

PUBLIC

# Evaluation Criteria for HHS Target Operating Models

Design Working Group: DWG05/02



ELEXON

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## INTRODUCTION

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The Design Working Group (DWG) is tasked with supporting Ofgem in the ELEXON led project to design and assess the Target Operating Models (TOMs) for Market Wide Half-Hourly Settlement (HHS). This document outlines the draft qualitative and quantitative assessment criteria that will be used as a basis for the DWG to assess each option. This assessment will be provided to Ofgem for review, prior to DWG review when they first meet in October 2017. This will facilitate them with their decision-making on the TOMs, additional or revised criteria may be developed during the development of the TOMs.

The evaluation criteria aim to:

- facilitate the identification of options for settling all consumers against their actual HH meter data<sup>1</sup>;
- allow for both qualitative and/ or quantitative analysis of each option;
- enable a comparative assessment of options;
- enable the DWG to shortlist the options which are best for consumers;
- Enable to removal of options in the first instance/before too much work has being invested; and
- Provide Ofgem with the DWG's assessment against the evaluation criteria for each option.

These criteria will take as its basis the criteria developed by Ofgem as part of its Smarter Markets programme (back in 2014). These criteria also align with the [design principles](#) set out by Ofgem in Appendix 2 of the SCR launch statement.

## OBJECTIVES

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The DWG objective is to develop a 'smarter' settlement process for both import and export data that provides the following outcomes:

Objective	Description
<b>Accurate</b>	Use of actual HH consumption data <sup>1</sup> cost-reflective and equitable Improves energy forecasting for Suppliers
<b>Timely</b>	Less commercial risk, e.g. credit cover and settlement timescales Reduces barriers to entry for new Suppliers and new market participants
<b>Efficient</b>	Reduces settlement costs Reduces supplier costs -> Lower customer bills

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<sup>1</sup> Where such data is available for settlement purposes

Objective	Description
	Facilitate efficient use of energy resources and flexibility
<b>Facilitates innovation</b>	<p>Stronger incentives on suppliers to offer new products that benefit the consumer</p> <p>Enables energy production/use flexibility, e.g. Demand Side Response or peer to peer trading</p> <p>Supports of new technologies</p> <p>Flexible to include new entrants (Third parties, new Suppliers, new market types)</p>

## MODEL COVERAGE

The first assessment will be that the model covers the end to end process 'from meter to bank' for the Settlement of HH metered consumption data. This assessment will be made against the required end-to-end processes as defined in the [Settlement Roles and Responsibilities](#) document which defines all the required processes to deliver Market Wide HHS.

## COMMENTARY AND STRENGTHS AND WEAKNESSES OF EACH TOM

Each TOM will have a description of the key features of the model and any optionality in the design. Accompanying the commentary will be a high level view of the relative 'Strengths' and 'Weaknesses' of the model. These will be called initial 'evaluations'. The following is an initial suggestion of the format for the commentary:

Model Id	High level Description of TOM	Strengths	Weaknesses
<b>HH Plus</b>	High level overview	Strengths of the draft TOM	Weaknesses of the draft TOM

## HIGH LEVEL EVALUATION CRITERIA

The pros and cons will feed into the detailed evaluation. The following are the draft criteria, what will be assessed and how this links to the objectives:

Criterion	What will be assessed?	Link to objectives/Reason for inclusion
<b>Enablers:</b>		
<b>Coverage</b>	<ul style="list-style-type: none"> <li>• New Market Roles required</li> <li>• Types of consumer settled against HH data</li> <li>• Number of customers settled under new HHS arrangements</li> <li>• Settlement arrangements for export consumption</li> <li>• Unmetered Supply arrangements</li> <li>• Approach to closing/transitioning NHH Arrangements</li> <li>• The TOM covers interaction with Customer Billing.</li> </ul>	<p>EFFICIENT/ACCURATE</p> <p>To understand the key players in Wider Market HHS</p> <p>To understand which customers will receive benefits</p> <p>To understand how NHH customers will interact with the new arrangements</p>
<b>Cost Reflectivity</b>	<ul style="list-style-type: none"> <li>• How TOM improves accuracy and cost reflectivity of Settlement</li> </ul>	<p>FACILITATES INNOVATION</p> <p>To assess how option facilitates smart tariffs &amp; other products.</p>
<b>Timing of Settlement</b>	<ul style="list-style-type: none"> <li>• Number and timing of Settlement runs</li> <li>• Overall length of Settlement</li> </ul>	<p>TIMELY/ACCURATE</p> <p>To assess the benefits reducing uncertainty for suppliers</p> <p>Impact on credit cover arrangements</p>
<b>Design Simplicity</b>	<ul style="list-style-type: none"> <li>• How straightforward the option is to implement</li> </ul>	<p>EFFICIENT/ ACCURATE</p> <p>To determine whether option will lead to efficiencies.</p> <p>To determine the impact on accuracy relative to the design.</p>

Criterion	What will be assessed?	Link to objectives/Reason for inclusion
<b>Design Flexibility</b>	<ul style="list-style-type: none"> <li>How adaptable the solution will be to future changes</li> </ul>	<p>EFFICIENT</p> <p>To assess if option will allow for future changes in market. Flexibility, peer to peer or new business models</p>
<b>Potential Challenges:</b>		
<b>Consequential Impact</b>	<ul style="list-style-type: none"> <li>Impact of option on other parts of market</li> </ul>	<p>ALL</p> <p>To understand consequential impacts &amp; dependencies</p>
<b>Costs</b>	<ul style="list-style-type: none"> <li>Potential costs of the Model</li> </ul>	<p>EFFICIENT</p> <p>To feed into Business Case Analysis and Policy decisions on access to data.</p>
<b>Implementation</b>	<ul style="list-style-type: none"> <li>When the reforms can be implemented</li> <li>How the transition will be managed</li> </ul>	<p>EFFICIENT</p> <p>To ensure that implementation and transition plan is efficient and effective.</p>
<b>Impact on small suppliers/ new entrants/third parties</b>	<ul style="list-style-type: none"> <li>How the reforms may impact small suppliers/ new entrants</li> </ul>	<p>ALL</p> <p>To assess how options impact small suppliers/new entrants to ensure solution works for all parties.</p>
<b>Supports New Technologies and Innovation</b>	<ul style="list-style-type: none"> <li>How the design supports and does not impede new technologies and innovation</li> </ul>	<p>FACILITATES INNOVATION</p> <p>To ensure support, interaction and does not impede the entry and development of new technologies and energy business models which may offer new energy services to customers and smooth the transition to a smart, flexible energy system.</p>

## CONSIDERATIONS AND MEASUREMENT CRITERIA

The following sets out the considerations against each of the evaluation criteria above and provides further detail on the Measurement Criteria for the TOMs:

Criteria	Considerations	Measurement Criteria	
		Qualitative	Quantitative
<b>Coverage</b>	<p>The TOM covers all required end to end processes.</p> <p>Are new Market Roles required or are current roles no longer needed?</p> <p>How are consumers remaining on traditional metering or whose HH data is not available settled?</p> <p>Settlement arrangements for export consumption</p> <p>How are Unmetered Supplies incorporated?</p> <p>The TOM covers interaction with Customer Billing.</p>	<ul style="list-style-type: none"> <li>Meets requirement in the Key Roles and Responsibilities document</li> <li>New or adapted Role types</li> <li>Meter types</li> <li>Registration arrangements</li> <li>Potential participants to fulfil role</li> </ul>	
<b>Cost Reflectivity</b>	<p>Cost-reflectivity of option</p> <p>How well option facilitates flexibility, e.g. DSR</p>	<p>The impact on:</p> <ul style="list-style-type: none"> <li>quality of data to settlement</li> <li>customers and meter types</li> <li>DUoS charges</li> </ul>	
<b>Timing</b>	<p>Overall length of settlement and dispute process</p> <p>Ensuring arrangements remain robust, accurate and fair</p>	<ul style="list-style-type: none"> <li>Does the model allow for faster Settlement against the baseline or other TOMs?</li> </ul>	
<b>Design Simplicity</b>	<p>Complexity of design and scope for simplification</p> <p>Level of automation</p> <p>Robustness and ease of upgrading</p>	<ul style="list-style-type: none"> <li>Statement on simplicity of design</li> <li>Impact of supporting smart and traditional solutions in parallel.</li> </ul>	<ul style="list-style-type: none"> <li>Data flow diagram of solution</li> <li>Details of new &amp; obsolete processes</li> </ul>
<b>Design Flexibility</b>	<p>Whether it can easily adapt to future changes in market</p> <p>Whether it can it handle bulk CoS events</p> <p>Supplier Of Last Resort</p> <p>Number of data hand-offs</p>	<ul style="list-style-type: none"> <li>How flexible and adaptable the solution is and why?</li> <li>How will it handle bulk CoS events ensuring correct</li> </ul>	

Criteria	Considerations	Measurement Criteria	
		allocation?	
<b>Consequential Impacts</b>	Impact on other parts of market. For example: <ul style="list-style-type: none"> <li>• System Security</li> <li>• Distributional impacts</li> <li>• Competition/centralisation</li> <li>• Impact on other parts of regulatory framework</li> </ul>	<ul style="list-style-type: none"> <li>• Will the framework need changing</li> <li>• Are there any Security considerations?</li> <li>• Which customers are impacted and what mitigations are required?</li> <li>• How it affects competition, and why</li> <li>• Is it dependent on CoS, DSR, or DUoS changes?</li> </ul>	<ul style="list-style-type: none"> <li>• List of Proposed changes to Framework</li> <li>• Number of Functions &amp; volumes removed or adapted</li> </ul>
<b>Data Privacy</b>	Alignment with Data Privacy Framework Options  Assessment of TOM against data privacy evaluation criteria.	Timeframe of policy decisions  How it affects competition  Does the TOM preclude any of the policy options?  Feasibility of the TOM against each Option  How the TOM would work in practice with each option?  Benefits and costs against the data privacy options  Implications for accuracy relating to each option  Whether any benefits are not	

Criteria	Considerations	Measurement Criteria	
		realised or can be mitigated	
<b>Solution costs</b>	Potential costs of solution	<ul style="list-style-type: none"> <li>• A relative assessment of the likely costs of TOM for all stakeholders</li> </ul>	
<b>Ease of Implementation</b>	Robustness of deliver plan Transition approach The settlement of residual traditional meters	<ul style="list-style-type: none"> <li>• Summary plan with appropriate allocation of roles &amp; responsibilities</li> <li>• A practical transition approach</li> </ul>	
<b>Impact on small suppliers/ new entrants</b>	Impacts of any approach on small suppliers/ new entrants	<ul style="list-style-type: none"> <li>• Identifying specific issues for small suppliers/new entrants stemming from an assessment of other criteria</li> </ul>	
<b>Support New Technologies and Innovation</b>	How the design supports and does not impede new technologies and innovation	<ul style="list-style-type: none"> <li>• Identify how access to different levels of meter and aggregation could support new technologies or other innovation such as DSR, Peer-to-Peer and Smart Grids</li> </ul>	

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## APPROACH TO EVALUATION AGAINST CRITERIA

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Statements will be provided for each TOM on the strength and weaknesses against the criteria. Where possible the approach to rating the TOMs against the criteria will be via a five point sliding scales except where and alternative measure is defined:

- Strongly supports –  assessed to completely deliver against the criterion
- Supports –  delivers mostly what is required by the criterion
- Neutral –  not clear that TOM will deliver against the criterion
- Partially supports –  unlikely to deliver against the criterion
- Does not support –  will not deliver against the criterion.