

Electricity Settlement Reform Significant Code Review

Design Working Group 11 October August 2017

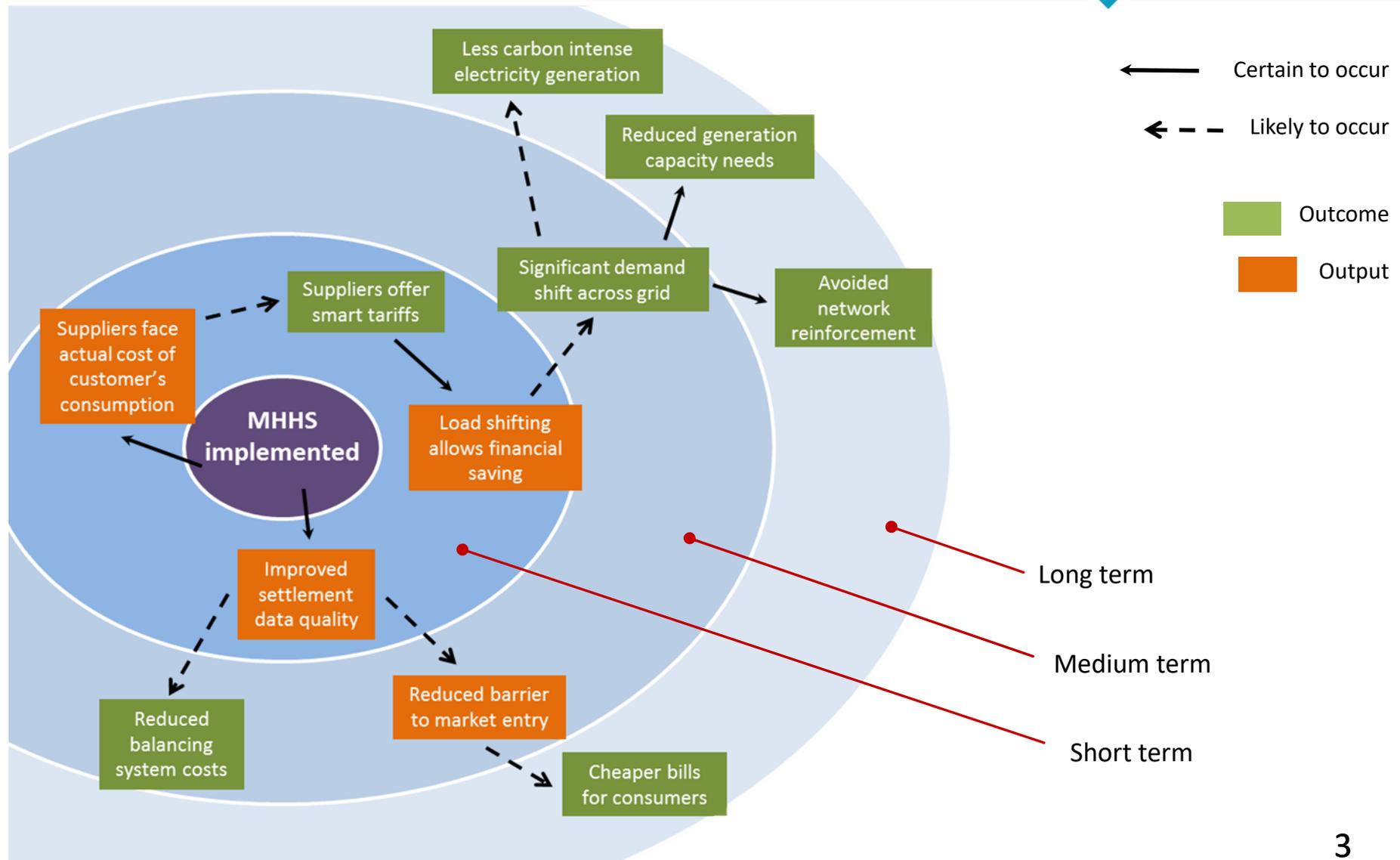
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ofgem



- Welcome & Thank you
- Setting the scene:
 - HHS project objectives
 - How does the Design Working Group fit into the wider project?

Realising the benefits of HHS

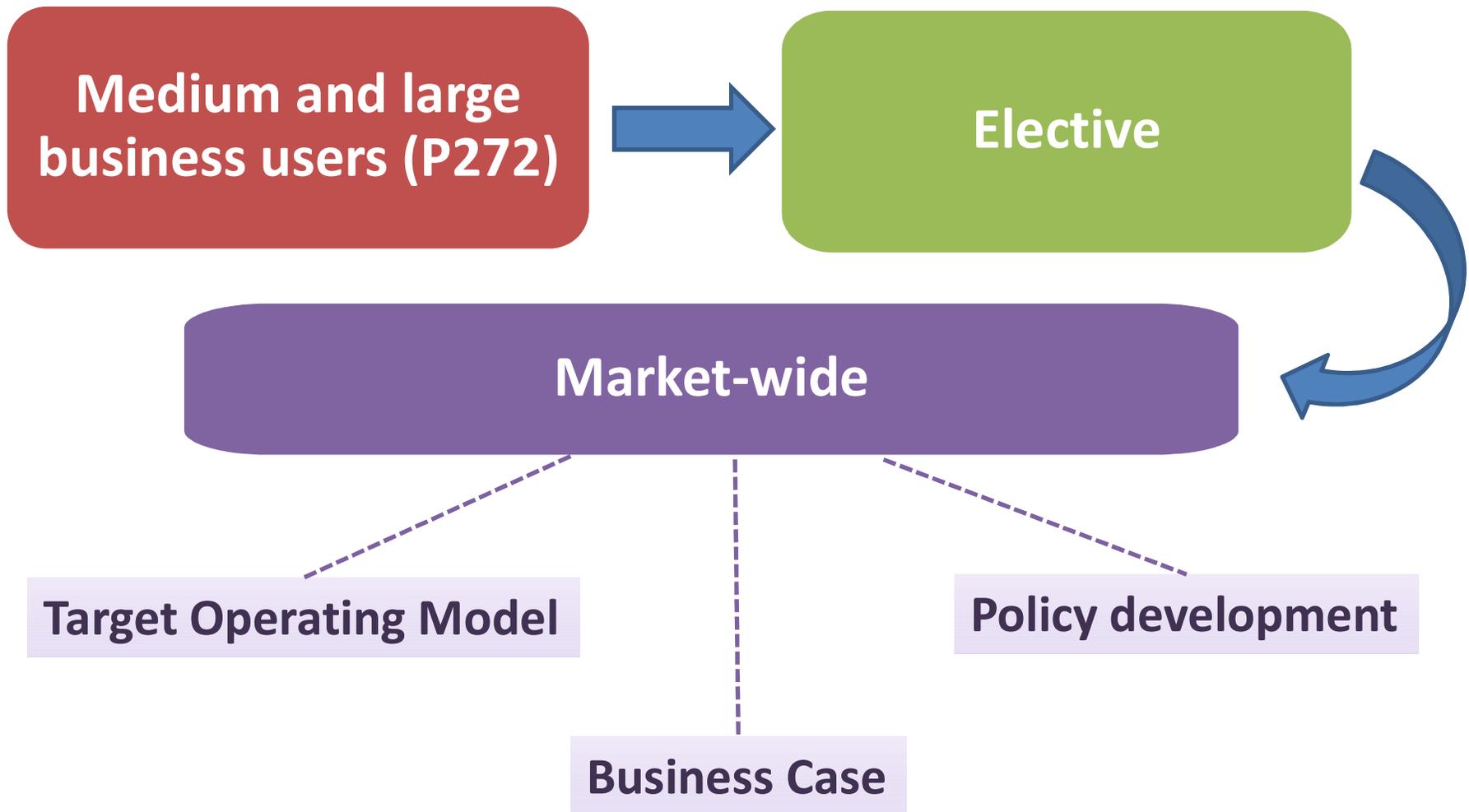


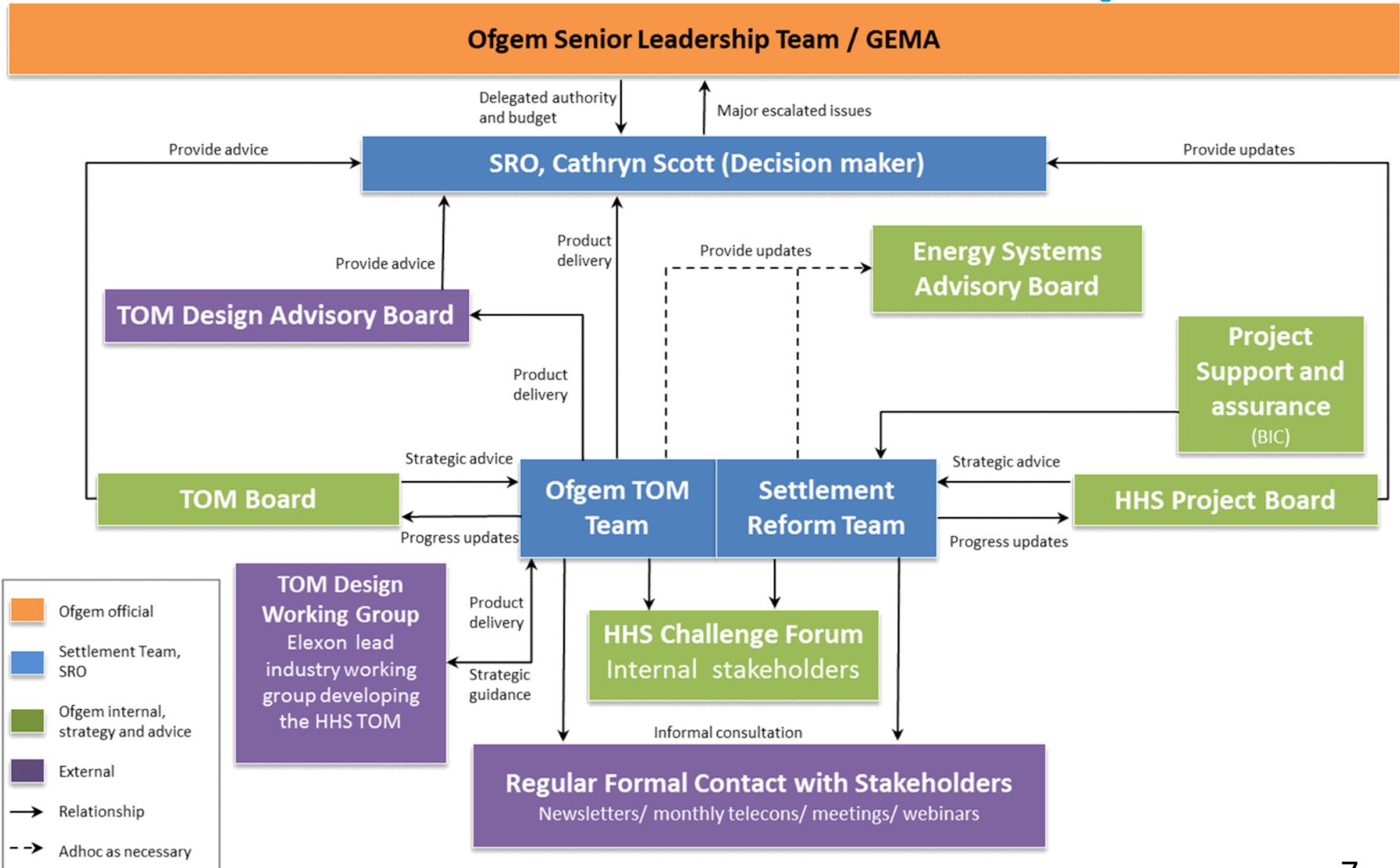
| No. | Project Objective | Measures |
|--|--|---|
| RELEVANT WIDER OFGEM OBJECTIVES | | |
| 1 | To promote an electricity system that delivers the Government and Ofgem’s objectives in a cost-effective manner, minimising the overall cost to current and future consumers of moving to a low-carbon electricity system while maintaining security of supply and system efficiency by: | |
| A | Minimising the need for infrastructure investment | Lower ‘peak’ demand (either national or local) in comparison to what would otherwise be the case |
| B | Facilitating more efficient use of generation assets and network assets | Increase in use of low-carbon assets measured against predicted baseline |
| OBJECTIVE SPECIFIC TO SETTLEMENT ARRANGEMENTS | | |
| 2 | To develop settlement arrangements that incentivise all retailers and suppliers (current and future) to encourage customer behaviour (electricity demand) that contributes to a more cost-effective electricity system by: | |
| A | Linking future retailers’ costs to their customers’ actual consumption within the course of a day. | The proportion of customers settled in a manner that specifically links retailers’ settled costs to customers’ consumption |
| B | Encouraging new and disruptive business models (from current retailers or new entrants) through settlement arrangements that facilitate competition in new areas. | Evidence of new/changing retail offerings or business models that can be specifically identified as being dependent on settlement costs that vary with customers’ consumption |
| 3 | To minimise undesirable distributional effects on consumers | |

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

| Objective | Description |
|------------------------------|--|
| Accurate | Use of actual HH consumption data (where available for settlement) Cost reflective and equitable Improves energy forecasting for Suppliers |
| Timely | Less commercial risk, e.g. credit cover and settlement timescales Reduces barriers to entry for new Suppliers and new market participants |
| Efficient | Reduces settlement costs Reduces supplier costs -> Lower customer bills Facilitate efficient use of energy resources and flexibility |
| Facilities Innovation | Stronger incentives on suppliers to offer new products that benefit the consumer Enables energy production / use flexibility, e.g. Demand Side Response or peer to peer trading Supports of low carbon technologies Flexible to include new entrants (Third parties, new Suppliers, new market types) |

Settlement Reform Overview





- Thank you again & we look forward to working with you on the design of the Target Operating Model
- If you have any questions please do not hesitate to contact us.
 - George Huang (George.Huang@ofgem.gov.uk) leads the TOM workstream within the Ofgem HHS team.