REDUCING SETTLEMENT TIMESCALES

This consultation is part of the Profiling and Settlement Review. It is part of a project to identify future options for reducing Settlement timescales in light of the smart metering roll-out.

1. Executive summary

The Profiling and Settlement Review Group (PSRG) was set up by the Supplier Volume Allocation Group (SVG) to review how profiling and Settlement processes could be modified to account for the developments in the use of advanced and smart meters in the Non Half Hourly (NHH) market in the short term (0-5 years) and medium term (5-10 years). The PSRG has considered matters relating to the profiling and Settlement processes, mandatory Half Hourly (HH) Settlement for Profile Classes (PCs) 5-8[1] and separately PCs 1-4. A number of changes have been put in place as a result of this work, e.g. shorter settlement profiles production process, raising of Modification P272 and addressing barriers in HH Distribution Use of System (DUoS) charges (DCP 179). Ofgem is looking at the long term changes to Settlement as part of its Smarter Markets Programme[2].

This project has been set up by the SVG to look at the possibilities to reduce Settlement timescales in light of the smart meter roll-out which will facilitate more timely and accurate meter reading data for Settlement. The project will deliver a report to the BSC Panel setting out recommendations that will define the optimum timescales for future Settlement, together with their implementation and transition approaches. This project will therefore have an interaction with Ofgem's Smarter Markets work on settlement reform which is longer term and assumes that (nearly) all consumers have smart meters.

The purpose of this consultation is to identify the key drivers for the initial and final Settlement timescales, and the appropriate number of intermediate reconciliation runs. It is therefore important that we get feedback from all parties to ensure that the project recommendations are appropriate for the industry and consumers.

Parties are invited to respond to this consultation using the response template, which is available on the Consultations page of the ELEXON website. Responses should be returned to bsc.admin@elexon.co.uk by **5.00pm on Friday 9 May 2014.**

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[1] Profile Classes 5 to 8 comprise the larger commercial customers and some smaller industrial customers. Profile Classes 1 to 4 comprise the domestic and smaller commercial customers.

[2] More information on the Smarter Markets Programme is available on Ofgem's website.

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2. Introduction

This consultation seeks organisations' views (regulation, customer and industry) to input into a project that looks at improvements to market processes through the reduction of Settlement timescales. The design of the Supplier Volume Allocation Settlement process was undertaken in the mid-90s, nearly 20 years ago. The market, technology, participants, policy have all changed since this time. We are now in a world of fast change both within the GB and through European developments towards a common market, both technological and regulatory. Therefore, it is time to look at making the settlement process more effective, efficient and economic. The project's objectives are to define and assess the most cost effective approach to deliver reduction(s) in Settlement timescales. The aim is to provide earlier accurate Settlement that is clearer, more efficient and delivers benefits to market participants and hence to the end consumer.

The roll out of Smart meters (and Advanced meters) will enable more timely and accurate meter readings and Settlement processes can be improved to make better use of this data. The scope of this project is to investigate options for reductions in the Settlement processes to allocate energy in a more timely and accurate manner. The project does not seek to define a specific date at which any changes should be implemented and recognises that in the short to medium term not all consumers will have a smart meter. This project will therefore have an interaction with Ofgem's Smarter Markets work on settlement reform which is longer term and assumes that (nearly) all consumers have smart meters.

This consultation forms part of Phase 2 of the project and contains 11 questions that are designed to identify the key drivers for the timing of the Initial Settlement run (SF), the Final Settlement Run (RF) and the number and timing of interim reconciliation runs (R1, R2 and R3). It also looks at Disputes, risks and any other consequential changes that may be required. The consultation responses will be published and will feed into a cost benefit analysis of the most viable options identified. A further industry impact assessment will then be conducted before presenting the final report to the BSC Panel.

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3. Document Structure

Section number	Section Title
1.	Executive Summary
2.	Introduction
3.	Document Structure
4.	Project Overview
5.	Profiling and Settlement Review Group
6.	Ofgem's Smarter Markets Programme
7.	History of Settlement Reconciliations Runs
8.	Existing Baseline and Performance targets
9.	Regional Settlement Performance
10.	Ways of Reducing Settlement Timescales
11.	The key drivers for change - Initial Settlement (SF)
12.	The key drivers for change – Final Settlement (RF)
13.	The key drivers for changes to Interim Reconciliation runs
14.	Disputes
15.	Risks, Issues, Assumptions and Dependencies (RAID)
16.	Consequential changes and unintended consequences
17.	Consolidated Consultation Questions
18.	Summary and Next Steps
19.	Response deadlines and contact details
20.	Glossary
21.	Appendices

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4. Project overview

This project consists of five phases. This consultation forms the second phase of the project following the initial phase of option development. The findings of this consultation will form the basis for a cost benefit analysis (CBA) of viable options identified from the responses. The CBA findings will form the basis of a further industry impact assessment of the optimum approaches to reducing settlement timescales. A final report will then be written for the SVG and the BSC Panel. The timeline for the project is set out in Appendix A.

5. Profiling and Settlement Review Group

The PSRG was set up by the SVG to review how profiling and Settlement processes could be modified to account for the developments in the use of advanced and smart meters in the Non Half Hourly (NHH) market in the short term (0-5 years) and medium term (5-10 years). The PSRG has considered matters relating to the profiling and Settlement processes, mandatory Half Hourly (HH) Settlement for Profile Classes (PCs) 5-8 and separately PCs 1-4. A number of changes have been put in place as a result of this work, e.g. shorter settlement profile production process (from 2 years to 1), the application of GSP Group Correction Factor to HH market, the raising of Modification P272 and the identification of barriers in HH DUoS charges (DCP 179).

The PSRG held a workshop on 30 October 2013 to build on the PSRG's previous discussions on taking Settlement forward and the roadmap for short to medium term improvements to Settlement. The PSRG reviewed the previous work on Settlement timescales in 2011, including the responses from the industry consultation. The conclusion, at that time, was that no change was required and that the industry should seek to reduce Settlement timescales when the bulk of smart meters are installed. The supporting rationale was that it would not save significant costs centrally/ for the industry (and parties had difficulty in quantifying savings and additional costs). However, there was a strongly held view that the Settlement timetable is too long.

At the workshop, the PSRG agreed that the time was right to investigate this in light of recent developments (further progression of the Smart Meter Rollout). The PSRG felt that having a process of Settlement taking 28 months would not be appropriate in a smart metered world. It identified further reasons to justify work in this area, including:

- There is increased scrutiny of the electricity market driven by retail prices and the current high profile of the industry in the news;
- There is increased focus on inefficient processes;
- There was a need to maximise Smart benefits although it was noted that the lead times for change are long; and
- There are a large number of initiatives that may have an impact (or be impacted), including Electricity Market Reform, Feed-in Tariffs Contract for Difference (FiT CFDs), the Capacity Market and payments for demand-side response (DSR), many of which will have their own reconciliation approaches and may impact Settlement reconciliation.

Following the workshop ELEXON provided a project brief to the SVG for approval. A PSRG meeting was then held on 27 February to discuss drivers for change, the impacts on performance, read frequency, and some example scenarios. The PSRG agreed the next step was to undertake this consultation.

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6. Ofgem's Smarter Markets Programme

Ofgem established the Smarter Markets Programme to drive changes to market arrangements that will help realise the opportunity that smart metering presents to make retail energy markets work better for consumers. One of the projects under the Smarter Markets Programme concerns the electricity settlement arrangements.

Ofgem have published a launch statement setting out how it will progress this project. This document sets out Ofgem's view that, in principle, it is in consumers' interests to be settled against their half-hourly consumption data from smart meters. The document also explained that Ofgem will shortlist the options for using half-hourly data in settlement by the end of the year. As part of this work, Ofgem will examine the options for shortening settlement timescales in the longer term.

We recognise the importance of coordinating our work with that of Ofgem. Both Ofgem and ELEXON are committed to sharing information and project plans, and meeting regularly to avoid duplication of effort and to ensure the outcomes of the respective projects align.

7. History of Initial Settlement and Settlement Reconciliation Runs

Initial Settlement and Credit

The Interim Information Run (II) was originally used to identify any issues with Central Volume Allocation (CVA) data for generators and Grid Supply Point (GSP) metering such that they could be resolved prior to Initial Settlement (SF). It reflected the ability to read larger half hourly daily read sites overnight and provided the ability to check meter readings before financial settlement. A 29 calendar day window for SF was set to enable Suppliers to get money from customers to pay generators. The 29 calendar day window effectively provided Suppliers with a degree of 'credit' from generators.

Currently, Suppliers can lodge credit with ELEXON to ensure that their liabilities at the Initial Settlement run would be covered in all circumstances.

The current Settlement reconciliation timescales were set out in the mid-90s with the introduction of competition in the supply of electricity to the domestic and smaller non-domestic (<100 kW) markets. The timescales were originally defined to approximately match billing/read cycles for different types of consumers. The following table reflects the most common approaches in the current market:

Daily	Monthly	Quarterly	Yearly
Majority of HH and some advanced meters	Non-domestic customers	Domestic Customers	Domestic and Target for at least 1 actual reading

Settlement timescales are set out in BSCP01 'Overview of the Trading Arrangements'. The Settlement Reconciliation Runs involve a combination of Supplier and BSC Agents who are coordinated through a number of Settlement Calendars. These calendars provide the dates at which each agent has to perform a Settlement run.

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The Settlement Administration Agent (SAA) Calendar (first three rows):

calendar	Sett Date	Sett Code	CDCA	SVAA	SAA	Notif Date	Payment Date	Notif Period	Payment Period	Elapsed Days SAA after Settlement	Working Days SAA after Settlement	Working Days SAA before Notification
SCD	20140401	SF	20140423	20140424	20140425	20140429	20140502	18	21	27	17	1
SCD	20140402	SF	20140424	20140425	20140428	20140429	20140502	17	20	26	16	1

Note: the dates in this calendar are in the format: yyyymmdd where y = year, m = month and d = day

The Supplier Volume Allocation Agent (SVAA) Calendar (first three rows):

Sett Date	Sett Code	DA Run Date	SVA Notification Date	VAR[3] Date	Notif Date	Payment Date
01/04/2013	SF	18/04/2013	19/04/2013	22/04/2013	26/04/2013	01/05/2013
02/04/2013	SF	19/04/2013	22/04/2013	23/04/2013	26/04/2013	01/05/2013

There is also a calendar that sets out timescales for Post-Final Settlement Runs (DF Runs). These calendars can all be found on the ELEXON Portal. For Party and BSC Agent roles and responsibilities please see the Glossary.

BSC and Settlement Agent Timescales - Working Days from the Funds Administration Agent (FAA) Payment Date

DA	CDCA	SVAA	SAA	Advice[4] Notes
-7	-6	-5	-4	-1

Although the timescales between Supplier and BSC Agent runs could be looked at, it is likely that it would be undesirable for any of these to occur on the same day (although this option could be considered further). Hence, the above 7 working day spread between the DA Reconciliation Run and the FAA Payment Dates will need to be considered in any review of the reconciliation timescales.

Settlement Run types

The Settlement Final (SF) run is referred to as the Initial Settlement (SF) run for the purposes of this consultation to avoid confusion for respondents with the Reconciliation Final (RF) run which we have referred to as Final Settlement (RF).

[3] The VAR date refers to the SVAA Run date.
[4] An Advice Note is provided to Trading Parties to inform them of the monies that they will receive or pay for Settlement.

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Current Settlement Timescales – Approx. minimum Working Days from the Settlement Day to the Supplier Volume Allocation Run

The current timescales between the Settlement Day and the SVAA Run Date are set out below with some example dates to show the elapsed calendar time.

Run	II	SF	R1	R2	R3	RF	DF?
Working Days	4	15	33	78	148	287	587
e.g. Settlement Day = 01/04/2012	05/04/2012	25/04/2012	22/05/2012	26/07/2012	02/11/2012	23/05/2013	TBC

8. Existing Baseline and Performance targets

The current Reconciliation Runs have associated performance targets which state what proportion of energy should be settled against actual metered data. It is likely that in future the ability to remotely read both Smart and Advanced meters will improve performance at each Reconciliation Run. The performance targets and current performance against these run types are set out below:

Settlement Administration Runs	Working days	NHH performance target	HH (>100kW) performance target	NHH performance	HH (>100kW) performance
Interim Information (II)	5	n/a	n/a	0.04%	94.90%
Initial Settlement (SF)	16	n/a	99%	8.58%	99.33%
1st Reconciliation (R1)	39	30%	99%	36.37%	99.50%
2nd Reconciliation (R2)	84	60%	99%	70.28%	99.58%
3rd Reconciliation (R3)	154	80%	99%	90.57%	99.61%
Final Settlement (RF)	292	97%	99%	97.27%	99.49%

Note: the working days above refer to the Settlement Administration Agent run. The above data is based on the Trading Operations Report for February and data calculated for this consultation.

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It can be seen that the HH performance is already being met after 16 Working Days although it should be noted that HH performance can drop after SF (see drop between R3 and RF) as incorrect actuals are replaced by correct estimates (e.g. phase failures, incorrect CT/VT ratios). Hence, although HH timescales will need consideration, it will be improvements in the NHH market through the ability to remotely dial metering systems that will drive any considerations on Reconciliation timescales in the future.

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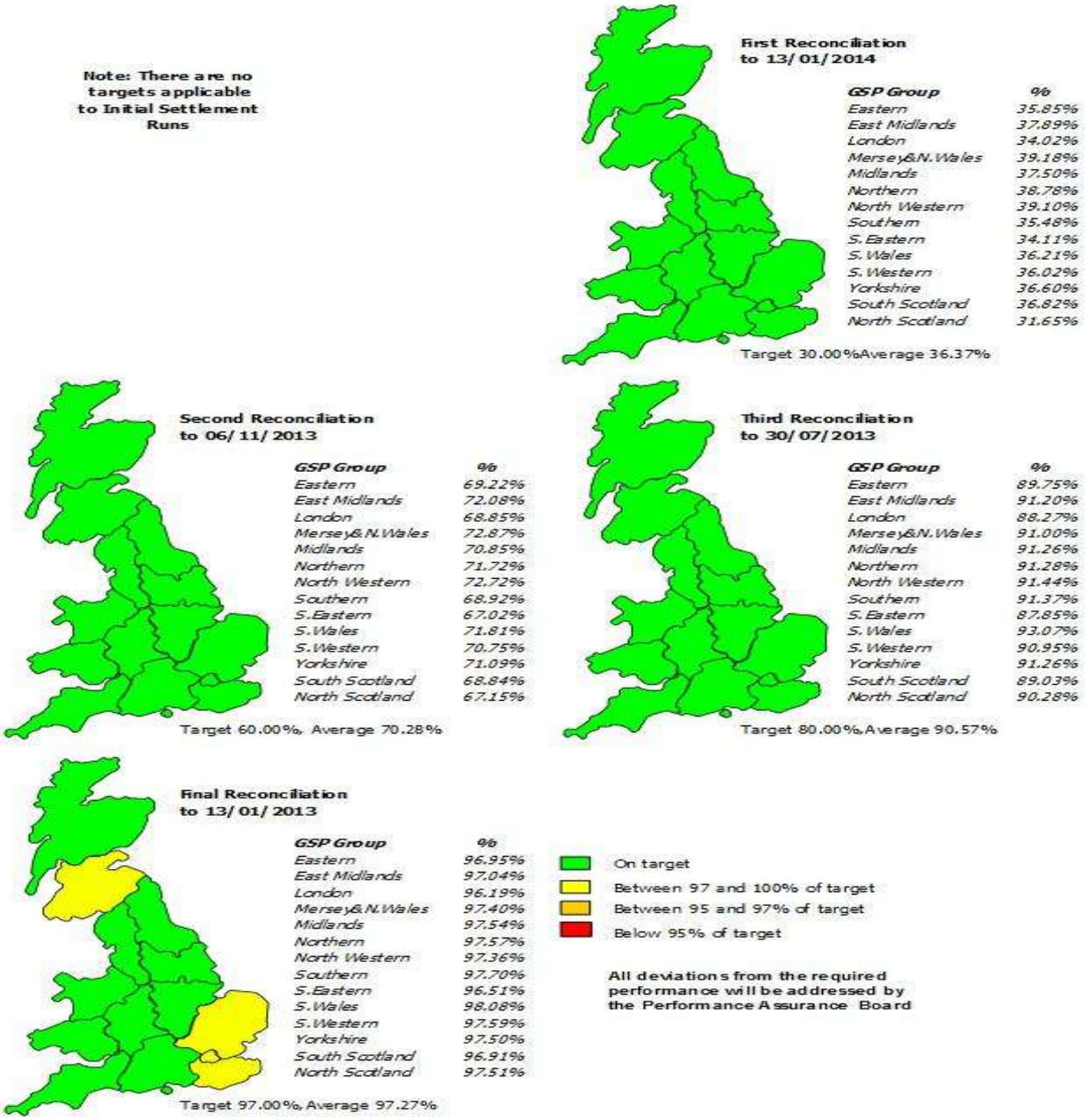
9. Regional Settlement performance

It is also useful for respondents to this consultation to note that Settlement performance varies regionally and this may become more varied during the smart meter roll out.

The smart meter roll-out is also likely to have a regional bias with Suppliers rolling out to some distribution regions before others. Settlement performance also varies regionally. The current NHH regional performance is set out below. These statistics are published every month in the Trading Operations Report. It can be seen that the current NHH targets are nearly all being met:



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10. Ways of improving and reducing Settlement timescales

There are three ways to implement reductions in Settlement timescales:

Approach 1: Remove runs

For the following example both the Post-Final (DF) and Final Reconciliation (RF) runs have been removed to reduce the overall timescales from potentially 28 months (587 working days) with a DF to just having RF at 7 months.

Run	II	SF	R1	R2	RF3	~~RF?~~	~~DF?~~
Working Days	4	15	33	78	148	~~287~~	~~587~~
e.g. Settlement Day = 01/04/2012	05/04/2012	25/04/2012	22/05/2012	26/07/2012	02/11/2012	23/05/2013	~~TBC~~

Approach 2: Move the run timescales

In this example we have moved the Initial Settlement timescales (SF) to 10 workings days from 15, approximately a week earlier for the first financial settlement.

Run	II	SF	R1	R2	R3	RF	DF?
Working Days	4	~~15~~ 10	33	78	148	287	587
Settlement Day = 01/04/2012	05/04/2012	17/04/2012	22/05/2012	26/07/2012	02/11/2012	23/05/2013	TBC

Approach 3: Remove and move runs

Run	II	SF	R1	R2	RF3	~~RF?~~	~~DF?~~
Working Days	4	~~15~~ 10	~~33~~ 20	~~78~~ 50	~~148~~ 100	~~287~~	~~587~~
e.g. Settlement Day = 01/04/2012	05/04/2012	17/04/2012	02/05/2012	18/06/2012	28/08/2012	23/05/2013	~~TBC~~

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PROFILING & SETTLEMENT REVIEW: CONSULTATION APRIL 2014

The following sections set out the rationales for the existing timescales and potential benefits or dis-benefits of change. Also identified are the major factors that will need to be considered. Each section details the drivers then sets out questions where we are seeking your input.

Your responses will help steer the next stage of the project to define options for reducing Settlement timescales.

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11. The key drivers for change - Initial Settlement (SF)

The PSRG discussed the key drivers for the timing of the Initial Settlement run.

The PSRG discussed each of the drivers in turn, highlighting the main points of each of the drivers, pros and cons of changing the timescales and how the drivers may transform into benefits.

Supplier and generator meter data - The Interim Information Run (II) and Initial Settlement (SF) - existing rationale for the Settlement timescales.

The PSRG noted that the Interim Information Run (II) was originally used to identify any issues with Central Volume Allocation (CVA) data for generators and Grid Supply Point (GSP) metering such that they could be resolved prior to Initial Settlement (SF).

Originally, the 29 calendar day window for SF was set to allow for the cash 'money go-round' to enable Suppliers to get some money from their customers to pay generators. So the 29 calendar day window effectively provided Suppliers a degree of 'credit' from generators.

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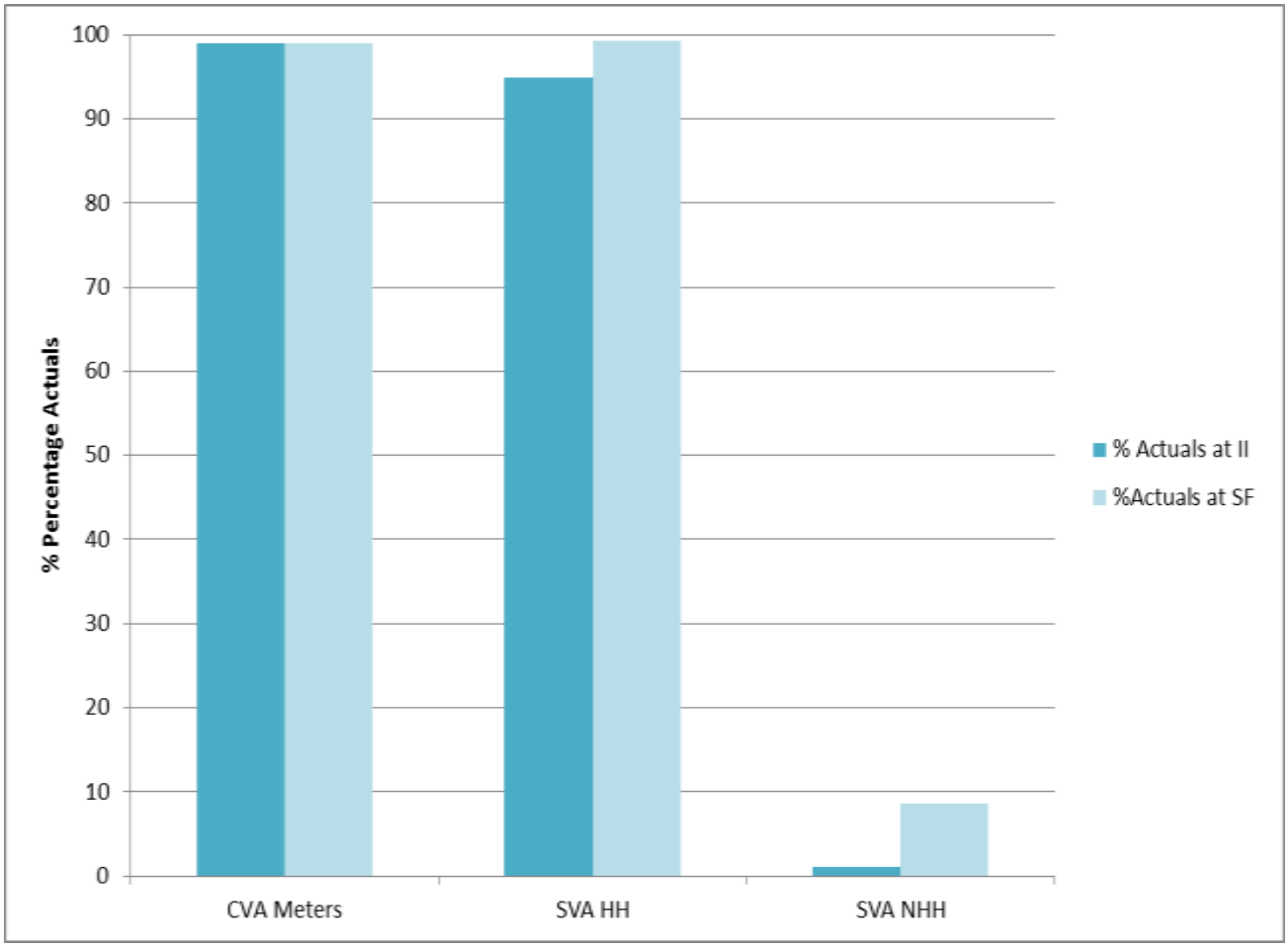
Differences in the volumes of actual data were also discussed by the PSRG. The following graph shows the differences at II and SF:



The PSRG identified that one reason for the low volume of actual NHH readings at the II run was the profile dispute period of 7 working days before profile coefficients are loaded into Non Half-Hourly Data Collector systems (NHHDCs). It was noted that there have only been one or two occasions since the opening of the market in 1998 that profile coefficients have been withdrawn and replaced. The PSRG suggested that removal or shortening of the profile dispute period would facilitate getting more actual data based on NHH reads at the II run. However, this window also currently allows the NHHDC time to process Change of Supplier (CoS) readings. The PSRG also debated how much the data changes between II and SF. The PSRG noted that previous analysis undertaken by SSE had shown that data at II did not provide a good estimate of the data at SF for forecasting purposes. The PSRG felt that II runs would still be required and noted that data aggregation runs are undertaken for II following Modification P253 (implemented 3 November 2011) and that the SVA data is created for credit purposes but not currently sent to Parties.

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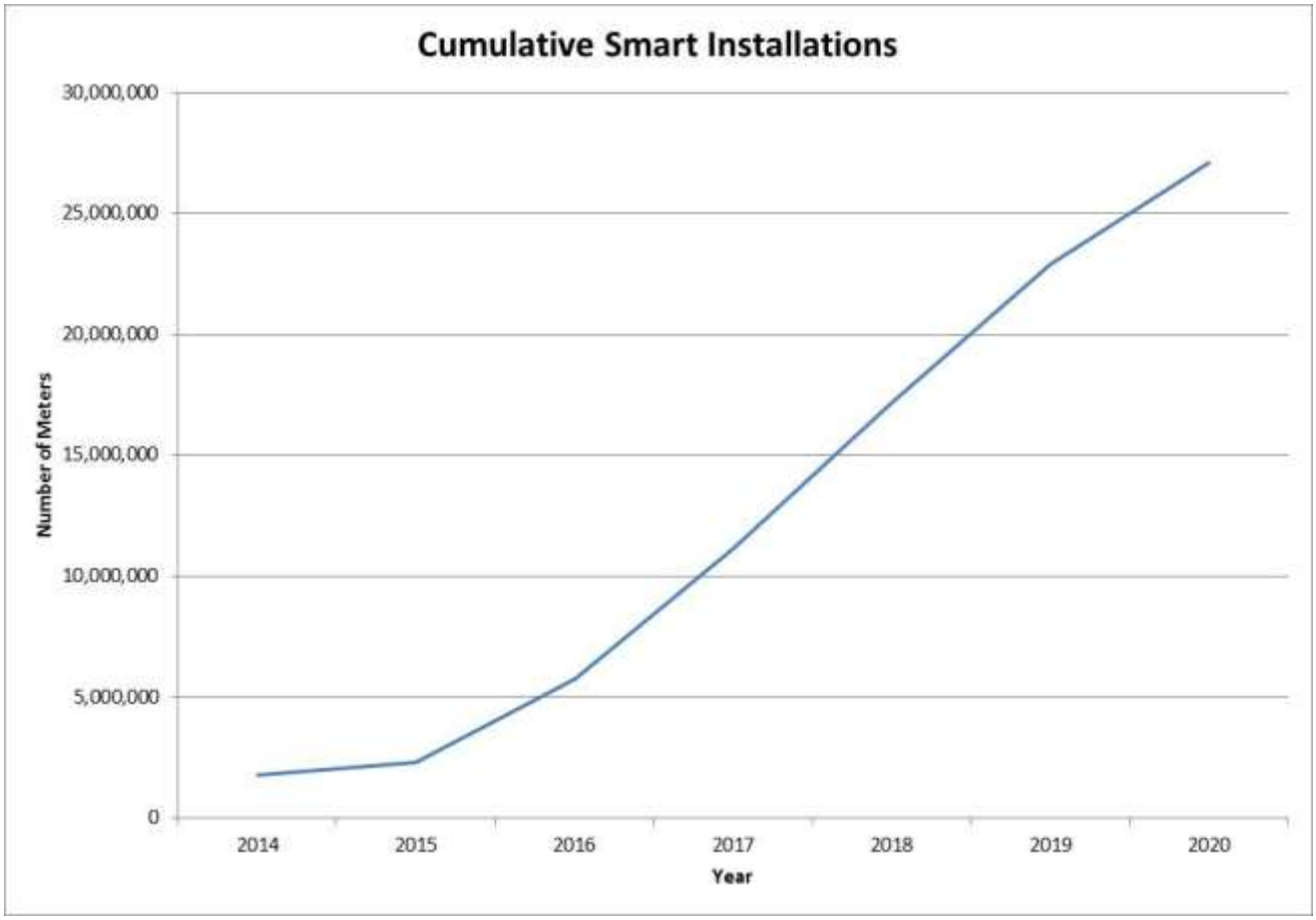
The impact of the smart meter roll out and changes to meter read cycles

Smart meters are already being rolled out across the country. The PSRG felt that the progress of the roll-out should be considered by this project. Some statistics are already available and the mass roll-out will be tracked by both DECC and Ofgem. The following data is taken from the latest smart meter roll-out plans:



The plan set out above suggests that half the roll-out will be complete by the start of 2018. The PSRG discussed whether read cycles will be more frequent when smart meters are rolled out. The PSRG noted that currently there are monthly peaks due to the timings of 'pedestrian' reads and the timing of read cycles for automated reads (monthly read customers). The PSRG also noted potential constraints in the ability to read the meters of 29m smart metered customers in a short timeframe and agreed that readings would need to be phased.

The PSRG discussed whether customers would prefer monthly billing and if they would opt for a 'variable' monthly direct debit. ELEXON noted that currently there is a rule that allows agents not to process prepayment readings more frequently that one every three months, and remotely collected routine readings retrieved more frequently than monthly for Profile Class 5 to 8 Metering Systems or more frequently than quarterly for Profile Class 1 to 4 Metering Systems. Overall there is not a clear consensus on likely smart meter read cycles but general agreement that smart meters should provide more timely and accurate readings.

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Question 1. Do you agree with the key drivers for initial Settlement identified by the PSRG (include any others not identified)?

Please provide rationale and any additional comments.

The Interim Information Run (II) and Initial Settlement (SF) - potential benefits or dis-benefits of changes to the timescales

Forecasting benefits

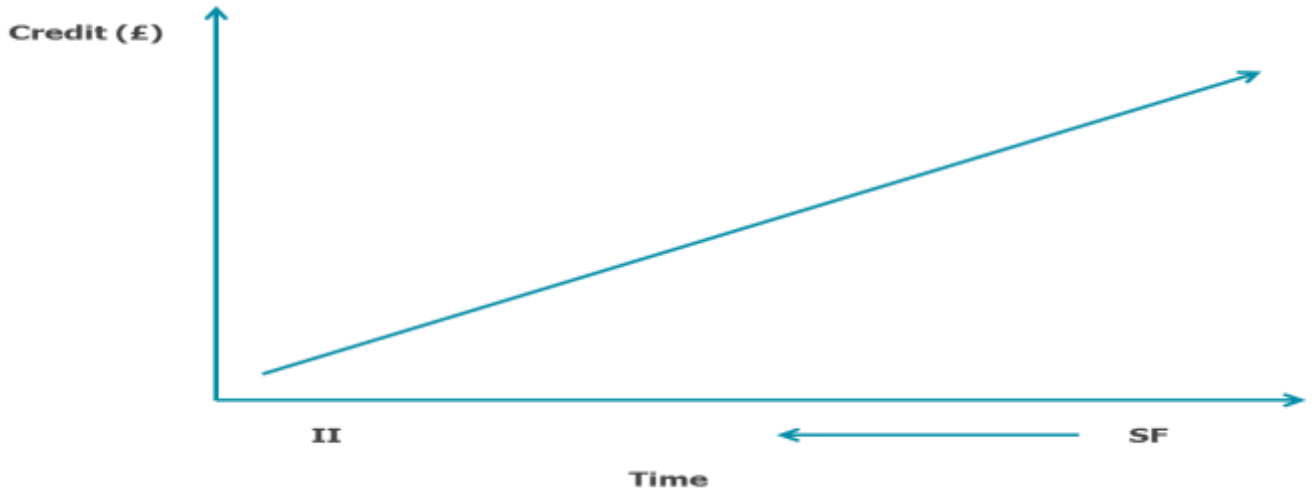
The PSRG identified potential forecasting benefits (forecasting of a market participant's actual demand or generation, particularly for Suppliers) of a quicker first Settlement run, for example, having the first financial Settlement run (currently SF) Run closer to current II run time. It was noted that if settlement data was both timelier and more accurate it would improve forecasting; e.g. that getting data sooner would also reflect near term weather effects. It was suggested that if there was confidence that the data was more accurate then Suppliers could reduce their risk premium. It was postulated (on the basis of defined assumptions) in the Cost Benefit Analysis of Modification P272 that forecasting benefits could be realised with improved data availability.

Financial Settlement – Imbalance exposure

The PSRG discussed the Electricity Balancing Significant Code Review (EBSCR) which would introduce a single marginal cash out price. It was suggested that this could increase exposure and financial stress for smaller suppliers. If prices are more volatile, this could result in bigger risk premiums and may make Parties take longer positions (to avoid System Buy Price exposure) and could have less time to find the cash to cover their bills. Conversely, the potential of a single price could reduce net imbalance exposure and credit requirements over time.

Credit Cover benefits

The PSRG discussed the potential reduction in credit cover required if Initial Settlement were to be moved earlier. The following diagram shows an example of the potential to reduce credit cover.



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The current 16WD SF run leads to an average 29 calendar day credit window. SF after 10WD would therefore give an average window of perhaps 22 calendar days; Analysis has shown that moving the SVAA SF run to 10 WD could significantly reduce the credit cover requirements. The PSRG suggested that if the window was shorter then there could be more volatility in parties' credit positions and that Suppliers could be more exposed to a defaulting party (noting that the potential debt would be smaller). It was also suggested that a shorter window might provide greater gaming scenarios for Suppliers that are in trouble.

Other considerations

The PSRG identified other areas that will need to be considered such as:

- The Renewables Obligation (RO), Electricity Balancing Significant Code Review (EBSCR)
- Electricity Market Reform (EMR) both for FiT CfDs and the Capacity Mechanism (CM);
- DUoS and TNUoS implications; and
- The impacts of Modification P272.

For both EMR and TNUoS it was identified that benefits of earlier Initial Settlement could occur as these are both based on an estimate of market share. DUoS charges could also be calculated earlier although it was suggested that this benefit is driven more by the availability of earlier meter data. The PSRG also noted performance targets would need reviewing in light of changes.

Transition approaches were also discussed and it was suggested that a Settlement day approach was preferable to a calendar day transition. The Settlement day approach would means that from a defined Settlement day the new timescales would apply and all runs from that date would be to the revised timescales. A calendar day approach has implications for Settlement days that already had scheduled runs set using the old approach. It was suggested that a calendar day approach could be implemented if multiple runs could be run on one day for the transition was noted that this option is likely to have significant cash flow implications.

Question 2. What should be considered when reducing Initial Settlement?

Please provide rationale and any additional comments.

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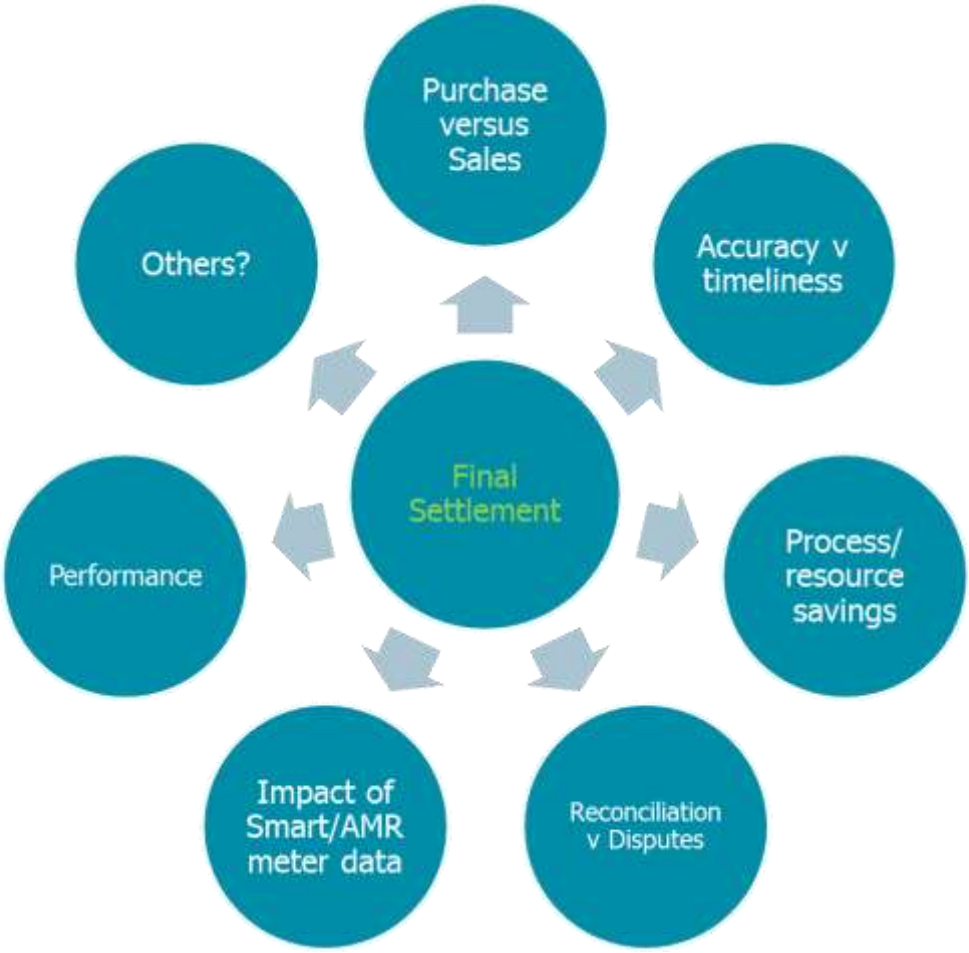
12. The key drivers for change – Final Settlement (RF)

The PSRG considered the key drivers of the Final Settlement Run (RF):



Final Settlement (RF) - existing rationale for the timescale

The rationale for the existing 14 month period is to allow the existing metering portfolio to be read at least once. The smart roll out has implications for Settlement performance as discussed by the PSRG.

Settlement Performance: meter readings and actual data

The PSRG discussed the issues around performance and the likely improvements that may be facilitated by the smart meter roll out. The PSRG considered the following questions:

1. If the timing of Final Settlement is driven by performance then should the performance targets be:
   - Unchanged - but may be achieved earlier?

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- Increased - because readings are easier to obtain?
- Decreased – because the data settled on EACs will be more accurate as result of more frequent readings?

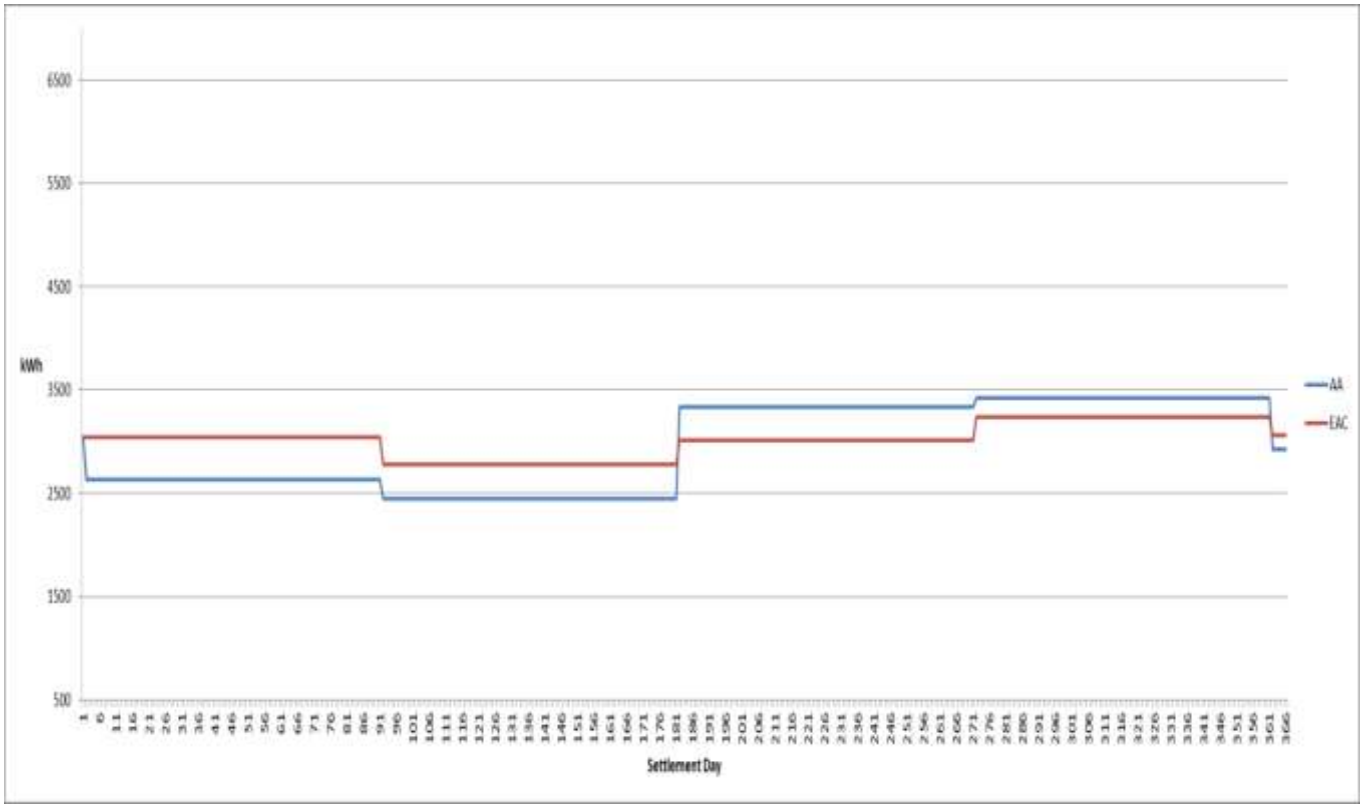
2. Should improved performance for smart/ AMR metering drive the timescales? i.e. the industry waits until performance improves and then revises timescales; or

3. Should the timescales and performance targets be set to drive improved performance? i.e. the industry sets an expectation for the industry to work towards.

In order to answer these questions the PSRG considered the 'harder to read' (meters where there are problems in obtaining remote readings, many meters with remote capability still require hand held reads) and 'hard to access' sites (there are physical impediments that make it hard to gain entry to read the meter, e.g. unmanned sites). These sites affect a Supplier's Settlement performance as these sites are either read very rarely or not at all. The PSRG suggested that there is a correlation between the hard to read and hard to access sites. It was identified that each Supplier had a 'pot' of these sites to address and to help this project reduce settlement timescales we could ask for a list of issues the Supplier had with these sites. It was also identified that there are a number of meters that could not be changed for safety reasons.

The differences between the EAC for these sites and the potential AA were also discussed by the PSRG. It was identified that these sites are likely to have a less accurate EAC than NHH sites that were being read more regularly. However, counter to that point of view is the fact that the shorter the read cycle the bigger the likely difference between the AA and the EAC. Although, it is worth noting that the AA will always settle the correct meter advance. A simple example is shown below where quarterly reads for a customer are changed to monthly:

Quarterly



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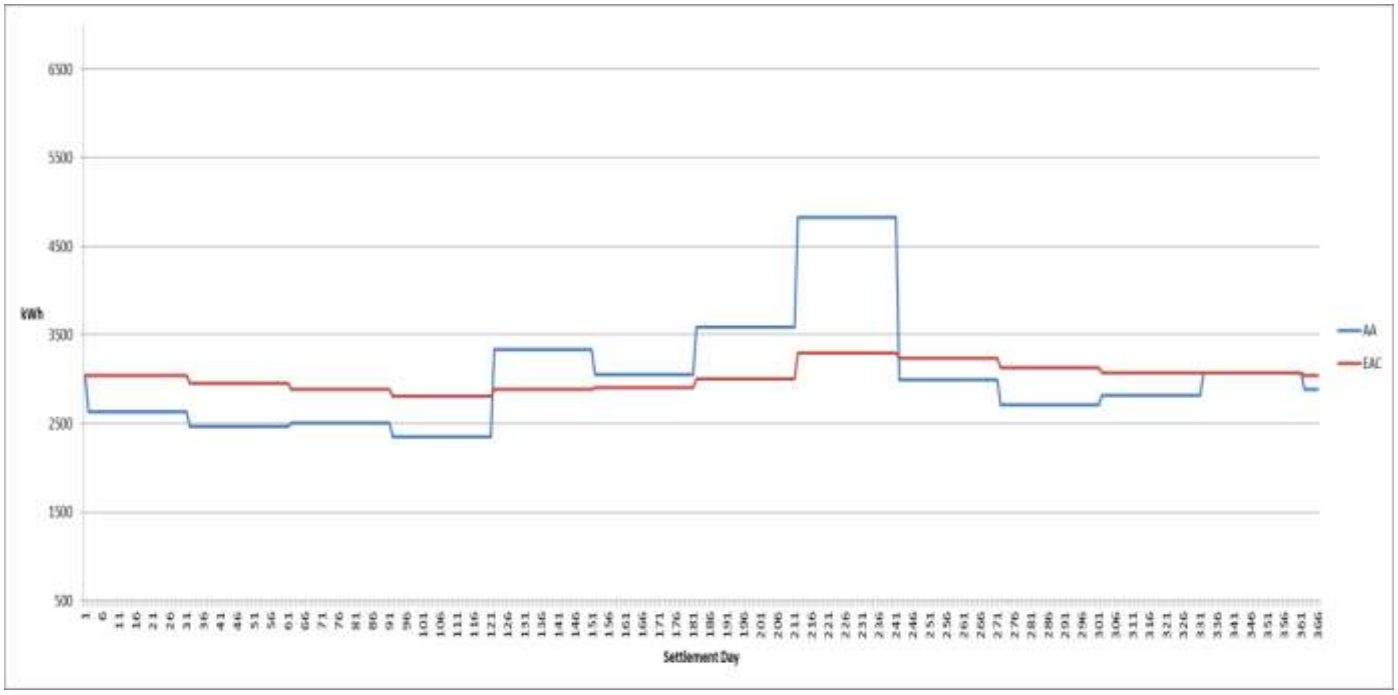
Monthly



Question 3. What causes/reasons, from your experience, make up the 'harder to read' and or 'hard to access sites which affect Settlement performance and what challenges do you believe that there will be in fitting a smart meter at such sites?

Please provide rationale and any additional comments.

N.B There is no fixed definition of 'hard to read' or 'hard to access' sites, but they are likely to be correlated, we are hoping that the response to this question may make the difference between the two types of sites easier to classify.

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The PSRG also discussed the existing NHH performance target. It considered whether the 97% target was still appropriate and whether it should be higher or lower following the smart meter roll out. It was identified that the target was taken from a Supplier obligation from a regulatory standard for meter readings that was in place prior to 1998.

Question 4. Do you agree with the key drivers for Final Settlement identified by the PSRG?

Please provide rationale and any additional comments.

Final Settlement (RF) - potential benefits or dis-benefits of changes to the timescales

Purchases versus sales

The PSRG discussed the on-going issues that Suppliers have in reconciling purchases and sales, with some Suppliers having greater issues than others. Over time the NHH volume will be correct as meters are read but month to month discrepancies occur between the energy allocated by Settlement and the deemed amount of energy a Supplier has sold to its customers. It was recognised that the smart meter roll out is likely to drive improvements in this area and improve margin/risk premium management by Suppliers. This may drive the potential to reduce Final Settlement. By reducing settlement timescales, Suppliers could better match what the customer pays them against the energy they purchase and any other costs they pay for, such as imbalance costs, DUoS and TNUoS charges and any other costs incurred to serve the customer. This better matching of purchases and sales due to more accurate meter data and purchasing may result in reduced Supply costs.

Process and resource savings

The PSRG identified that with smart meters comes the ability to identify issues and resolve them more quickly. It believed that initially resource on resolving issues identified, following the smart meter installation, will increase as existing issues are uncovered. The PSRG then believed that there would be a reduction in issues or new issues, but there may be different issues to which other resource may be applied. These issues included potential smart meter dialling or communication problems. However, it was also suggested that smart meter errors might take longer to uncover since there is no site visit for the meter reading. Also the efficiency in resolving issues may be affected by a lack of field staff.

Impact of Smart and Advanced meter data

The PSRG identified additional ways that smart metering could improve the accuracy of Settlement. One of these is the ability to remotely disable vacant sites ensuring unrealistic EACs are not applied in Settlement. Another was the more accurate EACs for sites that are being read more frequently. Confidence that these values are more accurate could facilitate a reduction in the timing of the final reconciliation run.

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Accuracy and timeliness

The PRSG recognised the trade-off between timeliness and accuracy. It noted that there would be a minimum threshold of acceptability that should be considered. It also noted the interaction with disputes and the Supplier's desire to resolve as many issues as possible.

Reconciliation v Disputes

The PSRG noted the balance between the ability to reconcile data and the number of disputes. It noted that arbitration should be avoided where possible.

Others

The PSRG suggested that there would be a tipping point at which the smart meter data will improve performance sufficiently to enable a reduction in the timing for the Final Settlement (RF) run.

Question 5. What are the key/ most important factors that should be considered when setting the timescale for Final Settlement and at what point do you believe it should occur?

Please provide rationale and any additional comments.

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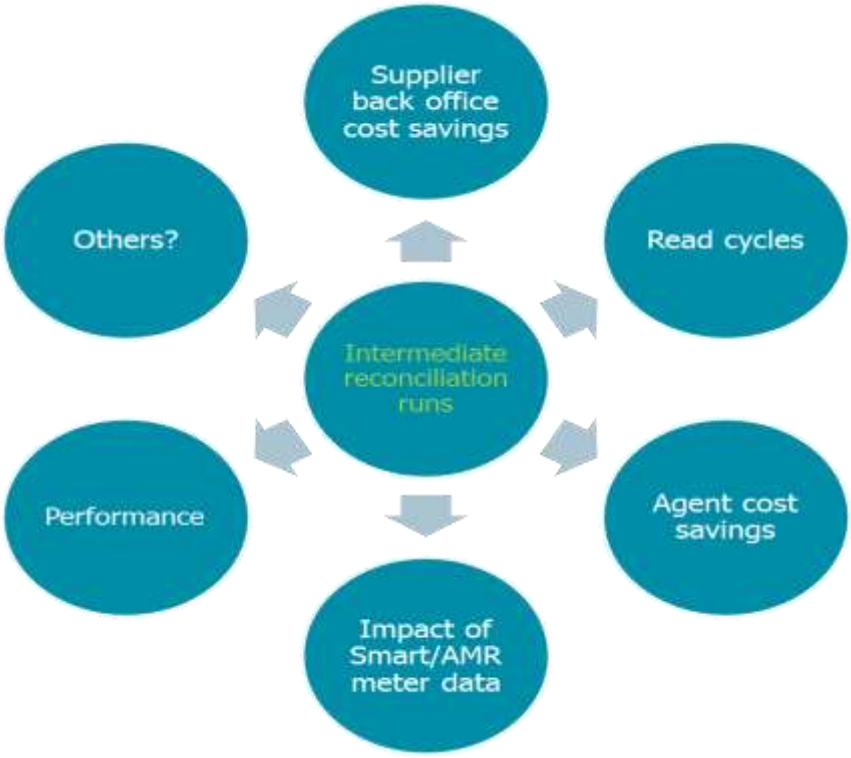
13. The key drivers for changes to Interim Reconciliation runs

The PSRG discussed the key drivers for changes to the number and timings of the Interim Reconciliation runs. The following diagram shows areas that were discussed.



Interim Reconciliation Runs - existing rationale for the runs

In Section 7 we discussed the timing of the reconciliation runs being tied to meter reading cycles and being set to capture meter readings from these cycles for use in Settlement:

Daily	Monthly	Quarterly	Yearly
Majority of HH and some advanced meters	Non-domestic customers	Domestic Customers	Domestic and Target for at least 1 actual reading

The PSRG indicated that the reason for a reconciliation run shortly after initial settlement was to address issues that had been uncovered in the Initial Settlement run. Likewise it was suggested that a reconciliation run was required before the Final Settlement to address outstanding issues before they crystallise. It was noted that 'Hand Held' read site data would not normally get in for the Initial Settlement run. Furthermore, although this was not currently 'a big pot' it has the potential to increase during the smart meter roll-out.

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Question 6. Do you agree with the key drivers for Interim Reconciliation runs identified by the PSRG?

Please provide rationale and any additional comments.

Interim Reconciliation Runs - potential benefits or dis-benefits of changes to the number or timing of the runs

Agent cost savings were thought to be modest. There could be benefits for small Suppliers that have issues if embedded generation data is missing, if there were shorter gaps between reconciliation runs, as waiting a long time for a reconciliation run to correct errors can cause financial issues for this sector.

It was suggested that any reduction in the Final Settlement (RF) run would potentially reduce the number of interim runs required e.g. if you moved RF to R3. It was also suggested that ad-hoc interim reconciliation runs could be introduced or scheduled based on defined criteria, although there were some doubts that this approach would be workable. An option was identified where such runs would have no financial/ cash out arrangements but could be used for data checking. The PSRG agreed that at least one interim reconciliation run would be required to aid performance management, e.g. by having a run before the final reconciliation run, Suppliers could use the data from this run to focus efforts on resolving errors prior to the final run and final cut off.

Question 7. What should be considered when deciding the number and timings of Interim Reconciliation runs?

Please provide rationale and any additional comments.

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Disputes, risks and consequences

14. Disputes

The PSRG agreed that there would still need to be a Disputes process but that it could potentially be reduced. However, there could be external impacts. For example, theft isn't currently dealt with via the Disputes process, it may need to be as a result of Ofgem's desire to see detected stolen units entered into Settlement, where such a connection is registered and can be allocated to a trading party, (and the fact that the average duration of theft, plus investigation and estimation timescales, would push adjustment outside current RF timescales and even further outside shortened RF timescales).

The main reason for having a Disputes process is to avoid arbitration. This could be achieved by setting a new materiality threshold (currently £3,000). The normal deadline is RF +70 working days. However, there is also a 20 month period (for exceptional circumstances) from the relevant day for raising disputes provided a dispute is raised within this time, 28 months or more from the relevant day can be used to resolve the dispute.

Question 8. How much time do you believe should be allowed for the resolution of disputes?

Please provide rationale and any additional comments.

15. Risks, Assumptions, Issues and Dependencies (RAID)

At the PSRG workshop a number of Risks, Assumptions, Issues and Dependencies that need to be considered as part of this project were identified. The current RAID log is set out below:

Risks

- The risk that process or behavioural changes will change the assumptions for this project.

Assumptions

- The Smart meter roll-out will commence in Autumn 2015;
- The DCC goes live in Autumn 2015;
- The mass roll out will be completed by 2020; and
- Suppliers will read their customers' meters more frequently when they have a smart meter.

Issues

- How to a manage the transitional period;
- The changing split between legacy and smart metering;
- The unknown size of the potential rump of legacy meters;
- The complexity and costs of changing the current arrangements;
- The potential number of metering faults that could be identified in the smart meter roll-out;

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- The potential number of communication or reliability issues for Smart meters;
- Unknown timescales for metering fault resolutions;
- Reluctance for change by industry parties in changing environment; and
- The costs and benefits for change need to be assessed.

Dependencies

- Interaction with Ofgem's Smarter Markets Programme;
- Interaction with European policy changes;
- Interactions with other industry, policy changes;
- Interactions with bilateral contracts e.g. offtake contracts
- Interactions with Capacity Market Reconciliation timescales; and
- Interactions with Disputes and Gross Volume Correction (GVC).

Question 9. Are the Risks, Assumptions, Issues and Dependencies correctly identified and are there any omissions that need to be considered?

Please provide rationale and any additional comments

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16. Consequential changes and unintended consequences

Changes to the BSC documentation, systems and processes will be required if settlement and reconciliation timescales are reduced. The PSRP identified the following areas where potential impacts will need to be considered:

- BSCP01 – defines Settlement timescales;
- Performance Assurance, e.g. 97% requirements;
- Exception Reporting, e.g. D0095 timescales;
- Credit Cover;
- Post-Final Settlement Runs (discontinued?); and
- Central systems impacts.

Question 10. Are the areas for potential BSC changes correctly identified?

Please provide rationale and any additional comments

Question 11. Are there any other changes or other potential unintended consequences that need to be considered? e.g. DUoS, TNUoS, ECO or other initiatives?

Please provide rationale and any additional comments

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17. Consolidated consultation questions

The following list provides a consolidated list of the consultation questions. A Word version of these questions is also provided with this consultation for your response.

Question 1. Do you agree with the key drivers for initial Settlement identified by the PSRG (include any others not identified)? ***Please provide rationale and any additional comments.***
Question 2. What should be considered when reducing Initial Settlement? ***Please provide rationale and any additional comments.***
Question 3. What causes/reasons, from your experience, make up the 'harder to read' and or 'hard to access' sites which affect Settlement performance and what challenges do you believe that there will be in fitting a smart meter at such sites? ***Please provide rationale and any additional comments.***
Question 4. Do you agree with the key drivers for Final Settlement identified by the PSRG? ***Please provide rationale and any additional comments.***
Question 5. What are the key/ most important factors that should be considered when setting the timescale for Final Settlement and at what point do you believe it should occur? ***Please provide rationale and any additional comments.***
Question 6. Do you agree with the key drivers for Interim Reconciliation runs identified by the PSRG? ***Please provide rationale and any additional comments.***
Question 7. What should be considered when deciding the number and timings of Interim Reconciliation runs? ***Please provide rationale and any additional comments.***
Question 8. How much time do you believe should be allowed for the resolution of disputes? ***Please provide rationale and any additional comments.***
Question 9. Are the Risks, Assumptions, Issues or Dependencies correctly identified and are there any omissions that need to be considered? ***Please provide rationale and any additional comments***
Question 10. Are the areas for potential BSC changes correctly identified? ***Please provide rationale and any additional comments***
Question 11. Are there any other changes or other potential unintended consequences that need to be considered? e.g. DUoS, TNUoS, ECO or other initiatives? ***Please provide rationale and any additional comments***

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18. Summary and next steps

The aim of this consultation is to validate the drivers for Settlement timescales identified by the PSRG and to seek the industry's views on reducing the timescales. The non-confidential responses (and a summary from the confidential responses) to this consultation will be taken back to the PSRG for consideration to help it develop a number of potential scenarios that can be assessed in the next stage of the project. We will publish the non-confidential responses on the Consultations page of the BSC Website.

19. Response deadlines and contact details

Parties are invited to respond to this consultation using the response template, which is available on the Consultations page of the BSC website. Responses should be returned to bsc.admin@elexon.co.uk **by 5.00pm on Friday 9 May 2014.**

20. Glossary

The following is a list of Party and BSC Agent Roles for the reconciliation processes:

Role	Responsibility
Central Data Collection Agent (CDCA)	Collects power station and Grid Supply Point metered volumes And calculates the net volume of energy in each distribution region in each Settlement period and send them to the SVAA
Data Aggregators (DAs)	Data Aggregators are either HH or NHH aggregate the Suppliers metered volumes and send them to the SVAA
Supplier Volume Allocation Agent (SVAA)	Aggregates Supplier metered volumes from different DAs and sends them to the SAA
Settlement Administration Agent (SAA)	Calculates the charges in £'s from MWh data and send them to the FAA
Funds Administration Agent (FAA)	Sends out the invoices and pays/collects funds

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21. Appendix A –Timeline for the Reducing Settlement Timescales Project

Activity/Timescale	Feb '14	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Jan '15
1. Draft Options	Draft PSRG Review	SVG										
2. Consultation on options , issues, risks, benefits		Draft PSRG Review	3-4 week Consult	PSRG Review SVG Publish								
3. Option development, impacts and Cost Benefit Analysis			Prep	Develop options CBA	CBA model, Internal IA, PSRG review	SVG						
4. Consult on Impacts and benefits						Initial Draft	Finalise Draft PSRG Review	3 week Consult PSRG Review	SVG Publish			
5. Finalise CBA results, draft and deliver Report									Initial Draft	PSRG Review Update draft	SVG Final draft	Panel decision

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Appendix B. Previous PSRG consultation on Settlement timescales

The PSRG consulted on reducing Settlement timescales in 2011. The summary of the findings at that time can be found at the following link:

PSRG_09_01_Reducing_Settlement_timescales.pdf

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