

Settlement Reform Project

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Update on Market-Wide Settlement Reform SCR

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23 May 2018

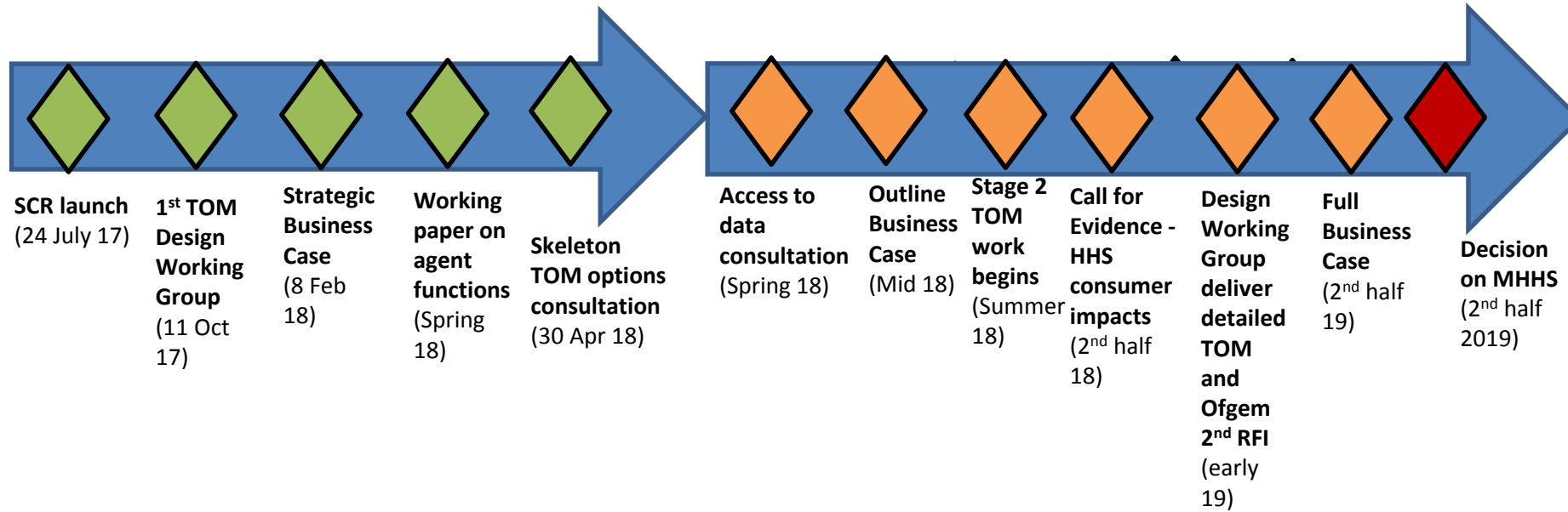
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- Project overview
- Business Case
- Consumers and Policy
- Target Operating Model
- How to get in touch with the Settlement Reform team

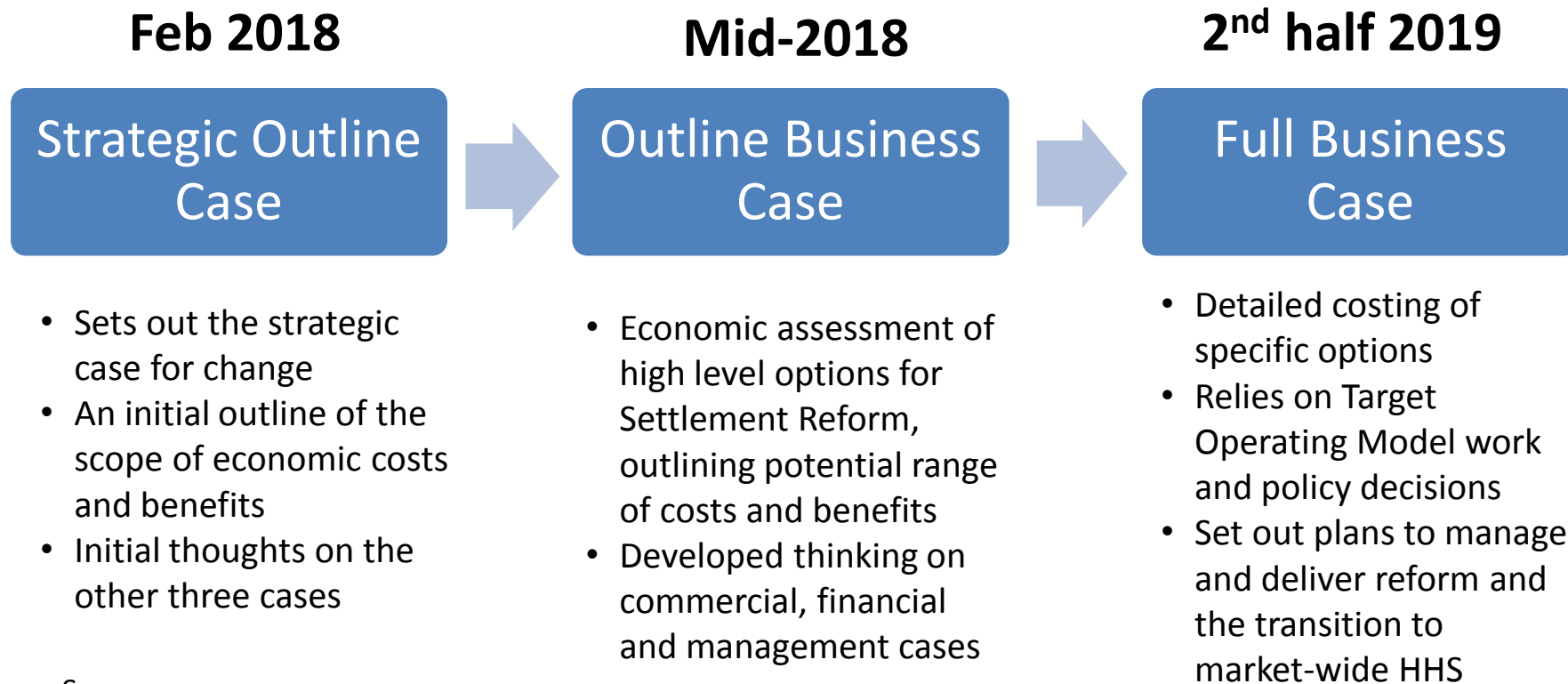
- Settlement Reform exposes suppliers to the true cost of supply consumers
 - incentivises development of new energy products to help customers be more engaged and move consumption away from peak/expense periods
 - should lead to more efficient investment, and use of, generation and network infrastructure
- We are also exploring the potential distributional impacts of Settlement Reform
 - commissioned CEPA in 2017 to look into distributional impacts of smart tariffs. Findings available at: <https://www.ofgem.gov.uk/publications-and-updates/distributional-impacts-time-use-tariffs>
 - will further explore distributional impacts as part of our impact assessment

July 2017

Winter 2019



We are following HM Treasury best practice guidance to develop a Business Case based on the 5 Case Model methodology. This will include an economic impact assessment (the Economic Case).



See:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/469317/green_book_guidance_public_sector_business_cases_2015_update.pdf

Ofgem is leading on consideration and decision making on the following policy and consumer questions separately from the Target Operating Model development:

Approach on whether or not to centralise functions currently performed by supplier agents

The potential impacts on consumers of Settlement Reform and whether any additional protections will be needed as result

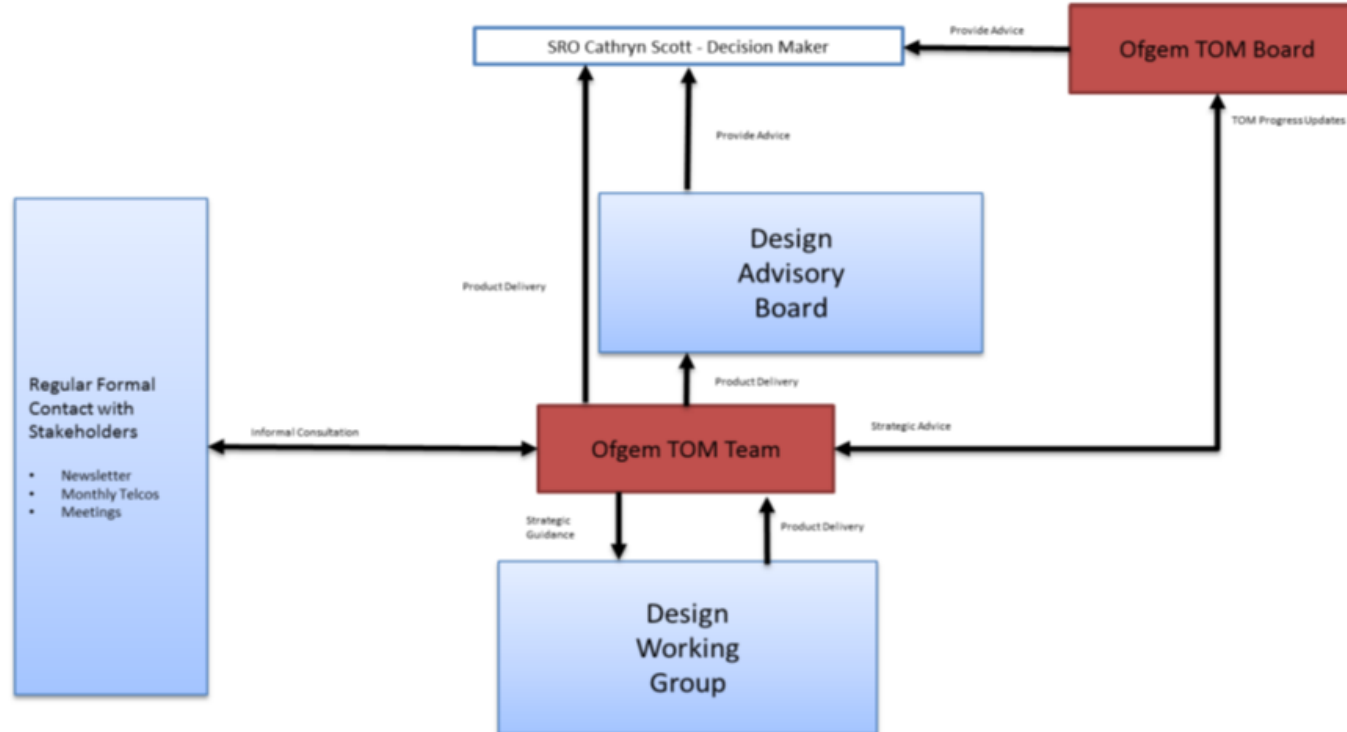
Approach to access to data for settlement

- Access to half hourly data from smart meters is currently on an opt-in basis
- Gathering evidence on full range of approaches

No	Option
1	Access to half-hourly data subject to existing data access rules (opt-in) (the status quo)
2	Half-hourly data is available for settlement purposes only with an option for consumers to opt-out
3	HH data is available for settlement purposes only
4	HH data is available for settlement purposes only following pseudonymisation (MPAN replaced with unique identifier)
5	HH data is available for settlement purposes only following anonymisation (MPAN removed at an early stage of the settlement process)

- The Target Operating Model (TOM) will set out the transitional and enduring settlement arrangements which will deliver Settlement Reform
- We want to ensure the TOM is future-enabling and does not impede new technologies and business models. For example:
 - Electric vehicles
 - Demand-side response (local and wholesale)
 - Peer to peer trading
- Design of the TOM is being undertaken by an ELEXON-chaired Design Working Group (DWG) that will provide design options to Ofgem.
- Ofgem retains all decision-making authority on the TOM options

- Ofgem governance arrangements for TOM design work



- The DWG have met regularly since October 2017 and have developed 5 high level 'skeleton' TOM options, which are currently out for consultation
- Ofgem has approved the TOM design work to move to the next stage – detailed design work. Detailed design work will cover interaction with network charging
- DNO representation on both the DWG and DAB

Public

Market-wide Half-Hourly Settlement

The ELEXON led Design Working Group

23 May 2018
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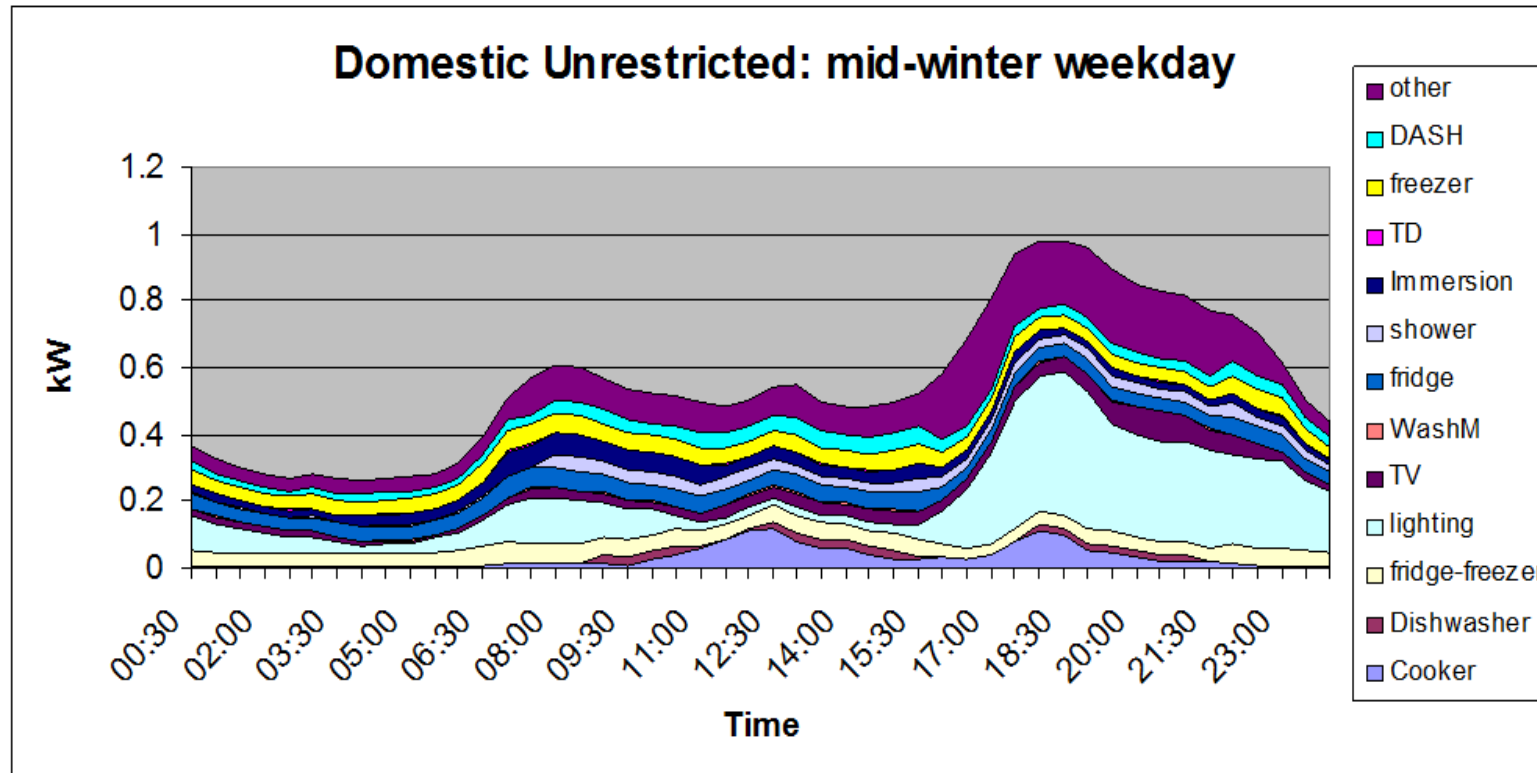
ELEXON

Overview

- Changing energy usage
- DWG: Data and interfaces
- MHHS Context
- Challenges and Unknowns
- Design Work so far
- Summary and next steps

Demand profile

- Example PC1 Domestic Unrestricted: How will it change with new technology and would profiles be accurate?



Design Working Group: Data and interfaces



MHHS Context

- 1998: supply competition implemented profiling because of meter capability
- Waiting for HH capable meters, make arrangements simpler
- ELEXON looking at improvements to settlement process since 2010
 - PSRG and SRAG work: Profiling, P272 and elective HHS process changes
- CMA remedy and Ofgem consultation
 - We offered expertise to lead on settlement design aspects of HHS
- Ofgem launch SCR take up ELEXON's offer of settlement design
- Lead through expert group (DWG)
- Delivery of TOM, options, assessment, interaction with policy and business case
- 2 phases of work:
 - Initial set of options (TOM) and assessment Oct 2017– April 2018
 - Detailed development with report to Ofgem Q1 2019



Design Work so far

Target Operating Model

TOM: Baseline Principles

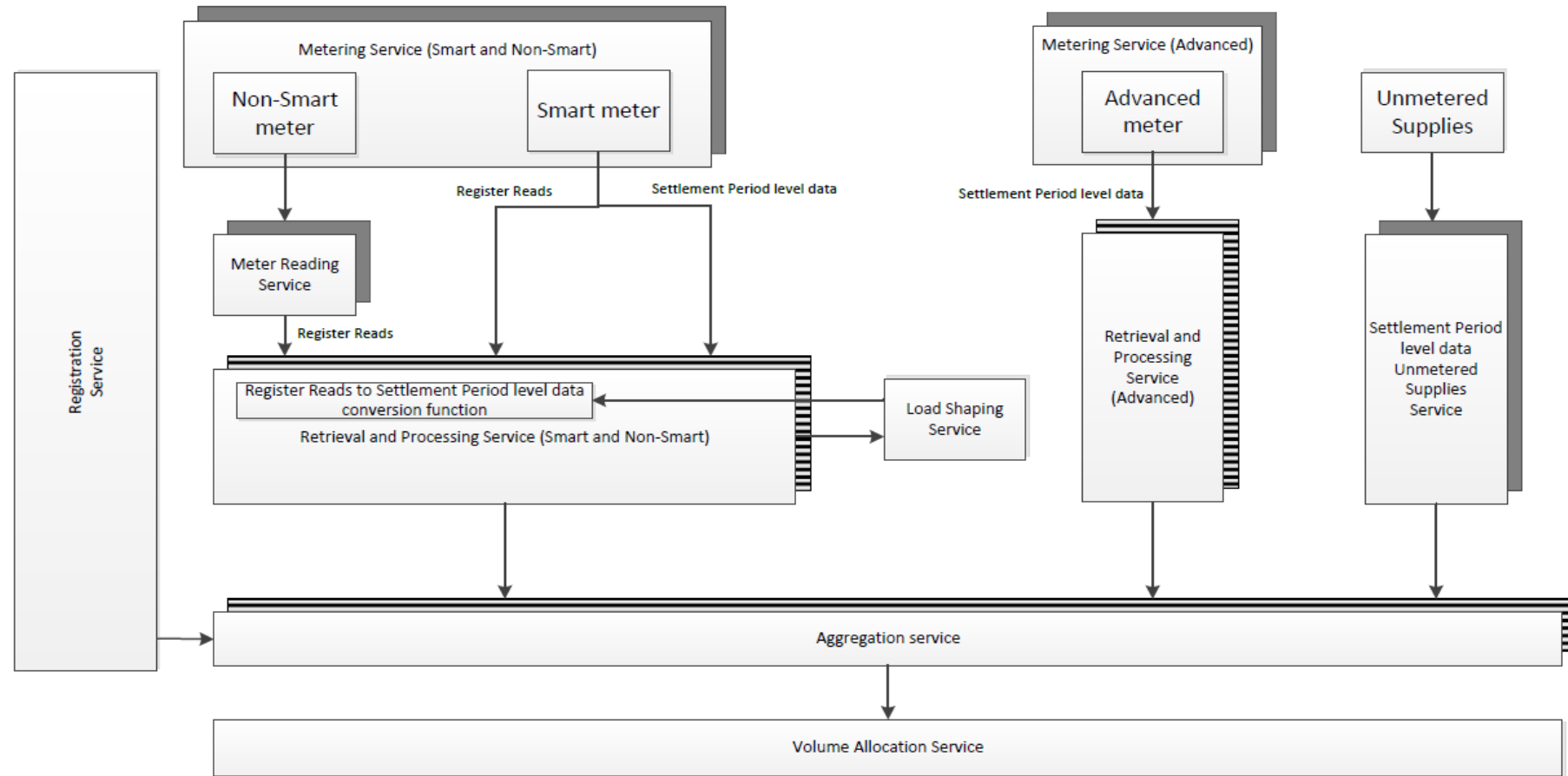
DWG have 8 baseline principles:

- 1. be optimised for the longer term 'target state' where the majority of Meters will be Smart or Advanced. Any Meter not either of these should be managed as part of the transitional arrangements;**
- 2. only consider as transitional states (and not the final TOM option) any designs that use the existing Elective HH and Non Half Hourly (NHH) settlement arrangements;**
3. cover HH meter data (Active Import and Active Export) for Settlement purposes only. While non-settlement activities (such as billing) are out of scope, the design will aim not to be detrimental to these;
- 4. aim to design out elements of the existing Non-Half Hourly (NHH) profiling process such as the use of Annualised Advances (AAs) and EACs (EACs);**
5. aim to have at least one TOM aligning with the policy developments for data privacy and consideration of agent functions;
6. not consider technology or architecture factors at this stage;
7. consider any new Unmetered Supplies arrangements only once a framework is in place for the metered segments of the market so as not to constrain the possibilities for the TOM design; and
8. not consider Settlement timescales until TOM options have been further developed.

TOM development: Market Segments

- Market segments differentiation
 - Smart Meter
 - Legacy Meter
 - Advanced Meter
 - Unmetered Supplies

Target Operating Models (example TOM)




Key to shadows

- Competitively procured
- Competitively procured or single/multiple monopolies
- No shadow: Single or multiple monopolies

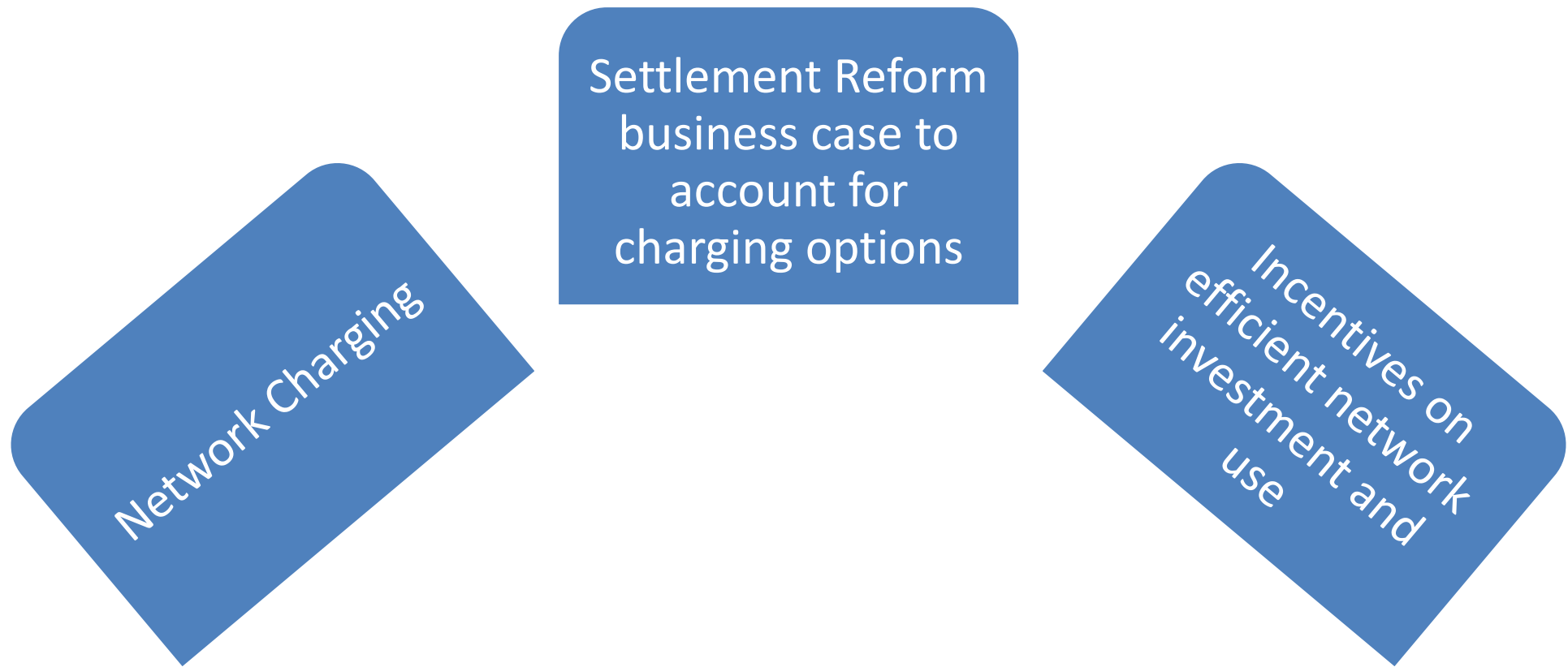
Market-wide HHS Next Steps

- ❑ DWG have agreed 5 potential TOMs
- ❑ ELEXON Industry Consultation being undertaken
- ❑ Review the responses to consultation
- ❑ Develop detailed requirements for Services
- ❑ Look at options for transition

The background features several overlapping, semi-transparent teal shapes. A large, light teal shape is on the left, overlapping a darker teal shape in the center, which in turn overlaps a medium teal shape on the right. The shapes have rounded corners and create a layered, geometric effect.

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Practical interactions: Settlement Reform/TCR/Access



If you would like to find out more or be notified of future updates, please go to the Settlement Reform website: <https://www.ofgem.gov.uk/electricity/retail-market/market-review-and-reform/smarter-markets-programme/electricity-settlement>

Any questions, please email:
half-hourlysettlement@ofgem.gov.uk

Settlement Reform Project Q&A

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