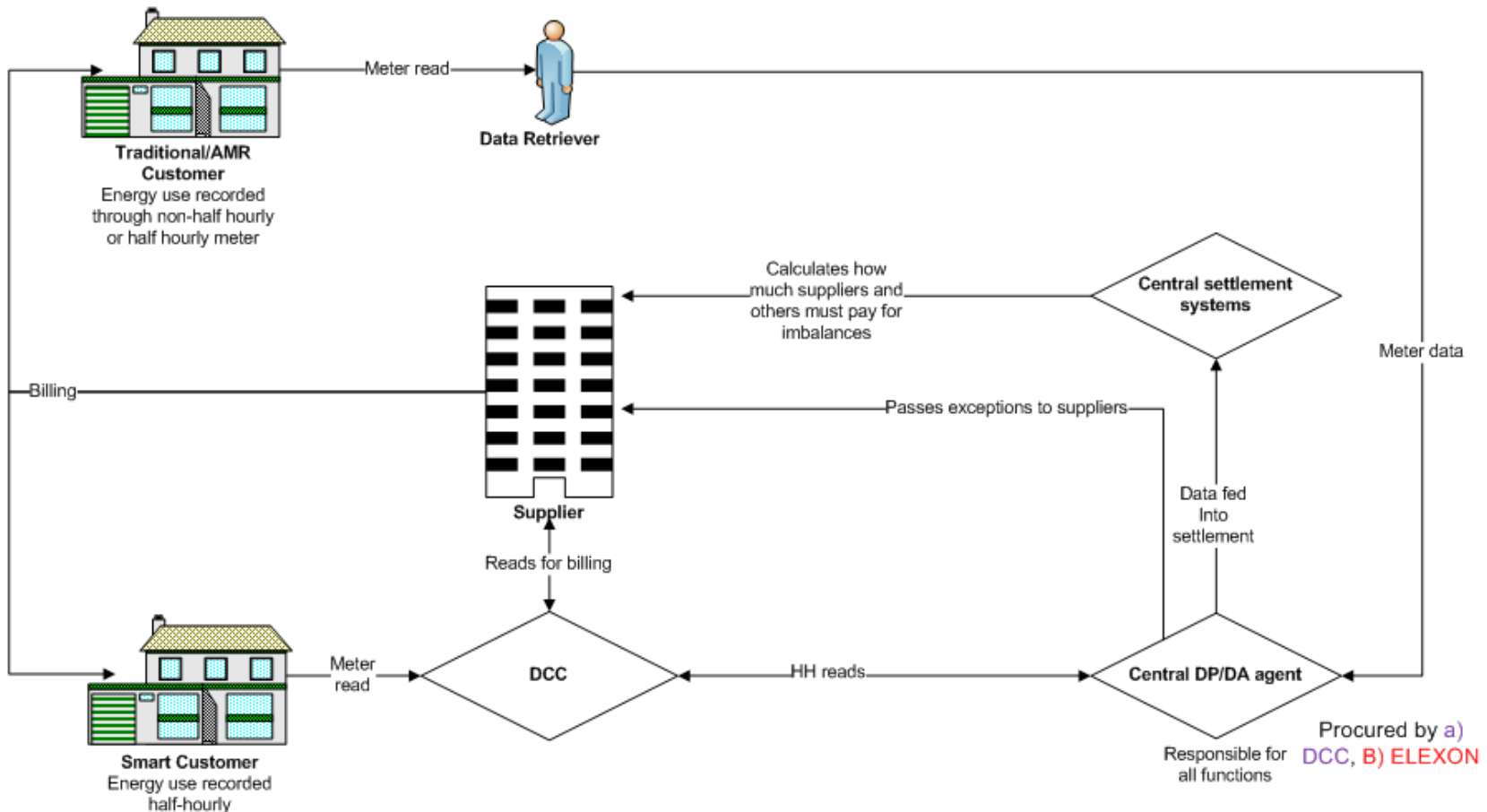
- DP and DA functions continue to be performed by individual Supplier Agents
- Two sub-options either **1a) suppliers obtain data and pass it to Supplier Agents** or **1b) Supplier Agents obtain it directly from DCC**



**Option 2 – central agent(s) (functions allocated to single central agent)**

*Key features*

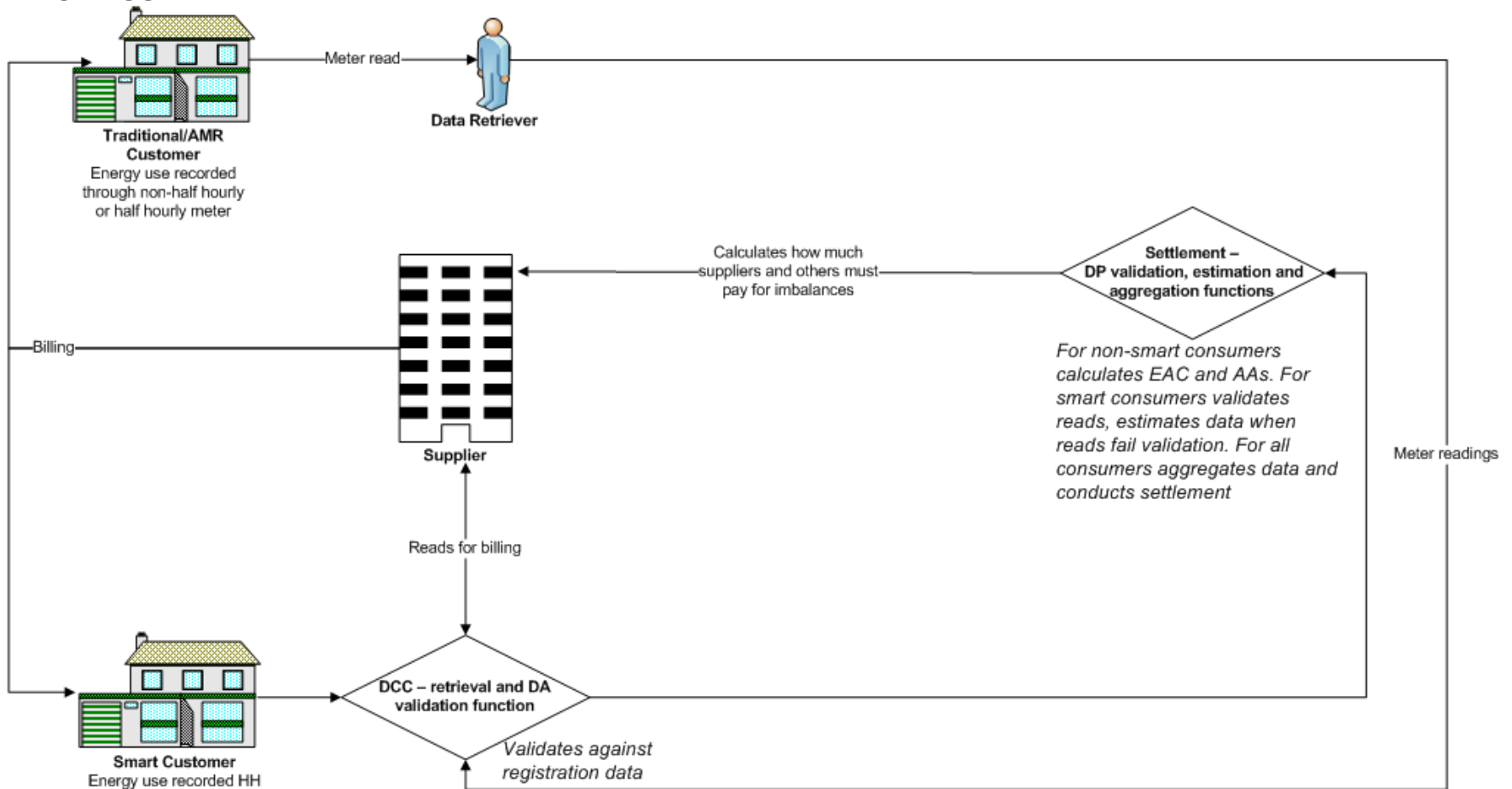
- Use of a central agent(s) would be mandated (either DCC or Elexon)



**Option 2 – central agent(s) (functions split between central agents**

*Key features*

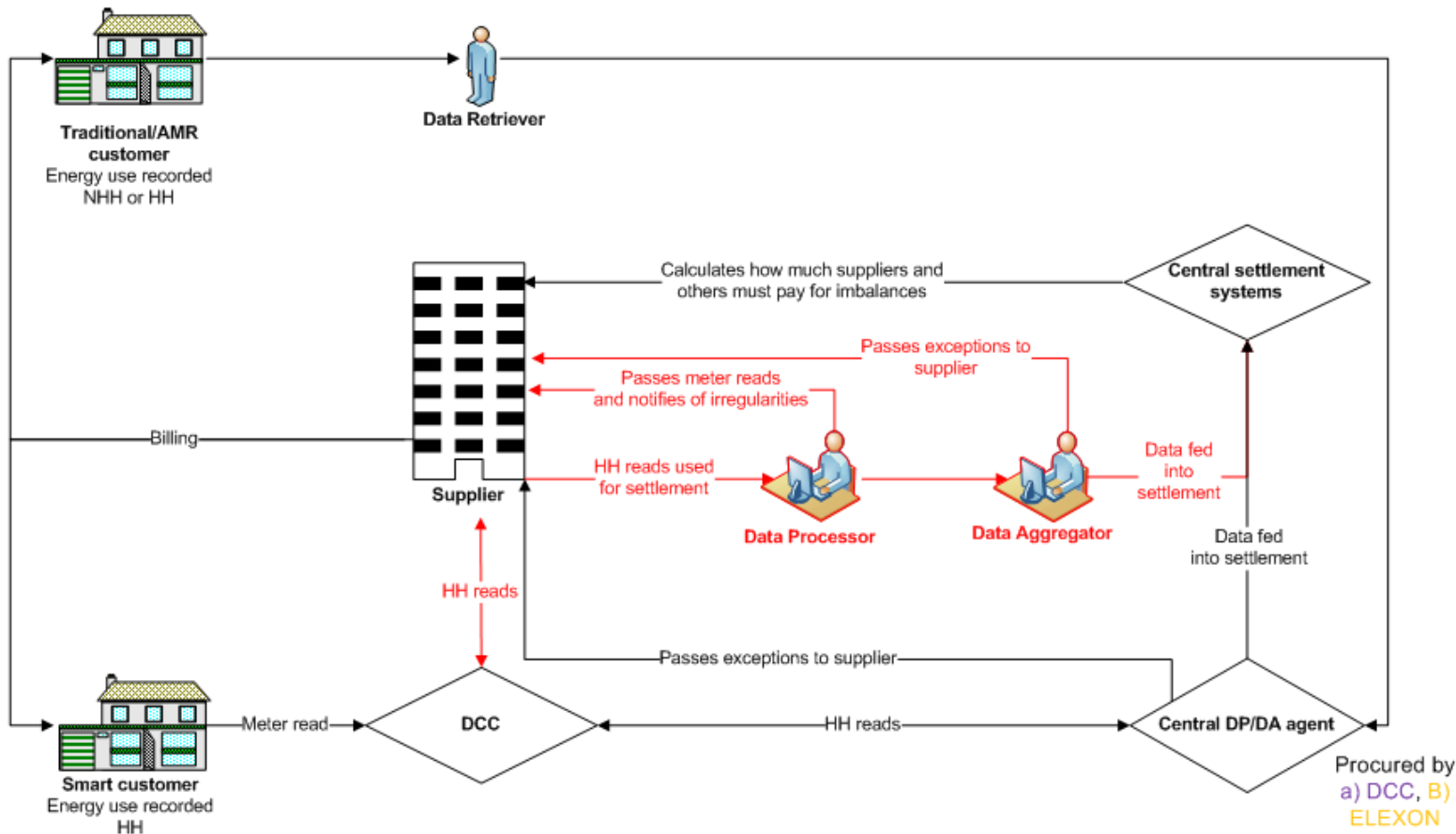
- There is a further sub-option (d) where responsibility for functions is split between Elexon or DCC



**Option 3 – hybrid competition (functions allocated to single central agent)**

*Key features*

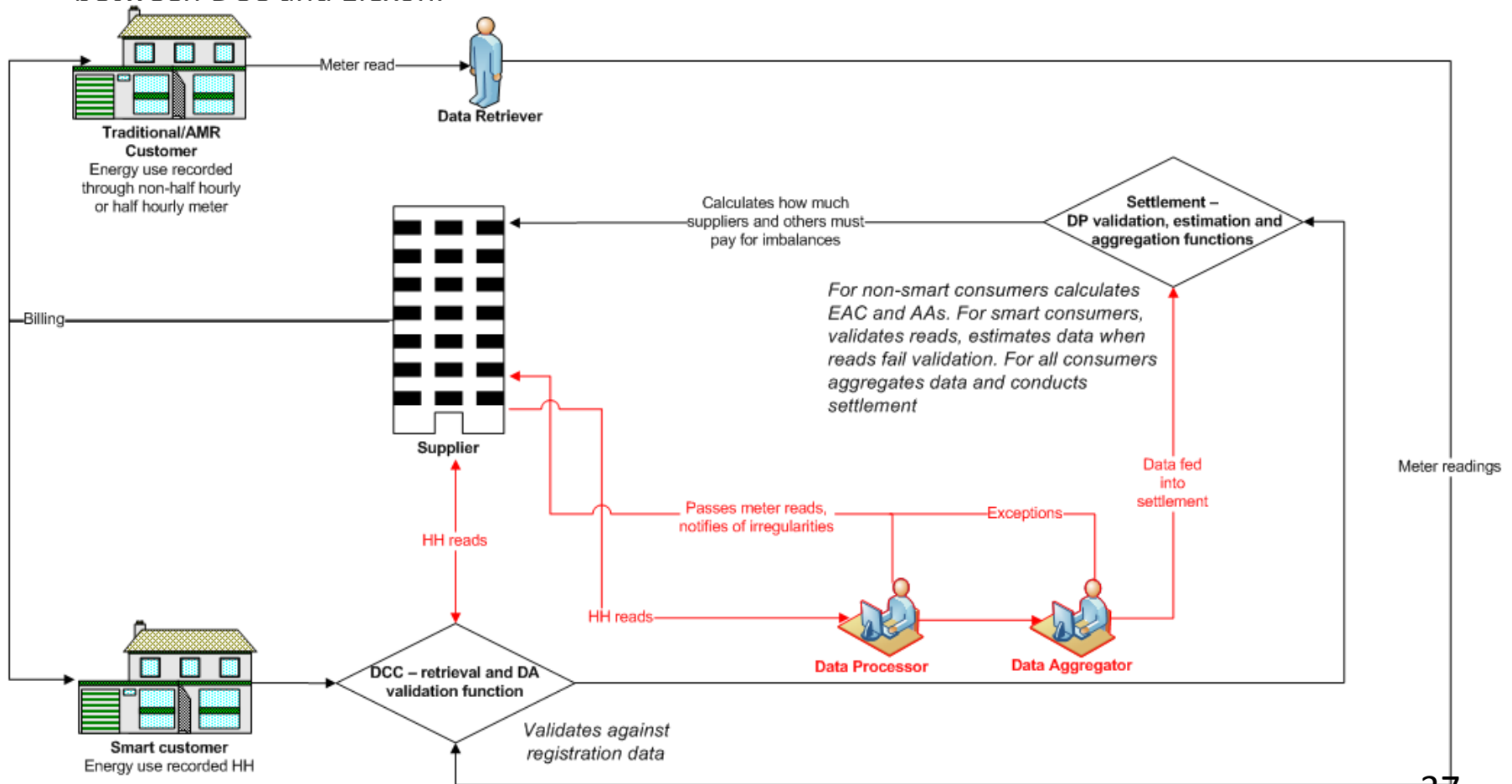
- Central agent(s) would be established – this body would compete with individual **Supplier Agents**
- Central body could be DCC or ELEXON



**Option 3 – hybrid competition (functions split between central agents)**

*Key features*

- There is a further sub-option where responsibility for functions is split between DCC and Elexon.



# Wrap up and next meeting

Chair

**Next meeting:** Wednesday 1 October 2014, Ofgem.

- Morning – detailed discussion on transition
- Afternoon – introductory discussion reform packages

**Papers circulated:** 24 September 2014

**Ofgem is the Office of Gas and Electricity Markets.**

**Our priority is to protect and to make a positive difference for all energy consumers. We work to promote value for money, security of supply and sustainability for present and future generations. We do this through the supervision and development of markets, regulation and the delivery of government schemes.**

**We work effectively with, but independently of, government, the energy industry and other stakeholders. We do so within a legal framework determined by the UK government and the European Union.**