

Elective half-hourly settlement

Stakeholder workshop

Settlement Reform team

05/04/16

ofgem

- Focussed on immediate steps towards cost-effective elective half-hourly settlement (HHS)
 - Will briefly cover mandatory in final session
- Want to have as much discussion as possible
 - Purpose of today is to hear your views, rather than extensive presentations from us
- Options illustrate possible methods of implementing elective HHS
 - designed to inform today's open discussions, and should not be taken to be Ofgem's policy positions
- Will publish these slides on our website, plus an anonymised note of the discussion

Categorising issues raised

BSC and related issues

Supplier agent costs

Switching between HH and
NHH settlement

Export-related issues

Other

Further issues

Network charging

DCC/smart metering issues

Data privacy

Customer-facing issues

Other

From 9:30am	Arrivals
10am	Welcome
10:10am	Change of Measurement Class
11.45am	Break
11.55am	Transmission charging
12.15pm	Further issues: DCC/smart metering issues, data privacy, customer-facing issues
12.45pm	Lunch
1.25pm	Ongoing supplier agent costs
3pm	Break
3.10pm	BSC and related issues: export-related issues and other
3.30pm	Next steps (elective and mandatory)
By 4pm	Close

CHANGE OF MEASUREMENT CLASS

TRANSMISSION CHARGING

- Different structures for HH and NHH transmission charges cause potential 'double charging' for the year a customer moves to HHS

NHH charges based on consumption between 4pm and 7pm over charging year

Eg - customer migrating now
pays NHH charges to date,
plus all HH charges for year

HH charges determined during
three 'Triad' periods (Nov-Feb)

- Known issue. Temporary solution put in place for P272 introduction – but lapses in April 2017
- Materiality depends on when consumer moves within charging year – up to around £16 for a domestic consumer in 2014/15
- Have not seen evidence that there are significant barriers from ongoing transmission charges, or distribution charges

Possible solutions (1)

What type of solution?

- In the year that a customer moves to HHS, pay NHH charges only for the whole year; or
- Remain on NHH charges until all customers move to HHS

Who should it apply to?

- Domestic customers only
 - Measurement class F
- Domestic and smaller non-domestic customers
 - Measurement classes F and G
- NB – would also require new Consumption Component Classes, to identify demand from different groups of HH customers

Possible solutions (2)

	Domestic customers only	Domestic plus smaller non-domestic
Pay NHH charges only for year that customer moves to HHS	Targeted: ✓ Simple: ✗ <i>New data item needed to identify demand from sites with a CoMC in that year</i> Coverage: ✗ <i>Doesn't remove barrier for non-domestic customers</i> Wider effects: ✓	Targeted: ✓ Simple: ✗ <i>New data item needed to identify demand from sites with a CoMC in that year</i> Coverage: ✓ Wider effects: ✓
Remain on NHH charges until all customers move to HHS	Targeted: ✗ <i>Affects charging for several years</i> Simple: ✓ <i>Doesn't require information on date of CoMC</i> Coverage: ✗ <i>Doesn't remove barrier for non-domestic customers</i> Wider effects: ✓	Targeted: ✗ <i>Affects charging for several years</i> Simple: ✓ <i>Doesn't require information on date of CoMC</i> Coverage: ✓ Wider effects: ✗ <i>Would also affect customers already migrated under P272</i>

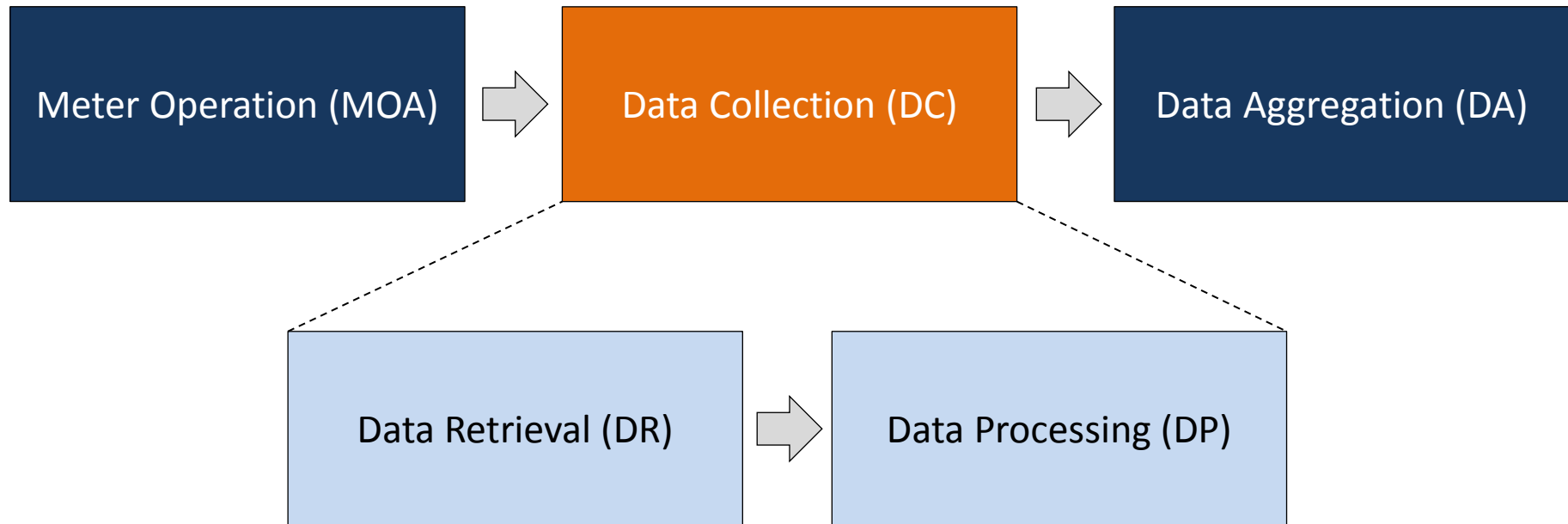
Q: What do you think of these possible solutions?

FURTHER ISSUES

- **DCC/smart metering issues:** Provisional view that there are no immediate barriers to address. Engaging with DCC
- **Data privacy:** Current framework (opt-in for HH data) is compatible with elective HHS. Possible issue about accessing data without consent on Change of Tenancy – views on impact?
- **Customer-facing issues:** Crucial to protect customers moving to new products linked to HHS, while enabling innovation to occur. Have tools to protect consumers (eg Standards of Conduct) – will also engage proactively with those looking to offer new products

Q: Do you have any major concerns with our direction of travel?

ONGOING SUPPLIER AGENT COSTS



- Based on feedback from stakeholders, this section focuses on DC as the area where there may be barriers to elective HHS

Q: Do you agree that DC is the correct focus?

SRAG changes: data collection

The Settlement Reform Advisory Group has recommended various changes, including the following:

- A revised end-to-end process for getting smart meter data into settlement
- Suppliers to be responsible for addressing smart meter alerts (rather than HHDC)
- Removal of proving tests for measurement class G
- Removal of protocol testing for DCC-enrolled smart meters
- Amendments to data estimation to remove irrelevant aspects for smart meters (eg references to check meters)
- Creation of new default coefficients for profile classes 2 and 4

- Requires remote communications to access meter
- For DCC-enrolled meters, communications provided through DCC. No current charging differential between HH and NHH customers
 - Charges on a per meter, rather than per message basis
- For other meters, communications services provided commercially. Any incremental costs of HHS may be influenced by the technology and commercial arrangements already chosen. Limited scope for our work to influence these costs
 - Except perhaps through relaxing read performance requirements (next slide)

Q: Are there other ways to reduce the costs of DR for HH sites?

Relaxing read performance (1)

- Currently significant difference between BSC read performance requirements for HH and NHH sites
- Several stakeholders told us relaxing requirements could help to reduce costs of elective HHS
- Could it...
 - Reduce the urgency of site visits to address issues? (*Understand that will not be possible to read HH profile data log on a site visit*)
 - Allow optimisation of read frequency for non-DCC enrolled sites?
 - Allow more time to manage exceptions during data validation?
 - Help to manage any teething troubles with smart meters and/or DCC?

Q: Are these possible benefits material? Are there any others?

Relaxing read performance (2)

Parameter	Current values and possible alternatives
Ultimate percentage of volume required to be settled on actual meter reads	99% (current value for HH customers in MC E/F/G) 97% (current NHH requirement)
Point at which this requirement needs to be met	R1 – 2 months after delivery (current value for HH customers in MC E/F/G) R2 – 4 months after delivery R3 – 7 months after delivery RF – 14 months after delivery
Percentage value for any intermediate requirements	99% (no current intermediate value for HH customers – only a 99% figure) 90%-95% (NHH customers currently have intermediate requirements of 30% at R1, 60% at R2 and 80% at R3)
Timing of any intermediate requirements	Same options as second box (though cannot be later than the ultimate requirement)

Q: Do you have views on these design considerations?

Relaxing read performance (3)

- **Coverage:** Could be applied to domestic and smaller non-domestic HH customers (*MC F and G*)
 - Again, this would require new CCCs
- **Transitional:** Performance requirements have an important function. Aim is not to determine the appropriate enduring read performance requirements – rather to support early take-up of elective HHS
- **Implementation impact:** Limited change necessary for market participants? Any changes to ultimate standard could require new PARMS serial?

Q: Do you have views on these design considerations?

- SRAG recommended certain steps should be carried out by the supplier
 - Could reduce HHDC costs, though may be offset by increased supplier internal costs
- SRAG considered data validation steps in detail very recently
- Some validation requirements appear essential and not worth removing for the sake of cost reductions
 - Eg checking that the HHDC is contacting the correct meter
- Have not identified data validation requirements which appear that they could be changed to reduce ongoing supplier agent costs

Q: Is there anything further we should consider on validation?

- SRAG changes already proposed to make data estimation more suitable for small sites
- Beyond this, no obvious way to simplify the process further
- Process has a hierarchy of different estimation methods – but this allows use of best information available
 - A ‘lowest common denominator’ method (eg using only default coefficients) would be less accurate – and could be a poor reflection of actual consumption of sites moving to HHS
- In any case, limited feedback that data estimation is a barrier to cost-effective elective HHS

Q: Do you agree that no further changes required for estimation?

BSC AND RELATED ISSUES: EXPORT-RELATED AND OTHER

Group Correction Factor

- **Background:** GCF historically results from factors like profiling error – now affected by spill from Feed-in Tariff generation, turning GCF into a potential benefit for suppliers
- **Issue:** Currently only applied to NHH sites – any benefit lost on move to HHS
- **Materiality:** Potentially less than 1% of wholesale costs
- **Potential solution:** Apply GCF to certain HH sites (*eg MC F and G*)
 - Note that this would also require new CCCs (as for network charging)
- **Comments:** Open to allowing smaller sites to benefit from this incremental gain – though may not be highest priority

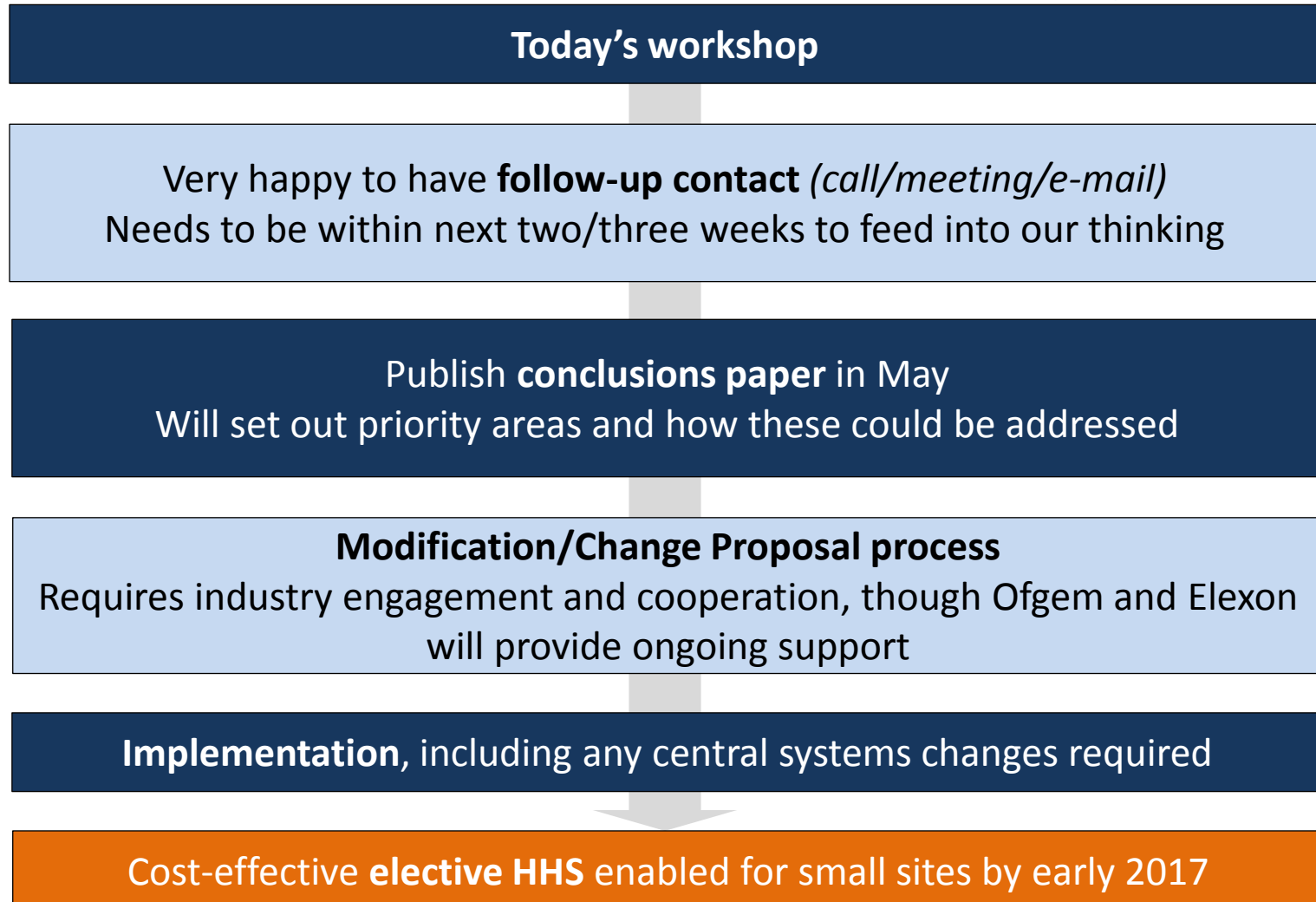
Q: Would change be justified? Are there unintended consequences?

BSC specified charges

- **Background:** Recover some BSC costs. These charges vary between half-hourly and non-half hourly sites
- **Issue:** Increase in BSC charges for sites moving from NHH to HH
- **Materiality:** Likely around £2 pa once P272 migration complete
- **Potential solution:** Would require change to the structure of the charges. Eg, freezing current distinction between the largest sites and others – charging all sub-100kW sites on the same basis, whether or not they are HH settled
- **Comments:** Would make charges less reflective of underlying cost drivers. Disruption of changing structure of charges

Q: Would change be justified? Are there unintended consequences?

NEXT STEPS



- Conduct a full cost-benefit assessment, including distributional impacts
- Outline a thorough plan and timeline for settlement reform, with clearly assigned responsibilities
- Experience with elective HHS from early 2017 onwards will feed into our work on mandatory

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