

ISSUE 78 NOTES

MEETING NAME	Issue 78 'Measurement and monitoring of Settlement performance'
Meeting number	01
Date of meeting	24 April 2019
Venue	Conference Room, ELEXON Offices 4th Floor, 350 Euston Road,
Classification	Public

MEETING SUMMARY

1. Meeting Objectives

1.1 The Chair noted that the purpose of the meeting was to:

- Identify the scale/impact of the Issue
- Explore potential solutions
- Agree next steps and Issue summary

2. Design Working Group update

- 2.1 ELEXON provided an overview of the key differences from current arrangements to the Market-Wide Half Hourly Settlement (MHHS) design noting key interactions with the Issue 78 proposal.
- 2.2 Future changes in the market could impact how a solution is developed. Timing is an important factor in determining a solution. A solution should be specific but with framework to respond to changes in the market and more recognition of different characters. The Target Operating Model (TOM) needs to reappraise what is actuals or estimates as this is no longer meaningful.
- 2.3 The group noted the Design Working Group's (DWG) letter requesting that the Performance Assurance Board (PAB) consider changes to the TOM including monitoring and reporting as performance will not be stable during migration.

3. PAF Review Update

- 3.1 Several elements of the PAF review are pertinent to Issue 78. ELEXON summarised the aims of the review:
- A new approach to monitoring risk
 - Mitigating techniques
 - Improving/maintaining risk position
 - Introducing flexibility into the PAF
- 3.2 A review of Performance Assurance Techniques (PATs) is currently under way. A recommendation of the review outcomes will be made to the PAB for approval.
- 3.3 The following techniques are going to be reviewed in the second half of this year; ELEXON shared provisional thinking on the scope of the reviews which will be finalised soon:
- Peer comparison – This can be effective and could be used as an incentive for certain risks. BSC Changes to introduce flexibility may be raised during the review.
 - Supplier charges – The aim is to propose principals around Supplier Charges and a methodology.

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Recommendations would be delivered by the BSC Change process. A member asked whether the PAB sees the existing charges as an effective incentive for Suppliers to improve performance. ELEXON noted that there are mixed views on Supplier Charges, it's difficult to know how they impact Party behaviour, but noted that SP01 charges which are entirely within the Supplier's control now make up the majority of total charges.

- Performance Monitoring and Reporting – The review of PARMS and Material Error Monitoring is likely to look at the principles, the system and suggested areas of focus in the near future, during MHHS transition and in the enduring MHHS arrangements. It could result in BSC Changes subject to PAB approval of the recommendations.

3.4 The above areas link to Issue 78 discussions. The approach for data PATs is being explored internally and will be confirmed with the PAB.

4. P366 Update

4.1 The P366¹ proposer provided an update of the Modification progression so far noting that one solution will be put forward to the BSC Panel. The solution proposes the following changes:

- Make SP08a charge £0.00 – Issue 78 members note that the SP08a is a key pillar of Supplier charges. Without SP08a where does it leave charges as a mechanism? The group agreed that the P366 solution to set SP08a charge to £0 undermines all Supplier Charges.
- Applies to Domestic and non-Domestic NHH
- Most respondents preferred this over the proposed

4.2 P366 identified sites that were a problem and looked at what can be configured. For Issue 78 the group needs to be mindful of the P366 conclusions.

NHH Performance by Meter type

4.3 ELEXON provided high level findings from a proof of concept undertaken in relation to separating Non-Half Hourly Settlement performance by Meter type as presented to the PAB in May 2018.

4.4 The analysis shows that legacy Meters have an impact on performance caused by Hard to Read (HTR) sites. This is not split between Non-Domestic and Domestic. Without SMETS Meters the same access issues remain. In addition to HTR, it's key to recognise that some AMR sites have communication (signal) issues

5. Issue 78

5.1 The Issue 78 proposer provided an overview of the proposal to review both the calculation methodology and the 97% minimum performance threshold. The proposer has deliberately made no distinction between domestic and non-domestic sites for Issue 78. The current industry challenges around Settlement performance make it difficult for Suppliers to meet the 97% target. Below are some of the issues impacting Supplier performance:

- Supplier obligation to obtain a Meter reading once a year
- Mismatch issues
- Ofgem target to install Smart Meters
- Technical issues such as signal strength

¹ Change to Supplier Charge SP08a for hard-to-read sites

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- P272 Meter transfers from NHH to HH have resulted in a dip in performance and this will continue as smart Meters are rolled out
- High proportion of Hard To Read (HTR) sites - Obtaining Meter reads for non-Domestic NHH sites can be more challenging than for Domestic NHH sites

6. Potential Solutions

6.1 The group discussed potential solutions for monitoring Settlement performance.

Exclude HTR from 97% target

6.2 Hard to read sites apply to domestic and non-domestic, although this is more prevalent on non-domestic sites. In some instances there is nothing to indicate HTR sites have been accessed before. These sites have always been a problem.

6.3 From a billing perspective customer billing should be done correctly. The 97% target was put in place for accuracy. The concern is that if Suppliers are failing the 97% target, it will be difficult for them to hit a higher target. If performance standard was 100%, there would be no discrimination between Suppliers for having different portfolio sizes / types (where underperformance can show up differently). The SMETS Portfolio should drive up performance with fewer HTR sites. The existing framework should acknowledge where reasonable steps have been taken.

6.4 ELEXON asked the group "What is the biggest pain from missing the performance standard?", Members noted the below reasons:

- For non-domestic sites it's the Supplier Charges due to cost to serve margin being small. Charges make a difference and make it difficult to compete.
- EFR and escalation – average performance is below 97%
- Distribution of Supplier Charges come back to some Suppliers.

6.5 A member queried if the allocation of Profile Class 1/2 and 3/4 between domestic and non-domestic is accurate. It was noted that this is not always assigned right. Issue 78 seeks to look at both domestic and non-domestic sites.

6.6 The below items could be reviewed when looking at performance target:

- MPID approach, this is not reflective of performance – Look at MPID aggregation
- Profile Class and Metering capability. Are Domestic and Non-Domestic Profile Classes becoming irrelevant?
- HH and NHH – Could these be treated as two separate targets
- Should the target be based on performance or portfolio?

6.7 It is noted that although the BSC would expect 100% performance the PAB would have discretion at what point to take action. From a domestic point of view it's not just about installing smart Meters but also moving for NHH to HH.

6.1 A member pointed out that reducing the target risks reducing market performance. There should be a way of improving performance collectively across the market. It was noted that [Issue 11](#) looked at performance standards years ago, which result in the [Mod P182](#) which was raised to reduce the performance target to 95%. The Modification was rejected on the basis that it would reduce Supplier performance. A reduced target sends out the wrong message. It's important to acknowledge the issues impacting Supplier performance and look at where best to focus governance. Also there are few sites that can't ever be read but it might be costly and Suppliers chose what to read based on their strategy. It was noted that it was unlikely that customers do not arrange for site visits at all (e.g. to maintain equipment) in any five year period.

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- 6.2 A member questioned why the target was initially set at 97%. The market is now different, margins have been squeezed. The group asked whether there is any benefit to model what 100% performance could look like in five years' time.
- 6.3 The analysis should take account of Peer Comparison, Supplier Charges and EFR. Measurement analysis using anonymised data could look at:

Actions

- Different/adjusted performance
 - What it would look like in the future in 5 years' time
 - Look at when a meter was last read
 - MPID issues
 - Age of EACs, splitting out where the AA comes from a deemed CoS read.
- 6.4 Members considered whether HTR should be defined and what criteria of HTR would be defined. It was noted that P366 has not defined HTR as part of its solution. There is potential to define HTR as part of Issue 78.

Allow for 'all reasonable steps'

- 6.5 A member questioned whether 'all reasonable steps' is defined. The proposer agreed that 'all reasonable steps' will need to be defined as part of the Issue 78. It should not be open to interpretation. The definition should set out how 'all reasonable steps' will work under BSC arrangements.
- 6.6 Members questioned what would happen to the unread 3% if the performance target was raised to 100%. The 3% could stay as unread sites for years. 'All reasonable steps' should clearly demonstrate steps taken to obtain reads. It is noted that customers may be unwilling to allow access. For some customers predictability of billed amount is worth more than an accurate bill. There may be complications with Third Party Intermediaries (TPI) and implications of theft for unread Meters.
- 6.7 A member questioned whether volume should be considered as part of the methodology. It was noted that volume may not be as effective. Large amounts of estimated energy are bearable for some Suppliers not others.

7. Conclusions

- 7.1 The group agreed on the below for the four potential options:
- 7.2 **Exclude HTR from 97% target** - The group noted that Supplier Charges should be reflected in performance. If HTR is removed the target can be moved to 100% but the 3% could remain unread? The group suggested the below options for HTR analysis:
- Volume analysis of HTR was done under P366, this could be shared as part of the Issue 78 analysis.
 - If HTR is removed then another approach is needed to ensure all Meters are read.
 - Clarify what is HTR in the domestic world
 - Should HTR be dealt with at a market level, rather than individual Supplier level?
 - Could an HTR list be implemented, listing all HTR sites? Specify when does a site become HTR
 - There is a challenge with the volumes associated with HTR
 - Should the target be changed to apply 'all reasonable steps'? This will not necessarily change the target but allow for 'all reasonable steps'. Suppliers will have to demonstrate steps taken for every Meter. Individual Meter evidence will be required to be presented at the PAB.
 - An HTR list audit could be carried out but at a cost

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- 7.3 **Allow for 'all reasonable steps'** - When considering 'all reasonable steps' Ofgem should be made aware that non-smart will cause issues in the future. HTR will be an issue and this should be addressed.
- 7.4 **Change the SP08a threshold** – Costs associated with being able to deal with EFR. The BUSRR report is already not reflective of SP08a as it aggregates Suppliers across all GSP groups. The decision to change the SP08a threshold will be made subject to the P366 decision.
- 7.5 **Incentivise customers to provide Meter reads** – Customers could be incentivised through tariffs and agents could be incentivised to read HTR sites. It's up to the Supplier how they choose to incentivise customers. The group agreed for this option to be progressed as a component of 'all reasonable steps'.
- 7.6 The group considered whether Measurement Classes can be looked at individually and combined, including with HH performance across some different Suppliers. If we could see aggregate performance NHH and HH, that might remove a disincentive to move to HH Settlement. Also how far do or could these changes fit under the MHHS SCR changes.
- 7.7 Analysis could include:
- Profile Class and aggregation of data
 - Performance per GSP group – GSP element of flexibility
 - Risk based analysis – looking at subsets of Settlement Risks
 - Party performance as a whole
 - Meter type performance , associated risks and impact to Settlement

Action

- 7.8 ELEXON is to carry out analysis of overall Supplier performance looking at:
- What will the market look like in five years' time -use anonymised data to see volumes – Combine NHH/HH performance
- 7.9 The increase in SMETS Meters should improve performance but may not impact the final run numbers. Timings of reading Meters will improve read performance. If rules are relaxed in some segments, they need to be tighten in others to avoid overall degradation in market performance and Settlement accuracy.
- 7.10 Any potential changes are to be progressed subject to the Supplier Charges review planned for May 2019 and the Panel's comments when P366 Assessment Report is presented in May 2019.