

# Electricity settlement expert group

Meeting 5 – 1 October 2014

ofgem

- 10.00 – 10.10** Welcome and introductions
- 10.10 – 10.20** Review minutes from meeting four
- 10.20 – 11.30** Detailed discussion on transition
- 11.30 – 12.30** Correcting errors after the final settlement run
- 12.30 – 13.15** *Lunch*
- 13.15 – 14.45** Introductory discussion on approach to reform packages
- 14.45 – 15.00** Wrap up and AOB

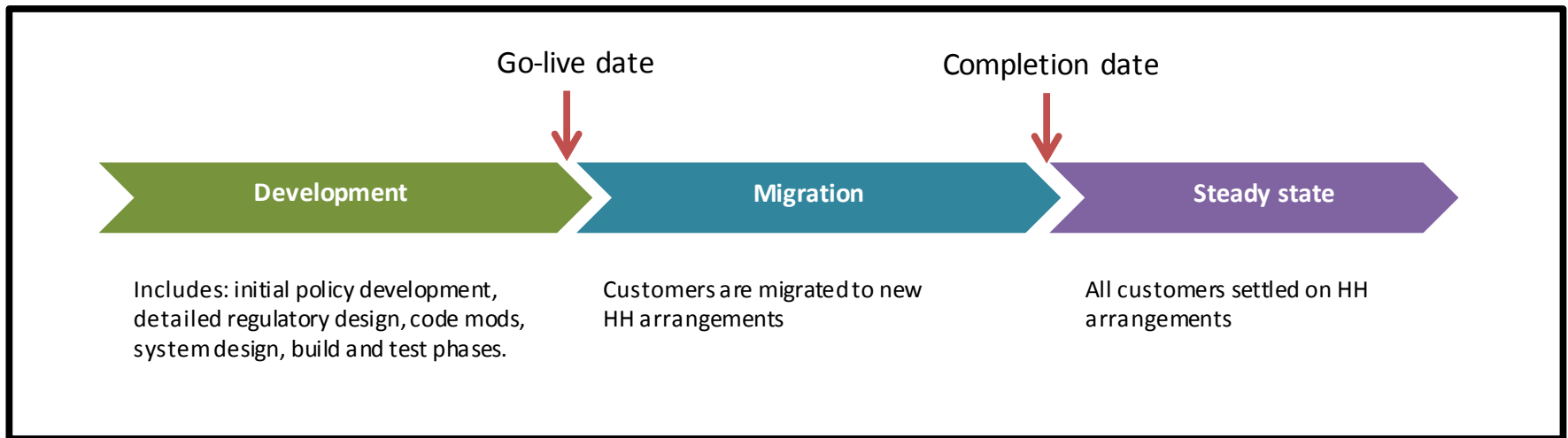
# Review of minutes from meeting four

## Expert group

# Detailed discussion on transition

Francis Jackson – Ofgem

- Re-cap key points from last session
- Gather group's views on potential changes to the regulatory framework
- Gather group's views on interactions with other projects



Go-live date: arrangements are in place.

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

- Significant process and systems changes required for suppliers, eg billing systems.
- Overlap with other industry (especially regulatory) changes that affect same processes and systems.
  - Can create technical constraints.
  - Can create resource constraints, eg industry expertise.
- Code changes will be required.
  - Possibly cross-code changes.
  - Change of Measurement Class process needs adapting for millions of sites.
- Regulatory changes may be required, eg the supply licence.

- Concurrent changes impose constraints and create uncertainty.
  - Eg smart roll-out, change of supplier industry build phase.
- Technical volume constraints for migration.
  - Systems must be designed with migration speed in mind.
- Two years cited as potential timeframe for migration.



- Cost-speed trade-offs can be mitigated if well managed.
- Need for certainty to control costs, eg division of responsibilities.
- There may be other trade-offs relating to risks and quality of design.

**Does the group have further comments on cost considerations?**

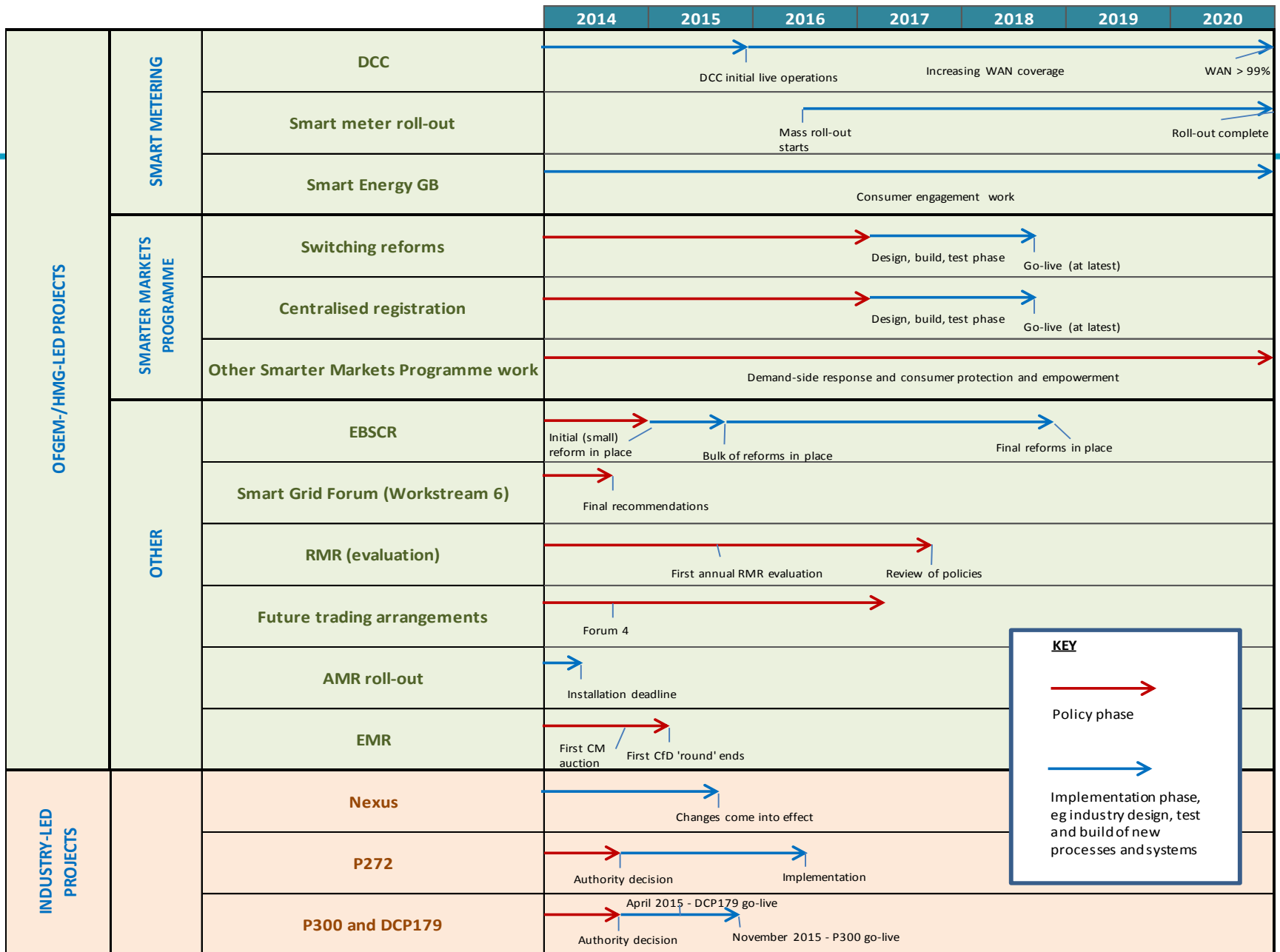
- Migration targets could be useful but should be supported by commercial incentives.
- Likely need for rules around allocation of settlement process costs to different types of customers, eg vulnerable.
- View that socialisation of costs appropriate during transition.
- May be (partially) passed through longer-term.
- Clear consumer messaging required to explain distributional impacts of more cost-reflective pricing of energy.

- Some code changes will be required regardless of potential changes to DP and DA functions.
- BSC (and subsidiary documents):
  - requirement to use HH data
  - Change of Measurement Class procedure
  - estimation routines
  - settlement run timings
  - performance assurance.

**What would be the impact on other codes, eg the SEC and the MRA?**

- Additional changes would be required in the case of a central agent model or hybrid model being adopted.
  - BSC (and subsidiary documents): Requirements relating to Supplier Agents, potential governance of central agent.
  - SEC: DCC interface with new body, potential governance of central agent.
  - MRA: Rules relating to changing Supplier Agents.

- Identified as key consideration for timing.
- Overlaps might:
  - create feasibility issues - technical and resource constraints
  - increase costs
  - introduce risks to delivery.
- It is important to identify which projects are most relevant to settlement reform and why.
- This will help to enable appropriate dates to be chosen.



Based on the map of regulatory change developed for the broader Smarter Markets Programme. (Dates shown are indicative only, some remain subject to approval).

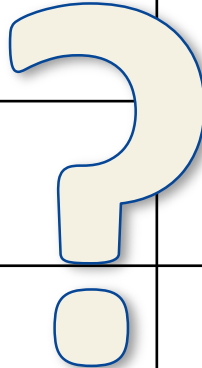
- The projects likely to overlap with implementation work on settlement reform would appear to be:
  - switching reforms
  - central registration
  - smart meter roll-out.
- Key processes and systems that settlement reform will change:
  - billing and settlement processes, eg timing of billing runs
  - billing system (increased volume)
  - demand forecasting system (increased data volume)
  - pricing system.

**Does the group agree with this assessment? Are there important pinch points with other projects to consider?**

Can the group help to populate this matrix? How would each overlap specifically affect settlement? (eg, feasibility, cost, risk)

Are there synergies as well as downsides?

	Billing and settlement processes	Billing system	Demand forecasting system	Pricing system
Switching reforms				
Central registration				
Smart roll-out				





# Correcting errors after the final settlement run

Jeremy Adams-Strump – Ofgem

- What is the issue?
- Evidence gathered so far:
  - expert group's views
  - analysis on current causes and timing of Trading Disputes to change financial positions
- Options for resolving errors after the final run
- Assessment of options

- Through the Trading Disputes process, errors that affect Trading Charges can be corrected after the final settlement run by:
  - another settlement run (up to 28 months after the relevant settlement day)
  - carrying out an Extra-Settlement Determination (ESD)
- Correction of errors in this way creates fluctuations in Trading Charges for suppliers:
  - consumers pick up the costs of managing this risk
  - impact on competition, because this risk may be particularly difficult for smaller suppliers to manage

- Some members have argued that there should not be a mechanism for correcting errors after the final settlement run because it can cause uncertainty, particularly for potential investors
- However, other members have called for a mechanism that allows material errors to be corrected after the final settlement run
- If there is to be a mechanism, some members have argued that a full settlement run would be more transparent than a financial adjustment
- A clear message from all members is that if there is to be a mechanism, it should not become a routine part of the settlement process
- To this end, attendees have called for a high materiality threshold to be met before a mechanism for correcting errors (if there is to be one) is instigated

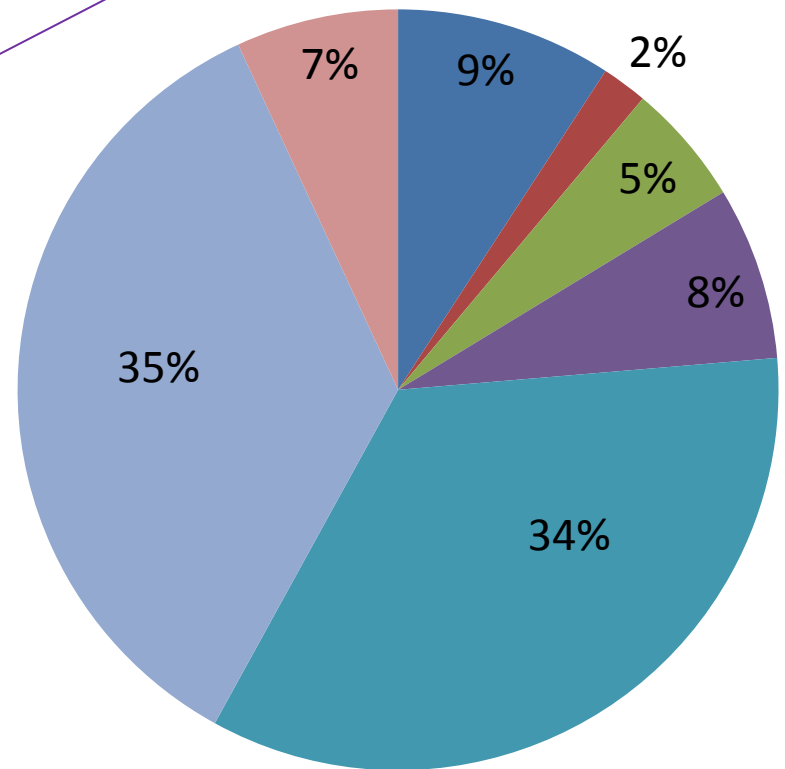
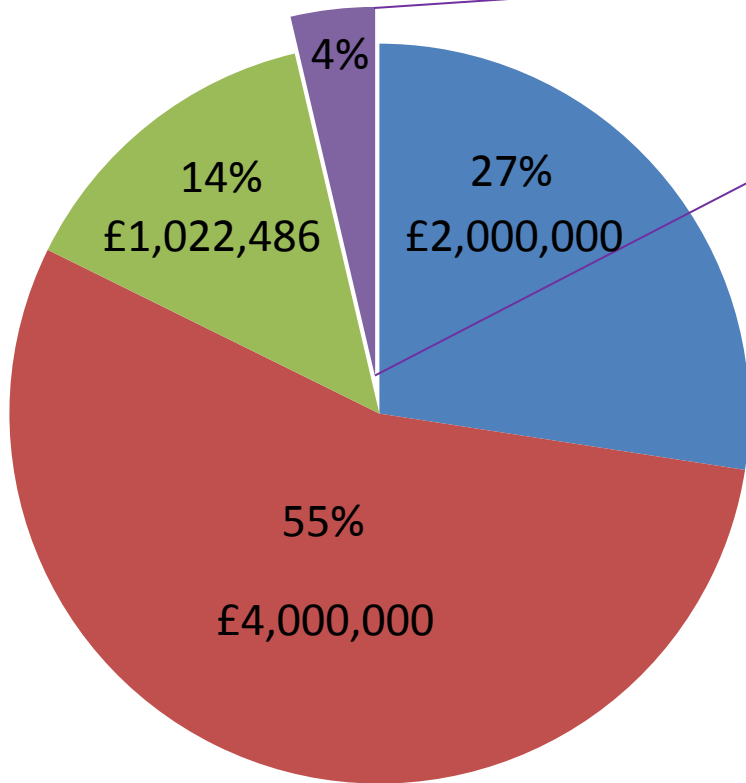
- Trading Disputes related to the Supplier Volume Allocation (SVA) arrangements:
  - materiality of disputes by cause
  - date when disputes were raised
- Materiality of SVA disputes compared to Central Volume Allocation (CVA) disputes
- Information presented in slides 6 – 9 covers 2011 – 2014:
  - Graphs were produced by Ofgem using publically available data sourced from ELEXON
  - Relates to all upheld disputes regardless of whether they were identified before or after the final reconciliation run

SVA arrangements: materiality of disputes

**Breakdown of NHH disputes by cause and materiality (2011-2014)**

3 disputes = £7,022,486

22 disputes = £267,941



- Erroneous EAC
- Data Aggregator
- Data Aggregator
- Other errors

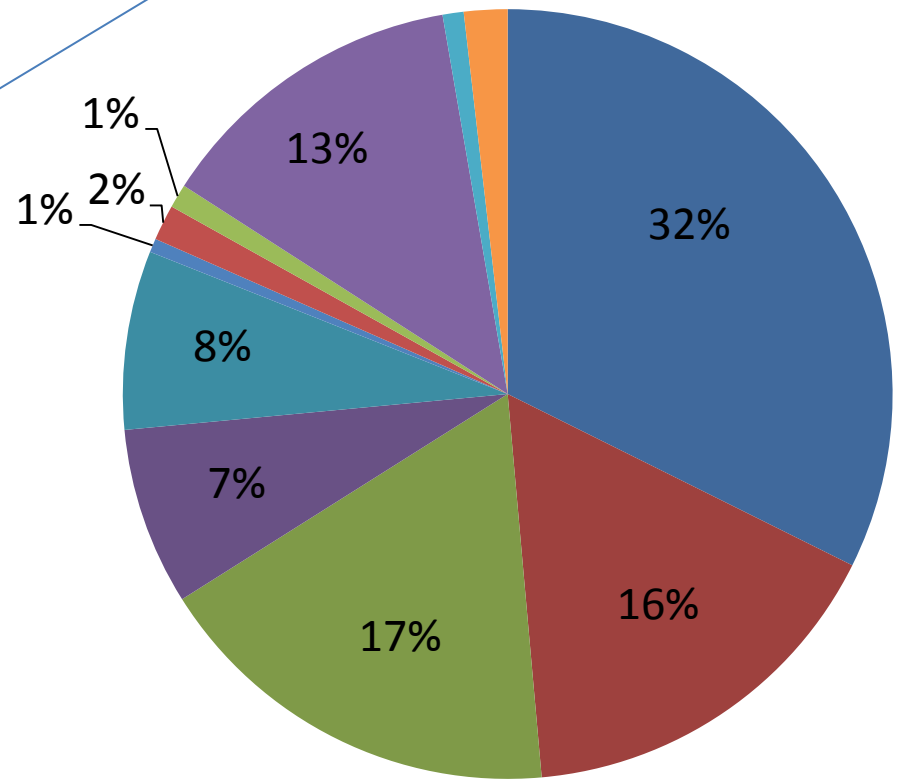
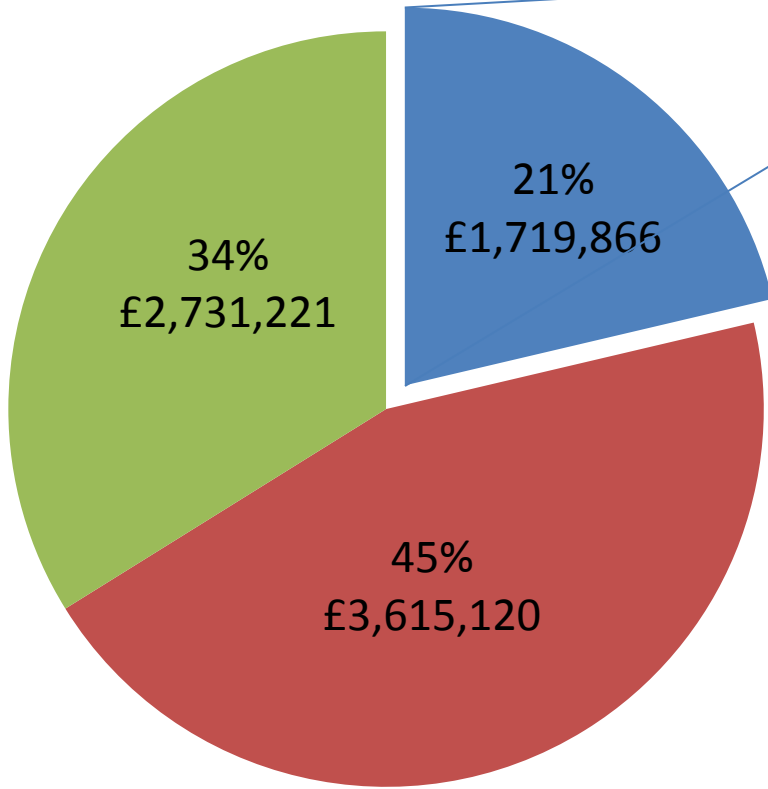
- Shorted CT's
- Non-standard wiring
- Data Collector
- Unmetered NHH site
- Meter fault
- CT ratio mismatch
- Phase fault

SVA arrangements: materiality of disputes (cont'd)

**Breakdown of HH disputes by cause and materiality (2011-2014)**

80 CT disputes = £6,346,341

46 other disputes = £1,719,866



Other errors  
Shorted CTs

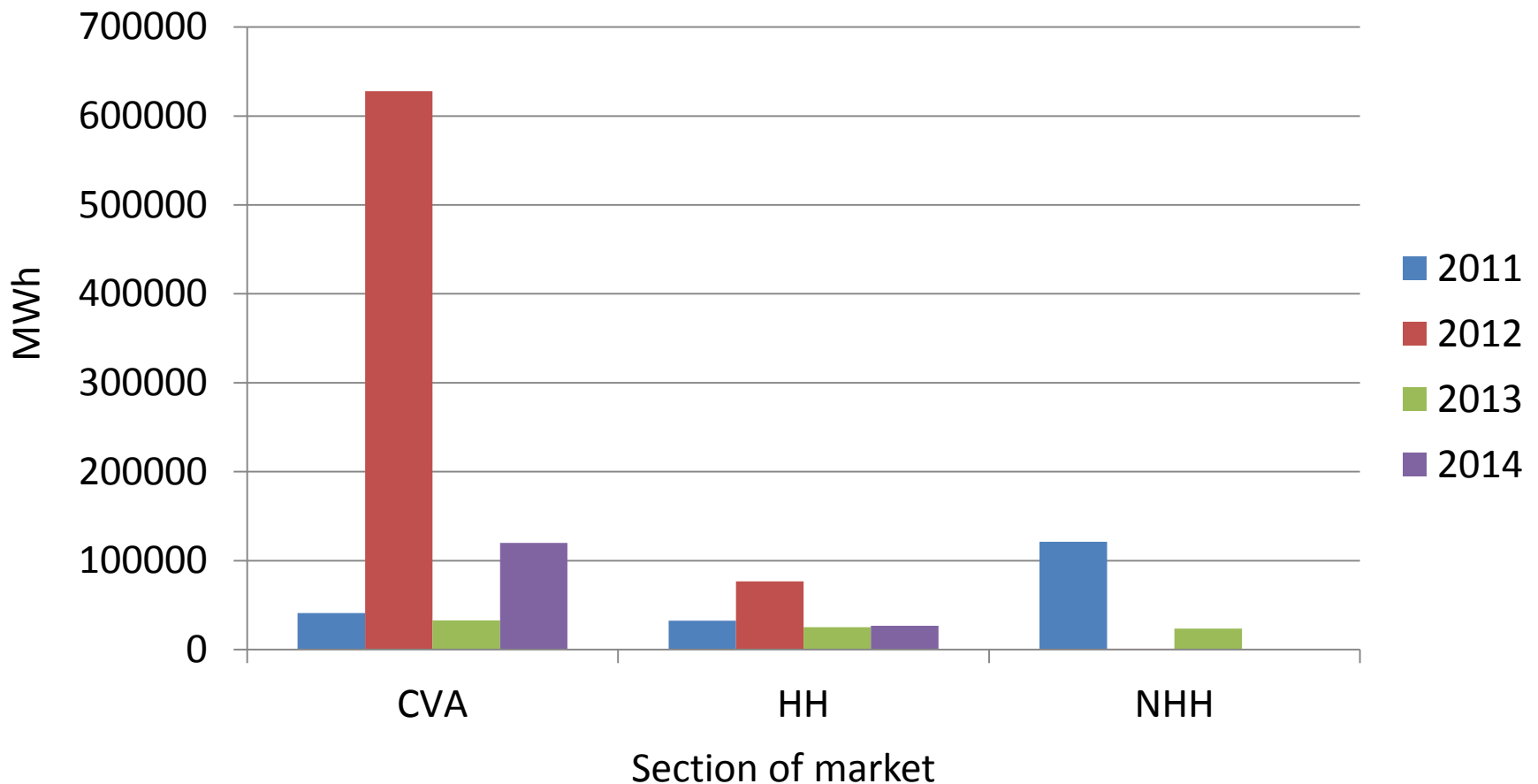
CT ratio mismatch

Meter fault  
Reversed CT  
Non-standard wiring  
Erroneous disconnection

VT mismatch  
Blown fuse  
ELEXON  
Incorrect rescale

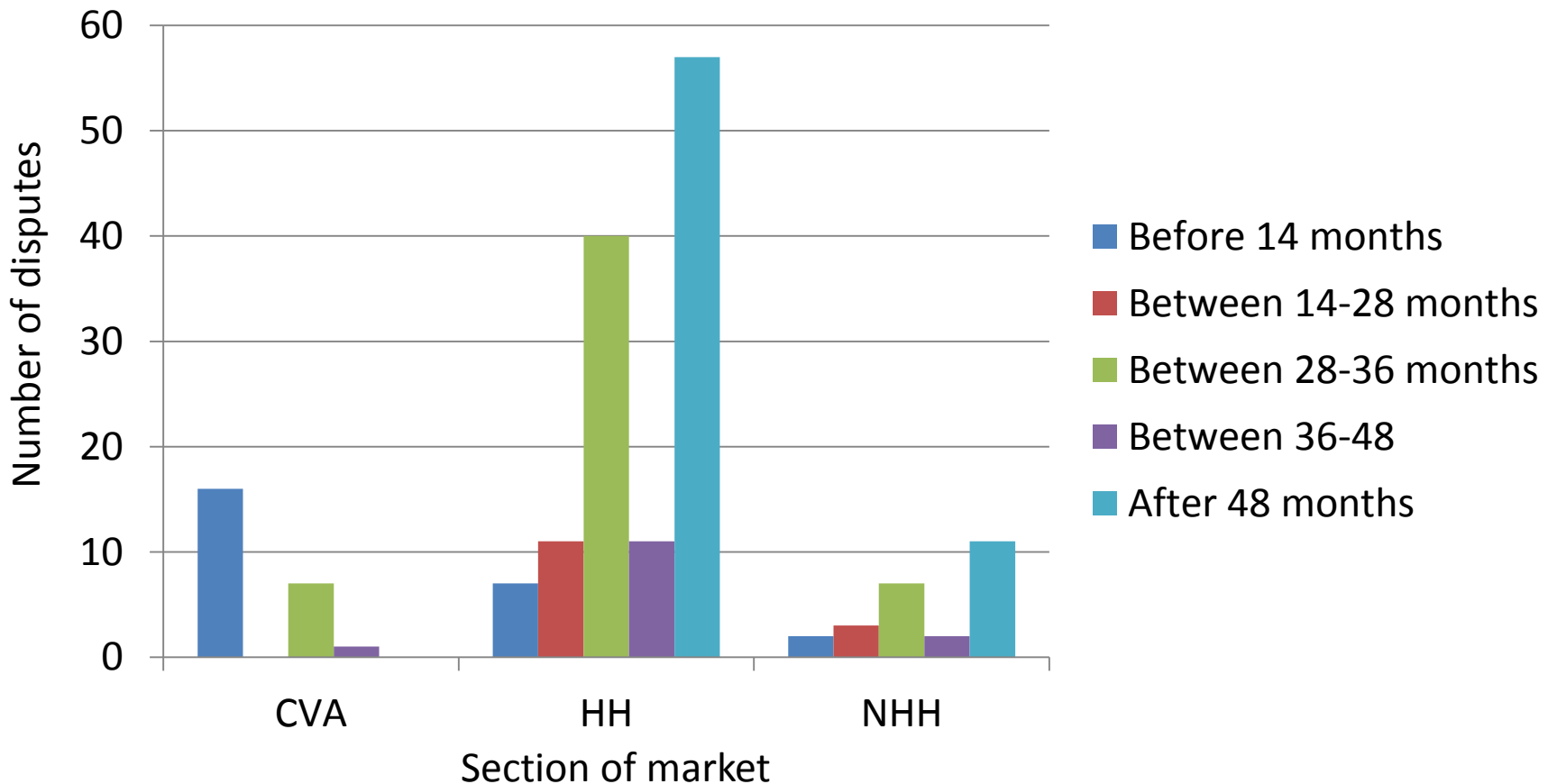
MTD error  
Energisation error  
BM Unit

### Corrected settlement volumes as a result of upheld disputes (2011-2014)





**Breakdown of how long error existed before a dispute was raised (2011- 2014)**



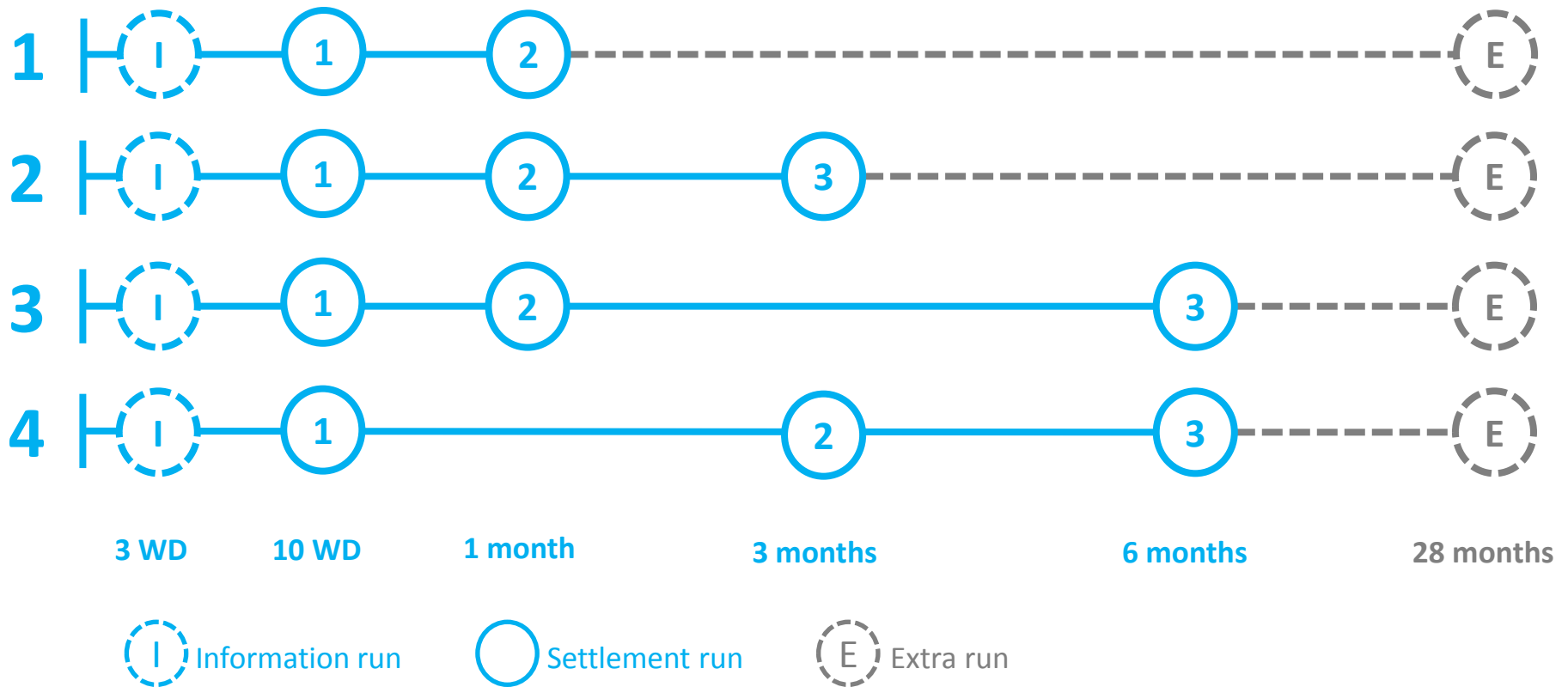
- Does the group agree that suppliers are responsible for resolving errors relating to the SVA arrangements?
- From 2011 to 2014, why did some SVA errors take longer than 14 months to identify?
  - particularly welcome views on the relevance of switching
- Can smart metering help suppliers to spot SVA errors more quickly?
- Does the group have any comments on the need for a mechanism for correcting CVA errors?

- Option 1: No mechanism for correcting errors
- Option 2: Determine backstop for correcting errors (eg, 14 months after settlement day)
  - either through further settlement run or use of ESD
- Option 3: Status quo
  - further settlement run allowed up to 28 months after settlement day
  - no backstop on use of ESD

- Potential to strengthen competition and reduce bills by:
  - reducing financial uncertainty for suppliers from less fluctuation in charges over time
  - placing stronger incentives on suppliers to address errors sooner (thereby reducing smearing)
  - reducing or removing costs of processing Trading Disputes
- But there is also a risk that costs increase from:
  - suppliers pursuing other remedies (arbitration)
  - increasing the gap between purchases and sales

- Do you agree we have correctly identified the options?
- Do you have any comments on our assessment of options 1 and 2?
  - particularly welcome views on the materiality of the impacts identified
- Do you agree that Ofgem should assess the options as part of the settlement project?
- Do you have any views on evidence we could use to inform our assessment?

# Options for shortening settlement timetable



**Lunch**

12:30 – 13:15

# **Introductory discussion on approach to reform packages**

Francis Jackson – Ofgem



- Introduce topic and concept of reform packages.
- Gain group's views on contents of potential packages
  - constant factors
  - feasibility.
- Gain group's views on approach to cost assessment
  - approach to options
  - option interdependencies.

- Packages are viable sets of shortlisted options, across all focus areas.
- Each of our focus areas has generated shortlisted options that can be combined into packages:
  - Data processing and data aggregation
  - Data estimation
  - Settlement timetable
  - Transition
- Taking an option from each area, an example package (at a high level) could be:

**Supplier Agent model + new estimation techniques + final settlement run at three months + rapid timetable for transition.**

- A decision on which potential packages to take forward will be taken in the next stage of the project.

- One important constant across packages will be the use of HH data in settlement. During discussions, the expert group has also expressed the view that the following factors should be constant across the packages:
  - 10 working days for first settlement run.
  - Final run brought forward significantly, implemented incrementally.
  - Site-specific estimation routines for sites with smart meters (similar approach to BSCP502).
- These points will likely be contained in our open letter at the end of the year.

**Does the expert group agree with this summary of its views relating to what should be constant across packages?**

- A number of options remain shortlisted for focus areas and therefore may vary between potential packages.

Focus area	Sub-element	Principal options
<b>DPDA functions (high-level options)</b>	n/a	<ul style="list-style-type: none"> <li>• Supplier Agent model</li> <li>• Central agent(s) model</li> <li>• Hybrid competition</li> </ul>
<b>Data estimation (for traditional meters/sites without HH data)</b>	n/a	<ul style="list-style-type: none"> <li>• New smart profiling techniques</li> <li>• Freezing current profiles (daily actual temperature correction)</li> <li>• Freezing current profiles (using, for example, 10 year average temperatures)</li> </ul>
<b>Settlement timetable</b>	Timing of final run	<ul style="list-style-type: none"> <li>• 3-6 months</li> </ul>
	Interim runs	<ul style="list-style-type: none"> <li>• Existence and timing</li> </ul>
	Extra run(s)	<ul style="list-style-type: none"> <li>• Existence and timing</li> </ul>
<b>Transition</b>	Timing of transition	<ul style="list-style-type: none"> <li>• Rapid transition</li> <li>• More gradual transition</li> </ul>
	Process of transition	<ul style="list-style-type: none"> <li>• Various potential rules to govern process</li> </ul>

- Packages will need to work in practice.
- Certain options could potentially be incompatible with each other.
- Group discussions to date and our own analysis has not identified incompatible options.

**Does the expert group agree with our assessment that all combinations of options are feasible in practice?**

- Proposal is to identify costs specifically associated with each variable and gather cost estimates accordingly.
  - For example, we would gather settlement process costs associated with each shortlisted settlement timetable option.
- Estimates can then be used to build up cost estimates for complete packages.
- This will enable us to decide which packages to take forward.
- It keeps all potential packages on the table at this stage.

**Does the expert group agree that this approach is feasible and proportionate?**

- When combined, options may interact. There may be:
  - cost savings due to efficiencies
  - additional costs due to complications.
- We think that the material interdependencies will relate to the DPDA model chosen. A different cost estimate would be obtained under each model for each set of the other options. For example:

	Estimation option 1	Estimation option 2
Central agent(s) model	8p	12p
Supplier Agent model	12p	8p

**Does the group agree that the DPDA options need to be costed in this way?**

**Are there other potentially material interactions?**

- We will reflect on today's discussion and revert to the group at the next meeting, on 23 October 2014.

**Does the group feel that this would be a good forum to discuss cost categories?**



# Wrap up and next meeting

Chair

**Next meeting:** Thursday 23 October 2014, Mary Sumner House, Westminster.

- Morning – Detailed discussion on reform packages
- Afternoon – Plan for stage two
- **Papers circulated:** 16 October 2014

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