ofgem Making a positive difference for energy consumers

Electricity settlement expert group

Meeting 7 – 12 November 2014

ofgem Making a positive difference for energy consumers

Agenda

13.00 – 13.10	Welcome and introductions
13.10 – 13.20	Review minutes from meeting six
13.20 – 14.20	Discussion on the settlement of export
14.20 – 15.20	Discussion on conclusions of stage one of the project
15.20 – 16.20	Update on priorities for next stage of the project
16.20 – 16.30	Wrap up and AOB

ofgem Making a positive difference for energy consumers

Review of minutes from meeting six

Expert group

ofgem Making a positive difference for energy consumers

Discussion on the settlement of export

Jeremy Adams-Strump and Greg Jenkins – Ofgem

Agenda and session objectives

- Inform expert group on BSC and feed-in-tariff rules for export
- Inform of why this is an issue for settlement project
- Discuss the potential issues arising from the settlement of export and seek views

BSC export rules

Not much export registered in settlement today

- There is no requirement on suppliers to register export in settlement at any capacity
- Export that is registered in settlement, and has an aggregate maximum capacity of 30kW or more, must be metered half-hourly (HH)
- If a supplier chooses to register export into settlement for a site with a capacity of 30kW or less they can choose to settle this either HH or non-half-hourly
- Registering export in settlement requires installation of an export meter
- 96.5% of feed-in-tariff installations have their export deemed – this means it is not registered in settlement

ofgem Making a positive difference for energy consumers

Feed-in-tariff rules

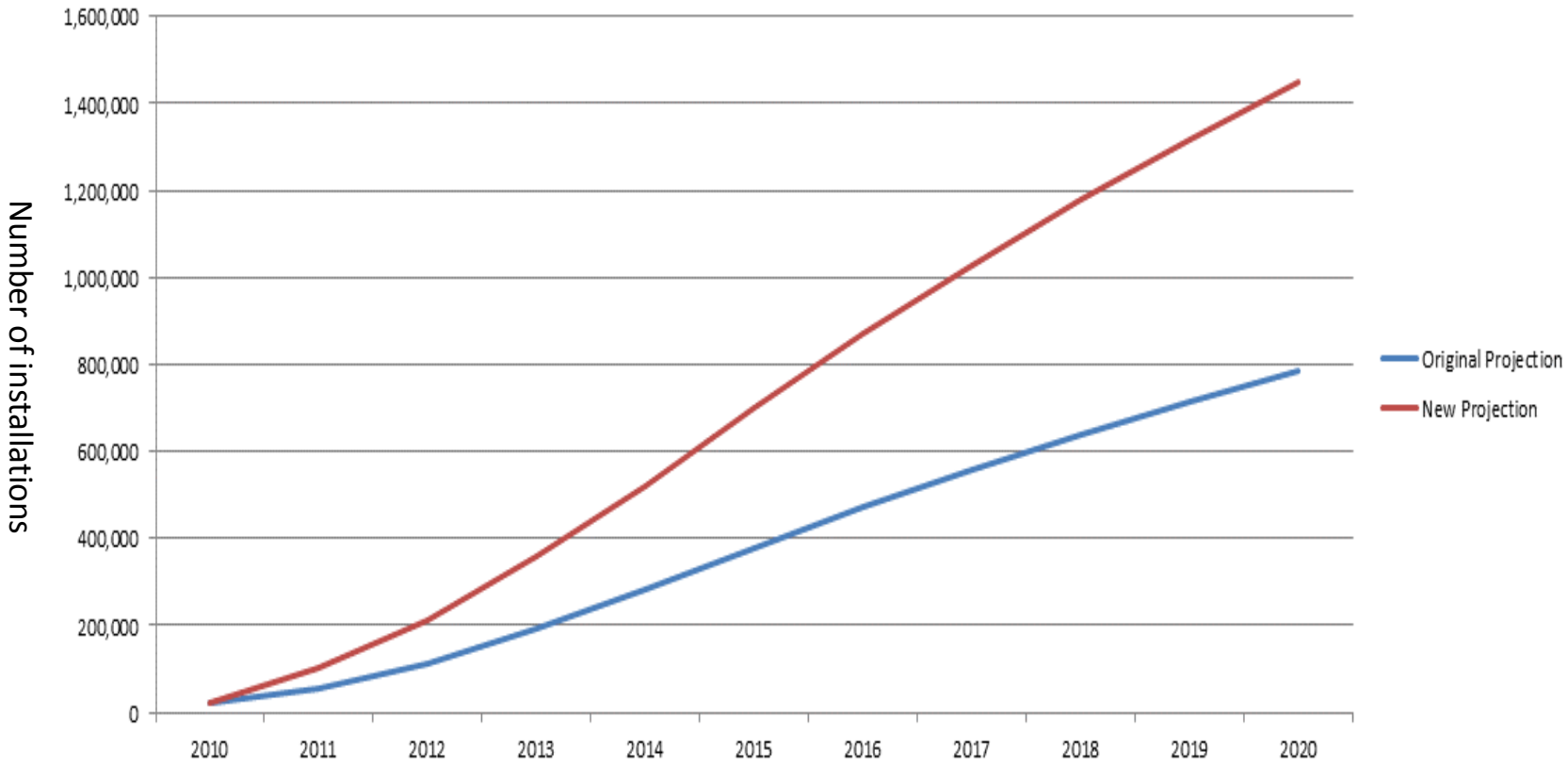
Settling export may result in consumers receiving less for their export

- Electricity suppliers pay FiTs customers a tariff for electricity generated and exported
- All generation must be metered but only sites with a capacity of 30kW or more must have their export metered to receive the export tariff
- Below 30kW, export is deemed at 50% of a site's capacity unless that site has a meter capable of recording export then it must be used – this may result in them receiving less for their export than if it were deemed
- If a site has its export metered, suppliers arestill not required to register it in settlement

Why is this a relevant for our project?

Capability of smart metering and materiality of spill

- SMETS 2 meters can measure 3 months of HH active and reactive export
- Potentially significant impact on settlement from uptake of the feed-in-tariff

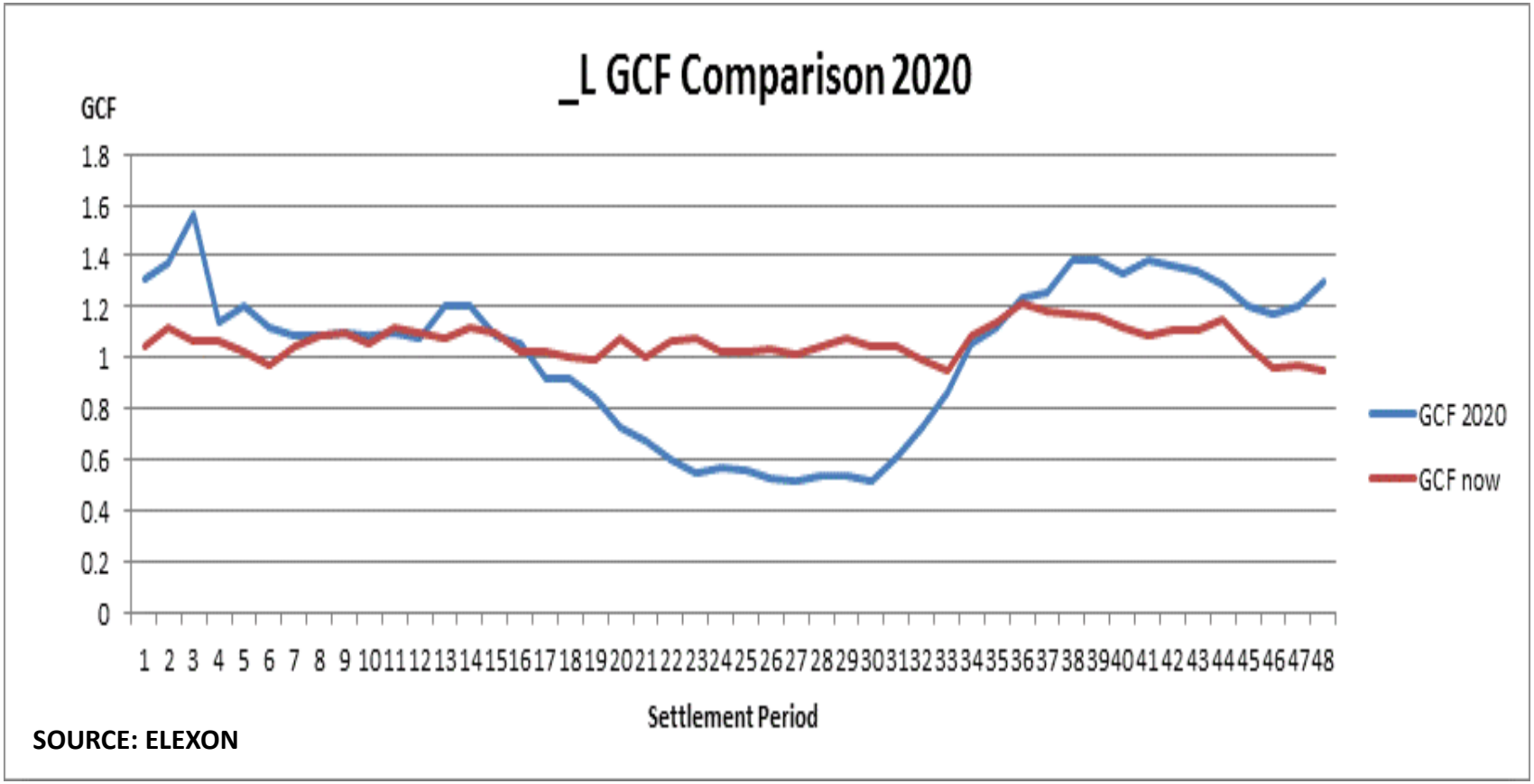


SOURCE: ELEXON

Why is this a relevant for our project?

Spill will affect the Group Correction Factor

- Comparison of potential Group Correction Factors over one day in 2013 and 2020 for South West region based on feed-in-tariff projection:



SOURCE: ELEXON

Settling export against HH data
Issues to consider

Data privacy implications

- At some sites, import supplier and the FiTs licensee may not be the same but both will require HH data from same meter if all export is settled

- This raises potential data privacy implications as FiTs licensee and import supplier may access data not relevant to service they provide to consumer

Costs of new MPANs

- Settling all export means registering an export MPAN for all microgeneration sites which do not currently have an export MPAN (vast majority)

- This could create a cost which would be passed to consumers but suppliers could also receive DUoS credits for these sites – not clear how either would be passed to consumers

Seeking your views

- Are there other issues which need to be resolved to settle export against HH data?
- Initial views is that none of these issues need to be addressed as a priority next year – do you agree?

ofgem Making a positive difference for energy consumers

Discussion on conclusions of stage one of the project

Francis Jackson – Ofgem

- Conclusions will feed into open letter in December. (Letter will also include next steps.)
- Ofgem's initial conclusions at the end of stage one – further work required for definitive view.
- Based largely on expert group meetings but also additional analysis.
- Key conclusions described at a high level – not exhaustive of all our thinking.
- Highlights where further work is required – however, priorities and plan for next stage are separate discussion.

Session objectives

- Explain conclusions – recap text in paper.
- Gather the group's comments on:
  - Our conclusions for stage one.
  - The presentation of the group's views in the paper.
  - In particular, if we have we missed any important points from the expert group meetings.

Session agenda

- Ambition
- Optimising the settlement process
- Transition to using HH data
- Approach to detailed assessment
- Other areas

Ambition

- Using half-hourly data for settlement.
- The expert group has been enthusiastic about the settlement project.
- The group agreed that using HH data for settlement was an appropriate goal (on the basis of further assessment where appropriate, eg to understand distributional effects).

- Group felt that competitive agent and central agent models most viable.
  - Group saw problems with hybrid option: could distort competition and create uncertainty for service provider.
- Potential competitive agent benefits: innovation, greater choice and competition on price and quality.
- Potential central agent benefits: enhanced simplicity, consistent standards of data quality and economies of scale.

Optimising the settlement process
Data processing and data aggregation (cont'd)

- There are sub-options relating to functions of central agent:
  - Current functions may change in smart world.
  - Some functions may be better left to the market.
- There are sub-options relating to the responsibility for a central agent:
  - Who is best place to provide the function?
  - Should there be a single or multiple providers (split responsibility)?
- **Further work on future DPDA functions is required for the cost assessment. This will help inform a more detailed view of the different options.**

- Solution required for smart meters and traditional meters.
- Several options for traditional meters:
  - Smart profiling.
  - Frozen profiles: end sampling; retain daily temperature correction.
  - Frozen profiles: end sampling; use historical average temperatures.
- Site-specific estimation is appropriate for smart sites.
- **However, current HH procedure (BSCP502) is inappropriate for millions of smart sites and will need adapting.**

Optimising the settlement process
Settlement timetable

- The remote capability of smart meters provides an opportunity to shorten existing timetable.
- Complements PSRG work.
- We gathered evidence on current remote communications performance (noting that DCC has high performance targets).
- Potential financial benefits from reducing suppliers' collateral; dynamic benefits from reducing uncertainty.
- A future timetable could have:
  - Information run at 3WD
  - First settlement run at 10WD
  - Final settlement run at 1 month in the longer term. (May need to be implemented incrementally, dependent on observed performance).

- SMETS 2 does not allow smart meters to push HH data at scheduled times.
- Changing the specification would be costly.
- Our assumption is that two-way communication would be required.
- The DSP would schedule requests to avoid overloading the network.
- **Work required to understand most cost-effective way of achieving this (eg read frequency).**

- A number of suppliers' activities would need to be adapted for settlement reform. It therefore has the potential to interact with other reforms.
- Smart meter roll-out, EMR, switching reforms and centralised registration identified as key (but not only) interactions.
- There are options around the duration of the migration stage. The advantage of a shorter duration would be the reduction in the time parties would need to run multiple processes.
- **The timing of transition will need to take account of costs and benefits of overlaps with other changes and of different durations of the migration stage.**

- Group's view was that targets could be useful to manage the transition.
- The transition could lead to changing costs generated by different types of customers:
  - Costs of administering NHH process.
  - Costs of error allocation to NHH customers.
  - Energy costs becoming more cost-reflective.
- Commercial pricing decisions and/or regulatory interventions could mitigate negative outcomes during the transition.
- **Further work will be required to identify what rules, if any, would be needed.**

- Change of Measurement Class process.
  - Group's view was that current process is too costly and manual for the scale of change envisaged here.
  - **New process needs to be developed.**
- Accuracy of SMETS 2 smart meters
  - Issue raised in group meeting.
  - SMETS 2 does not specify accuracy – no guarantee that meters will comply with current HH requirements.
  - **Work required to find solution.**

Transition to using HH data
Dependencies (cont'd)

- Data privacy and access rules
  - Current rules require suppliers to gain customers' explicit consent to obtain HH data.
  - Group's view was that suppliers would require site-specific HH data for exceptions management.
  - Group's view was that anonymisation of HH data by a central agent would not provide workaround for this.
  - Group's view was that suppliers would require HH data for other purposes beyond settlement eg forecasting and pricing.
  - **Further work required to explore interactions with data privacy and access rules.**

Approach to detailed assessment

- Qualitative analysis should be supported where appropriate by quantitative assessment in the next stage of the project.
- Important to understand distributional effects of changes.
- Expert group agreed with proposal to gather cost information on options before developing reform packages.
- Expert group agreed with proposal to categorise costs according to the relevant organisations' affected business activities.
- Need to have clear assumptions and industry should justify cost estimates.
- Use of HH data is key cost driver. Responsibility for DPDA functions and approach to transition will also have strong bearing on costs.

Other areas

- Correcting volumes after the final reconciliation run. Options identified:
  - No mechanism for correcting errors.
  - A backstop (eg 14 months) on the use of further runs or extra settlement determinations (ESD).
  - The status quo (no backstop for ESD, 28 month backstop for extra runs).
  - A new mutual insurance scheme whereby suppliers pay premiums and the scheme pays for corrections that occur after the final settlement run.
- Unlikely to be critical to business case for settlement reform. However future work could help to improve settlement process.
- Settlement of export: conclusions to be drawn in light of today's discussion.

ofgem Making a positive difference for energy consumers

Follow-up discussion on 2015 priorities

Jeremy Adams-Strump – Ofgem

Agenda and session objectives

- Recap on discussion from previous expert group and the Smarter Markets Coordination Group (SMCG)
- Present further details on our proposal for next year and seek views
- Next steps

Recap

Expert group gave clear steer on 2015 priorities

- Expert group raised a number of possible areas which could be prioritised next year:
  - NHH arrangements for consumers with traditional metering
  - Data Access and Privacy Framework
  - Accuracy of metering
  - Timing of transition
  - Distributional analysis
  - Change of Measurement Class (CoMC)
- Before assessing costs of options, group agreed that further work on DP/DA functions and CoMC are necessary as both could materially affect costs

SMCG
Agreed with expert group view on priorities

- We presented a proposal to the SMCG based on discussion from last expert group
- This set out two priorities as the priority for 2015:
  - reviewing the CoMC
  - identifying detailed DP/DA requirements
- This work lays the foundation for a robust cost assessment of using HH data in settlement
- Analysis on benefits of options plus distributional impacts could follow after cost assessment or happen in parallel
- SMCG broadly agreed with this proposal

2015 work areas (1/3)
Change of Measurement Class

- Members have argued that the CoMC process should change before detailed assessment of costs is conducted
- ELEXON have reviewed the current CoMC process recently to remove barriers to elective HH Settlement
- This focuses on existing issues (eg lack of clarity on roles and responsibilities, preventing double counting of energy) issues rather than optimising CoMC process for smart world

What should be the objective of a CoMC project next year?

2015 work areas (2/3)
2015 DC/DA work

- We propose to analyse the following areas to understand what DC/DA model may be appropriate in a smart world for settling consumers on a HH basis:

Analytical areas
1. Current DC/DA processes and functions
2. Current Supplier Agent market structure (incl. revenues and costs of DP DA functions)
3. Future DC/DA processes and functions
4. Future Supplier Agent market structure (using information derived from areas 1,2 and 3)

Welcome views form the group on proposed DC/DA analysis

2015 work areas (3/3)
Additional work

- Accuracy of SMETS 2 meters
  - If there are issues which need to be addressed and how?
- Distributional analysis
  - Taken forward under Smarter Markets Programme, not the settlement project
  - Follows initial analysis conducted by Ofgem
  - Progressing this work is subject to EDRP data to becoming available
- Data Access and Privacy
  - Will continue to engage with ICO

Next steps

We intend to publish our plans for 2015 in December

- We will publish a letter in December 2014 that describes:
  - conclusions from our work this year
  - plans for 2015, including phasing

Wrap up and AOB

- We will circulate minutes of this meeting for review in the coming weeks.
- We will publish open letter by end of year. It will take into account today's discussions on conclusions and priorities.
- **Thank you for your attendance and contributions!**

ofgem Making a positive difference for energy consumers

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.

www.ofgem.gov.uk