

# Half-hourly Settlement

Workshop

**Settlement Reform Team**

19 January 2017

ofgem

- **Thank you for your input into the consultation and attendance today**
- Half-hourly settlement is a key enabler to deliver a smarter, more flexible energy system leading to lower bills, lower carbon emissions and enhanced security of supply
- Ofgem will collaborate with interested parties to introduce changes to the current settlement arrangements that deliver the best outcome for consumers

- 11 November 2016 to 6 January 2017: Consultation on Mandatory Half Hourly Settlement
- 19 January 2017: Workshop on consultation findings
- Next steps:
  - Decision to launch Significant Code Review on mandatory Half Hourly Settlement
  - Scoping and Planning Work
  - Impact Assessment
  - Target Operating Model

- 10.00 – 10.15: Welcome
- 10.15 – 11.00: Feedback on the consultation
- 11.00 – 11.15: Break
- 11.15 – 12.00: Impact Assessment breakout session
- 12.00 – 13.00: ELEXON presentation on settlement processes
- 13.00 – 14.00: Lunch
- 14.00 – 15.30: Target Operating Model breakout session
- 15.30 – 15.45: Closing remarks and next steps
- 16.00: Finish

- The consultation sets out our plan for moving to mandatory half-hourly electricity settlement. It outlines:
  - the aim of the reforms
  - timing considerations
  - the regulatory interventions to consider before implementing HHS, and
  - who should design and approve such interventions.
- 32 responses now published on our website

## Approach and timetable

- General support for using our Significant Code Review powers to deliver mandatory HHS.
- Support for regular working groups supplemented by consultations.
- The timeframe to make a decision on the transition and make central systems changes by mid-2018 will be challenging.
- Time should be allowed to assess take up of elective HHS and learnings from P272.
- Some respondents raised the idea of an independent project manager.
- Interaction between the Impact Assessment (Business Case) and the Target Operating Model.

## Risk, constraints and dependencies

- The volume of concurrent industry change (Switching Programme, Smart Meter rollout, Project Nexus and implementing CMA remedies) will affect industry capacity to engage with and implement HHS.
- Implementation will depend on the rollout of smart meters and enrolment of SMETS1 meters into the DCC.
- Strong links and dependencies with work on flexibility and network charging.
- Interaction with changes to code governance.

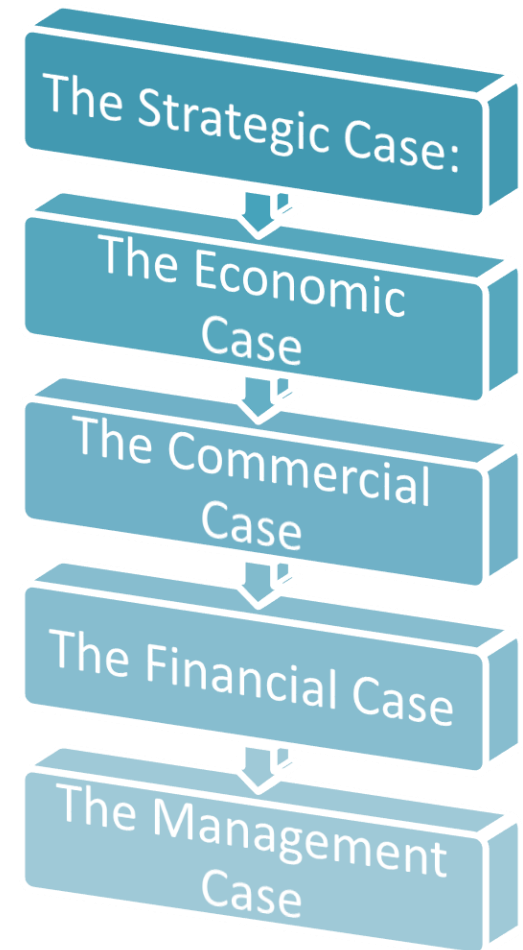
## Scope of issues

- Focus on consumer engagement.
- Several respondents suggested unmetered supply should be in scope.
- The transition from NHH to HH and the close out of the NHH arrangements will need careful consideration.
- Support for considering settlement of export and the impact of the GSP group correction factor.
- A variety of views on agent functions and on data access. These questions need significant time devoted to analysis and consultation early in the process.



## 5 Business Cases: *Approach*

- The Five Case Model is a way to structure and manage significant changes to ensure delivery of benefits
- It sets out the strategic rationale for reform, an economic analysis of the costs and benefits (the Impact Assessment) and how to manage the implementation of reform effectively
- An iterative process, with the business case refined and developed over time
- Same approach as the Faster, More Reliable Switching Programme



- **Long-list** options for implementation, and then **short-list** options to be subjected to cost benefit analysis
- Build **scenarios** based on **key sensitivities**
  - Future demand and energy prices
  - Load shifting and reduction potential
  - Uptake of smart meters and HHS (elective and mandatory)
  - Timing of the transition to mandatory HHS
  - Link with design of settlement arrangements and industry framework
- Compare to a **counterfactual** scenario
  - System upgrade versus system overhaul
  - Just elective HHS
  - Projection of network use, generation mix, growth of DSR and storage
- **Consult on draft** Impact Assessment

**Consumer:** Shift of consumption from peak to off-peak periods, or shift of consumption to periods with lower wholesale prices.

**Measurement:** Avoided investment in generation and network capacity, lower generation costs, lower cost of reserve capacity, reduction in capacity market clearing price and payments, lower cost and need for ancillary services and balancing, carbon intensity of generation

**Supplier:** Increased accuracy of forecasting and procurement of energy

**Measurement:** Lower system balancing costs, reduction in wholesale costs, lower imbalance charges

**Supplier, Code Administrator, DCC & Supplier Agents:** Change in settlement process

**Measurement:** Value of data quality and speed/efficiency of settlement, savings from no longer having to procure a profiling service

**Supplier:** Changes to systems and processes for settlement, billing, forecasting and procurement

**Measurement:** Cost of systems upgrades and new IT infrastructure, change in profiling costs, change in DTN costs, cost of Change of Measurement Class, cost of agent services, costs of customer service and messaging

**Code administrator:** Changes to systems to manage the upscaling of the half-hourly settlement process

**Measurement:** Cost of systems upgrades and new IT infrastructure, change in costs of profiling, change in admin costs

**DCC and Supplier Agents:** Change in data and qualification costs

**Measurement:** Cost of retrieving, processing and protecting HH data, costs to be qualified as HH agents

**Network operator:** Change in billing supplier for using their networks

**Measurement:** Cost of processing HH data and changes to systems and processes for billing HH sites

# BENEFITS?

## Tables 1-4

# COSTS?

## Tables 5-8

# Lunch

- General agreement that the PSRG and ESEG findings were a useful starting point, although some assumptions may have changed
- Respondents were generally supportive of the issues identified in the consultation but also provided useful additional information or raised concerns for consideration
- Strong support for export to be in scope, due to its impact on settlement accuracy and allocation of costs
- Support for unmetered supplies to be in scope, due to the impact on the transition from NHH to HH, if part of the industry was not migrated
- Some respondents wanted to bring forward the timing to resolve any network charging issues
- A number of respondents raised concerns with the potential cost impact on NHH customers, both during and after the transition

- Respondents indicated they would like more detail on how the Target Operating Model will be developed
- Our initial proposal is:
  - Industry working group(s) to undertake detailed work on options
  - Publish outcomes from working groups
  - Workshops to provide other parties an opportunity to input into development
  - Consultation on the draft TOM
- The scope and sequencing of the issues has not been decided but should take into account:
  - Complexity of the issue
  - Interdependencies with other projects/issues
  - Implementation requirements (central systems or individual companies)
  - Impact on parties



## Tables 1 and 5

- What elements of the governance arrangements for other projects (e.g. Nexus, Faster Switching) should we consider for HHS and what lessons can we learn?
- What are the biggest challenges and risks for your company, both in terms of project development and (if approved) implementation?

## Tables 2 and 6

- How should the issues identified in the consultation and responses be sequenced in order to ensure they are all given robust consideration?
- What are the biggest risks to the success of the process design work and how might they be mitigated?

## Tables 3 and 7

- Is it more effective for issues to be resolved one-by-one or spread them out across the working groups?
- What are the biggest challenges and risks for your company, both in terms of project development and (if approved) implementation?

## Tables 4 and 8

- Consumers are key to realisation of the full benefits of HHS. What might an engagement plan that ensures their needs are reflected look like and how should responsibility be shared?
- What are the biggest risks to the success of the process design work and how might they be mitigated?

- We will publish a note of this workshop.
- Ofgem response to the consultation setting out a revised plan based on stakeholder feedback.
- Launch of Significant Code Review setting out the scope of the issues.
- Working groups to start after the launch of the Significant Code Review.

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