

# PSRG REPORT ON REDUCING SETTLEMENT TIMESCALES

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**MEETING NAME** BSC Panel Meeting

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**Purpose of paper** Information

**Classification** Public

**Summary** The Profiling and Settlement Review Group (PSRG) has completed its project on reducing Settlement timescales. This paper presents the PSRG's report and the Supplier Volume Allocation Group's (SVG's) comments on the recommendations from the project, noting that a BSC Party will need to raise a Modification to progress these.

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## 1. Background – Profiling and Settlement Review Group

- 1.1 The PSRG was set up by the SVG, to review how the profiling and Settlement processes can be improved in light of the installation and use of advanced and smart Meters.
- 1.2 The PSRG has successfully identified short-to-medium term improvements such as Half Hourly (HH) Settlement for larger non-domestic customers (raised through BSC Modification [P272](#)) and ways to address barriers in HH Distribution Use of System (DUoS) charges (progressed as DCUSA CP 179). ELEXON has also implemented a shorter Settlement profile production process ([SVG126/02](#)). Furthermore, Ofgem has taken forward work from the PSRG on assessing longer term changes to mandate HH Settlement for all customers (as part of its Smarter Markets Programme).

## 2. Reducing Settlement timescales project

- 2.1 The Project Initiation Document ([PID](#)) set out the scope, timescales, approach and costs of a project to look at reducing Settlement timescales.
- 2.2 The project's objectives were to define and assess the most cost effective approach to deliver reduction(s) in Settlement timescales. The roll out of smart Meters (and advanced Meters) will enable more timely and accurate Meter readings, and Settlement processes can be improved to use this available Meter data.
- 2.3 The scope of the project was to investigate options for reductions in the Settlement processes to allocate energy in a more timely and accurate manner. The approach was to set out the potential options for reducing Settlement timescales, consult with the industry, impact assess the most viable options and conduct an impact assessment of the preferred options.
- 2.4 This paper presents the PSRG's report in Attachment A and sets out its key findings and recommendations. It also presents SVG Members' comments on these recommendations.

## 3. Project findings and recommendations

- 3.1 The PSRG's unanimous view is that Settlement timescales should be reduced at a future point, to enable the industry and consumers to obtain benefits and savings from the earlier certainty of Suppliers' financial positions.

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- 3.2 The PSRG also considers that such a reduction is desirable as a 'stepping stone' towards even further reduced Settlement timescales, following the Smart Meter roll out and potential implementation of the new timescales introduced by Ofgem's [Smarter Markets Settlement Reform](#) work.
- 3.3 Following a consultation on the benefits and impacts of reducing Settlement timescales, the PSRG notes industry concerns about the impacts and uncertainty around the smart Meter roll out and the potential impacts on Supplier performance, especially impacts on the 97% target for data settled on actual Meter readings. In light of these concerns, the PSRG cannot agree a fixed date at which a reduction in Settlement timescales could be implemented.
- 3.4 The PSRG has therefore identified an alternative approach of monitoring Settlement performance, where a performance-based trigger would be used to initiate the implementation of reduced Settlement timescales.
- 3.5 The PSRG's key project recommendations are that:
- i) A Modification of the BSC should be raised to introduce a monitoring and review process with the aim to reduce Settlement timescales when certain criteria are met;
  - ii) The Modification will set up monitoring against defined criteria;
  - iii) The trigger event for a move to a reduced Settlement timetable will occur when the market achieves [94%]<sup>1</sup> Settlement on actual energy at the Third Reconciliation (R3) Settlement Run in three consecutive months;
  - iv) The following other supporting information will also be monitored to provide a picture of market performance and criteria shall be defined:
    - Performance at the other Settlement Runs (e.g. performance at Final Reconciliation (RF) is not less than that at R3);
    - Information on the smart Meter roll out giving the number of smart Meters installed (e.g. if [10m] smart Meters have been installed, the rate of installation (e.g. [5m per year] and forecast data will be obtained from the Department of Energy and Climate Change (DECC)); and
    - Other BSC market issues (e.g. erroneously large Estimated Annual Consumption (EAC) values and Annualised Advances).
  - v) If the main trigger criterion is met then this will trigger a BSC Panel review, and if other considerations are satisfactory then:
    - the industry will be given at least [12] months' implementation time and notification that the RF Run will be reduced from 14 to seven months;<sup>2</sup> and
    - the timing of the Disputes Final (DF) Run will be reduced from 28 months to [12] months on implementation of the RF reduction.
  - vi) If the other considerations are not satisfactory, then the Panel will defer the decision to a later date; and
  - vii) Once the BSC Modification has been raised a holistic review of the Disputes process will be undertaken by an appropriate workgroup.

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<sup>1</sup> Numbers in square brackets are for consideration by any Modification Workgroup.

<sup>2</sup> I.e. effectively replacing the existing R3 Run.

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- 3.6 In making its recommendations, the PSRG notes that implementing on a fixed date is ideally preferable, in terms of industry certainty and implementation, but is not appropriate given the industry concerns above. Two PSRG Members, who agreed with the recommendations above, also favoured an alternative option. This would not seek to reduce timescales in the short to medium term and would leave consideration of the reduction to Settlement timescales to Ofgem's longer-term Smarter Markets Settlement Reform work.
- 3.7 The PSRG notes potential difficulties in implementing a Modification based on an uncertain trigger event and the potential precedent such a Modification could set. Additionally, they note that a BSC Party will need to raise the Modification. PSRG Members have expressed uncertainty over whether any BSC Party would be willing to raise such a Modification at the present time.

## 4. SVG Members' comments

- 4.1 We presented the PSRG's report to the SVG for information at its meeting on 3 February 2015 (paper [SVG168/12](#)). We invited the SVG to note that the project is now complete and to provide any comments on the project recommendations.
- 4.2 The SVG notes the significant amount of work undertaken during the project, and the risk that this could be wasted if no Party is willing to raise a Modification. While it agrees that Settlement timescales should be reduced in the future, Members' views are divided on when and how this should be done. The following is therefore a summary of SVG Members' comments. Some SVG Members are also PSRG Members, although not all were able to attend all meetings.
- 4.3 Some SVG Members disagree with the PSRG's proposed performance-monitoring approach, believing that this will not achieve any change in the short to medium term. These Members believe this is a missed opportunity for the industry to lead the way and deliver its own change before Ofgem's longer-term Smarter Markets work concludes and imposes a solution. They therefore express disappointment that the industry appears unable to deliver any change now.
- 4.4 An SVG Member challenges the view that there will be a gap between completing the smart Meter roll out and achieving sufficient data quality to reduce Settlement timescales. This Member comments that, once the roll out is complete, almost all energy will be settled on actual Meter readings which is better than now. They therefore favour a fixed date implementation tied to the roll out timetable. They query if Ofgem is likely to approve a Modification without this, since it gives no certainty over when or if benefits will be realised. The Member notes that discussion of reducing Settlement timescales under the BSC predates Ofgem's Smarter Markets work.
- 4.5 Another SVG Member is unconvinced that reducing Settlement timescales has any logical dependency on the smart Meter roll out, believing that this will simply delay things and thereby rule out any change in the short-medium term. This Member believes that the industry will not achieve a data quality target of its own accord without that target being set for it. They cite the uncertainty expressed at NETA Go-Live over the achievability of 97% of energy being settled on actual Meter readings at RF, but considers that the industry delivered this because it had something to work towards. The Member believes that a target of 97% at R3 could be achieved in three years if set now, and could be achieved with current 'dumb' Meters. They consider that the industry has an opportunity to anticipate Ofgem's longer-term intention rather than wait for imposed change. They therefore wish to highlight the points made in 3.6 of this paper above.

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- 4.6 Some SVG Members express agreement with a change tied to the smart Meter roll out and/or a performance-based trigger approach. A Member queries how it would be possible to achieve the PSRG's proposed 94% target at RF with existing Non Half Hourly (NHH) Meters, given the infrequency with which these are read. Another Member considers that this would only be possible if there was no on-going smart Meter roll out taking priority on industry resources. A Member suggests that installing smart Meters could allow Suppliers to prioritise achieving actual readings from the remaining 'dumb' Meters; another Member questions whether Suppliers will keep the same number of Meter readers in the field once the roll out advances. A Member believes that the smart roll out will uncover data issues with existing NHH Meters which will take time to resolve.<sup>3</sup> Taking this into account, along with the uncertainty over the roll out timescales and the industry concerns, the Member supports the proposed monitoring approach.
- 4.7 An SVG Member comments that achieving Settlement reductions now with 'dumb' Meters, or in the future with smart Meters, are two different things.
- 4.8 SVG Members have differing views on the feasibility of designing a Modification which is conditional on a future trigger event. A Member questions if this can be achieved through legal drafting, while another comments that they do not perceive any practical issue. Members note the possibility that a Workgroup could develop an Alternative Modification with a fixed date approach, although some are unsure whether this is likely given the industry's apparent lack of support for this approach.
- 4.9 An SVG Member expresses concern over the proposed reduction in the DF Run, believing that this is contrary to the direction of change in the gas market. They note ELEXON's clarification that the reduction is a suggestion to be discussed by any Modification Workgroup, and that page 27 of the PSRG's report notes that a process should remain in place to correct 'big' errors such as those found in Central Volume Allocation. Additionally, they note that the PSRG's recommendation for a wider review of the Disputes process could include investigating an option for an industry insurance policy with risks underwritten by an underwriter.

## 5. Recommendations

- 5.1 We invite you to:
- NOTE** that the PSRG has completed its work in accordance with the PID, and that the project is now closed;
  - NOTE** the PSRG's findings and recommendations as detailed in its report;
  - NOTE** that, to progress these recommendations (or any alternative solution to reduce Settlement timescales), a BSC Party will need to raise a Modification;
  - NOTE** SVG Members' comments on the project recommendations; and
  - PROVIDE** any views or comments as Panel Members.

## Attachments

Attachment A – PSRG's report on reducing Settlement timescales

### For more information, please contact:

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<sup>3</sup> SVG Members express differing views on whether these data issues will be mainly backwards-looking or will perpetuate beyond the installation of the smart Meter (e.g. through the EAC).