

# CONSULTATION ON THE DWG'S TARGET OPERATING MODEL FOR MARKET-WIDE HALF HOURLY SETTLEMENT

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## CONSULTATION RESPONSE TEMPLATE

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Respondent Information	
<b>Name of Respondent</b>	Paul Akrill
<b>Name of Company</b>	IMServ Europe Ltd
<b>Type of Company</b>	Meter Operator / Data Collector / Data Aggregator
<b>Contact Details</b>	paul.akrill@imserv.com
<b>Confidential Y/N</b>	No

Please email your response to [dwgsecretary@elexon.co.uk](mailto:dwgsecretary@elexon.co.uk) by 5pm on Friday 15 March 2019, using the subject line 'DWG TOM consultation response'.

Please use this Word response form where possible, to make it easier for the DWG to identify and summarise views. To help the DWG understand your response, please provide supporting reasons for your answers.

**Please mark clearly if any aspect of your response is confidential.** Any information marked as confidential will not be published by ELEXON or considered by the DWG, but will be shared with Ofgem. We encourage you to provide non-confidential responses where possible to inform the DWG's discussions.

### Who can I contact with any questions?

ELEXON's MHHS team will be happy to help. Please email them at [dwgsecretary@elexon.co.uk](mailto:dwgsecretary@elexon.co.uk).

### How do I link the consultation questions to the report content?

The basis for this consultation is the DWG's report to Ofgem on its recommended TOM.

Below we show which sections of the DWG's report contain the information relevant to each consultation question.

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## Question 1

Do you agree with the DWG's recommended TOM as a basis for delivering Market-wide Half Hourly Settlement? *Please list any elements that should be changed or improved.*

Relevant report sections: Executive Summary, Introduction, Section 2 'Scope, design approach and the future role of the Supplier', Section 5 'Overview of the DWG recommended TOM', Section 6 'Service Overview (Summary Guide)', Attachment A 'Detailed TOM Service and Data requirements'

Answer: No

IMServ welcomes the introduction of half hourly settlement for all metering points and believes that it will lead to a more accurate and fairer settlement process compared to the current design. It will also enable the industry to innovate and produce exciting new products to help customers with the energy system transformation of the next 20 years.

The current settlement arrangements have been in place for the past 21 years, and that longevity is a testament to their success and the successful stewardship of the rules around them by ELEXON. There is much to admire about the existing arrangements; we are not repairing a broken system, but rather looking to make improvements and the removal of the current NHH profiling arrangements is just that.

Therefore, there is much that IMServ supports in the recommended TOM: the separation of the 3 distinct types of metering and their associated processing; the preservation of competition in some areas, and therefore the ability to innovate in these areas. In particular, we very much welcome the introduction of a specific DCC user role to facilitate the independent collection of settlement data.

However, IMServ does not agree with the recommendation to centralise/remove the aggregation role and replace it with an expanded centralised service (the market data service).

It does not matter to which industry you look; centralisation of services never seems to achieve the desired outcome. The removal of competition creates monolithic organisations that are slow and expensive, whose services are poorly regarded, where innovation and progress are stifled.

IMServ is still surprised by the steer given to ELEXON and the DWG by Ofgem to 'consider' centralisation of data aggregation and was hoping that the TOM recommendation would provide and clarify previously missing information: namely a compelling reason to centralise, backed up by some sound analysis. Unfortunately, we still have not seen this.

This is IMServ's main criticism of the TOM recommendation. There is no compelling, evidence-based argument for centralisation; why a centralised data aggregation model is better than the competitive arrangements that are currently in place. The current arrangements work, therefore there is no reason to change them based on the situation here and now. We accept that future needs and associated energy system innovation may disrupt the current arrangements and create a need for change, but we are equally confident that the existing arrangements could adapt and rise to meet these challenges. But where is this analysis? It is absent from the TOM recommendation. It seems that an early decision to abandon the existing arrangements has been made and therefore that vital step of deeply considering all options has been missed.

And deep analysis should be performed. Not only does centralisation introduce the standard set of long-term issues mentioned earlier (slow, expensive, poor service), there will be other consequences that are only partly visible or currently hidden. For example, has the risk to settlement during the transitional period of migrating from what works to a new solution been fully considered? No, because transitional arrangements are only

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about to be discussed, and people with the levels of practical experience for a migration of this size and complexity are hard to find. Modifying the existing arrangements carries a much lower risk profile.

The DWG documentation hints at risks but does not properly explore them. A severe risk is identified in attachment B - the need for a National Security Threat Assessment to assess if pooling all the half-hourly data into one place is a national security issue. This risk does not make it to the risk register in attachment C, but could undermine the TOM recommendation entirely. This risk should be assessed before any recommendation is made.

There is ambiguity in the document as to what the centralised services will be used for, and we have concerns that its use will extend beyond that settlement processing, undermining the activities of existing agents through an unmatched competitive advantage. Even the title of the service (Market-wide Data Service) is a concern as it implies a place where everyone (the market) can go to, to access half-hourly data. This could have a serious impairment on the business models of existing service providers who provide a differentiated range of added-value services. A hidden consequence of introducing this role without sufficient safeguards in place would be to undermine this market and damage competition further than the immediate decision to centralise aggregation.

The decision making explained in the documents appears to be from the standpoint of centralisation as the de facto option. For example, the flowchart on page 6 of attachment B asks the question "Is Aggregation outside of central Settlement required?", with the answer "No" being the one that leads to TOM A instead of TOM C. Why is this question not asked in a more open manner, such as "What is the best way of doing this?" or "Is central Settlement or competitive DA the best way of doing this?"

One of the main tenets of the argument for the TOM is a technological one: this would have happened in the late 1990s if the technology was available at that time. IMServ is unaware that there was even a demand to do this in the late 1990s, so basing an argument on the assertion that "we can now do this, so we should" appears to be based solely on a desire to prove it is now possible. How can that be the right way to decide on something this serious?

Furthermore, there is no cost-benefit analysis for centralisation. The costs and efforts of running a centralised model have not been assessed. The impact on existing services has not been assessed. Alternative operating models and technical solutions have not been assessed.

Even if one accepted that that this change must be made to support future innovation due to some major flaw in the existing arrangements, there is no available analysis as to how this proposed model better supports future innovation. There is no comparison made with the existing arrangement to show how and where this will differ to enable fact-based decision making and focus in design.

IMServ believes that further and deeper analysis should be undertaken, and a fair and thorough comparison of the different options be made including assessment of modifications to the existing arrangements and/or preservation of competition for data aggregation services, before a decision to proceed with a model is made.

In our opinion, a variant of this TOM, with competition in data aggregation services, that manages risk and delivers innovation for more effectively, is the correct answer for the industry.

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Question 2	Do you agree that the DWG has identified the correct TOM, taking into account Ofgem's 'least-regrets' policy steers?
Relevant report sections: Section 1 'The Vision', Section 3 'TOM Design Principles and Strategic Objectives', Section 4 'Ofgem policy development', Attachment B 'DWG's development of the TOM'	
Answer: No	
<p>Ofgem's least regrets policy steer to the DWG is clear in that market-wide settlement reform should not include centralisation of agent functions.</p> <p>Given that Ofgem's steer is to not centralise, whilst asking the DWG to consider the case for a model where data is not aggregated, TOM C fails to meet this policy steer, as centralisation is clearly taking place.</p>	

Question 3	Do you agree that the TOM captures all essential Settlement processes?
Relevant report sections: Section 5 'Overview of the DWG recommended TOM', Section 6 'Service Overview (Summary Guide)', Attachment A 'Detailed TOM Service and Data requirements'	
Answer: Yes	
<p>The TOM includes a tremendous amount of detail for the new settlement functions.</p> <p>It is what the TOM material does not include that raises concern: non-settlement functions; support for future innovation; impact on existing arrangements; risk assessments; etc. If the same level of detail had been explored in all areas, reaching outwards to understand market impacts, this would be a more valuable, rounded piece of analysis. As it is, it is very one dimensional, very BSC-focussed and services to highlight the silo-based compartmentalisation for rules setting within the industry.</p>	

Question 4	Do you agree that the DWG has identified all the required data to be processed by the three Data Services (Smart Data Service, Advanced Data Service and Unmetered Supplies Data Service)?
Relevant report sections: Section 6 'Service Overview (Summary Guide)', Attachment A 'Detailed TOM Service and Data requirements'	
Answer: Yes	

Question 5	Do you agree that the TOM does not hinder new market entrants, technologies and innovations?
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Relevant report sections: Introduction, Section 2 'Scope, design approach and the future role of the Supplier', Section 5 'Overview of the DWG recommended TOM', Section 6 'Service Overview (Summary Guide)'

Answer: No

IMServ does not believe that this analysis has taken place in sufficient depth, and has concerns that the costs of centralised model will hinder innovation. One only has to look to other parts of the smart metering supply chain to see this effect already.

**Question 6** Do you agree that the DWG's reduced Settlement Timetable is appropriate and achievable in the Target End State? Please identify any constraints that you believe are relevant.

Relevant report sections: Section 8 'Settlement timetable', Attachment B 'DWG's development of the TOM'

Answer: Yes

The introduction of ubiquitous smart metering makes this possible and changes in technology will assist too. We no longer have to be driven by the batch process design of the current arrangements.

Our only reservations are:

- 1) Performance levels in the existing HH advanced metering market are reliant on reasonable levels of site visit activity due to remote communications problems. If this stays the same, any bringing forwards of the initial settlement run will lower percentage energy levels for this metering segment. This is not really a problem, as the levels of actual data available from the smart metering segment (which is all currently settled on profiled estimates) will more than compensate and make overall settlement both faster and accurate.
- 2) The impact of half-hourly data collection on the DCC network has yet to be fully assessed. We need to understand what performance regimes are most cost-effective for the DCC and therefore understand what data can be available by when. This will inform the decision on settlement timetables more clearly.

**Question 7** Do you agree with the DWG that participants should be able to correct Settlement Errors after the Final Reconciliation Run through Trading Disputes, and for at least 12 months after the Settlement Day (subject to an appropriate materiality threshold)?  
*Please identify the number of months and materiality threshold you believe are appropriate and why.*

Relevant report sections: Section 8 'Settlement timetable', Attachment B 'DWG's development of the TOM'

Answer: Yes

This is necessary, as particularly in the complex metering area, significant errors can be found some time after the settlement day. The industry should be working towards identifying and resolving these errors in lesser timeframes

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than current, as the impact on customers can be high. Therefore 12 months seems a reasonable timeframe for trading disputes.

**Question 8** Do you agree that there are overall cost benefits to Parties from the reduced Settlement timetable? *Please identify any enduring cost implications of the proposed timescales.*

Relevant report sections: Section 8 'Settlement timetable', Attachment B 'DWG's development of the TOM'

Answer: Uncertain

There are benefits for reduced credit cover, but IMServ is not in a position to evaluate these. The impact of the reduced settlement window needs to be assessed in conjunction with the performance framework and an evaluation of the DCC's costs/capabilities. This information is not currently available.

**Question 9** Do you agree with the nine transition principles that the DWG intends to follow when developing its approach?

Relevant report sections: Section 10 'High level development of transitional approach'

Answer: Partly

The transitional process, if it is like any other transitional process that the industry has undertaken, will be fraught with difficulties and missed deadlines. Therefore, the DWG should consider four additional principles: 1) that the transitional process is made as simple and cost-effective as possible; 2) that there should be a tangible benefit/incentive to parties completing a quick and effective transition; 3) any transitional performance monitoring and enforcement regime should apply to a central services provider; and 4) the transitional run-off for defunct roles should terminate immediately when certain thresholds have been met (or to put that another way, how we commercially expect agents to continue delivering defunct services during a long, low-volume run off period?)

**Question 10** Do you have any views on the areas of design detail for further consideration?

Relevant report section: Appendix B Areas of design detail where the DWG recommends further consideration (Page 19).

Answer: Yes

It is a narrow list and needs broadening to include the market-wide impacts of introducing HH settlement. Or is the DWG expecting other working groups to be created to look at the related impacts, such as those on DCC, those for network operators, etc? The DWG appear to have narrowed their viewpoint down to just those topics in ELEXON's control.

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Question 11	Do you have any further comments?
Answer: No	