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Consultation Response: Implementation Arrangements for Market-Wide Half-Hourly Settlement

We believe that the proposed project governance for the MHHS SCR, as set out by Ofgem, seems robust and builds upon the experience from the implementation of recent major industry projects. The recommendations from Complete Strategy in their independent assessment report on Elexon's readiness to undertake the lead role in this project seem logical and it is good to see that these have been agreed to by Elexon and Ofgem.

Our general comments on the consultation proposals:

Programme resource

We support the proposals that Elexon will use external resource for the PMO, SI and other functions that are needed for an industry programme of this magnitude.

The separation of Elexon's SRO function from those of their mainstream activities is something that we support. This should help drive the right ethos within the individuals within the SRO team and help avoid any perceived conflicts of interest.

Programme governance

We are pleased to see IDNOs recognised as a specific category for inclusion within the Programme Steering Group and more broadly within the programme governance. IDNO are a separate constituency from DNO and have different attributes, issues and risks. It is therefore right that a separate constituency for them is established.

We would like to see the principle of a separate IDNO constituency applied to the other programme governance groups including the Design Authority and Implementation Group.

Specific engagement by the PPC and the wider programme of the IDNO community is something that we would encourage.

We recognise and support the intention of establishing the Cross Code Advisory Group. We believe that this activity will be crucial in ensuring that the programme is an overall success.

Based on the historical performance of Elexon and its management of cross industry programmes (e.g. P272) we remain concerned that culturally the organisation does not recognise the implications of good cross code working.

Too often there are examples of references by Elexon to consequential impacts being marginalised in their importance and of a lack of understanding that these are vital to the success of the overall project. A narrow focus on 'settlement activity' will undermine the benefits to the market and consumers that this project can bring.

Strong oversight of this by the Programme Steering Group and Ofgem will be needed to ensure that the 'advice' that the comes from Cross Codes Advisory Group is actually recognised and acted upon.

Implications for consumers

As stated in the consultation, it is true to say that Elexon does not have a potentially significant role to play in the communication of this programme to consumers. However, the central programme does need to have a comprehension of how their activities will impact upon the market and its consumers, especially where they include steps within their plans that involve interaction with customers.

Leaving the task of understanding these impacts to a small number of constituency representatives is a risk to the successful delivery of the programme.

We have already seen situations where this lack of understanding creates potential risks for the program's successful implementation.

One example is within the unmetered supply category where there are proposals for all NHH UMS customers to 'have agreed new HH connection contracts' by suppliers, or the UMSO, within a very short timeframe. An exercise to communicate with 10,000's of small consuming customers about such a technical industry change would be a significant undertaking, taking a lot of effort and time.

Incorporating steps like this into plans, without a proper understanding of how long and challenging the customer interaction will actually take, needs to be avoided if accurate plans and timescales are to be developed.

Party obligations

Recent industry programs (e.g. Faster Switching, Project Nexus, smart metering) have shown the value of including obligations on all parties to participate and support the common cause. The obligations proposed in general seem to be in line with those that have been seen before.

We do have two concerns with the proposals.

The first stems from concerns around how stable the programme baseline and project plan are that we are being asked to commit to delivering. Recent changes that we have seen proposed to the scope of the project from the Architecture Working Group's recommendations will have significant impact on the costs and timescales that we will incur.

Until these proposals were released all communication from Elexon had suggested that the impacts to electricity distributor IT systems would be minimal. On this basis we provided feedback to the RFI last year on costs and implications to our business and also provided comments on the proposed project plans and associated timescales.

The change in approach makes the impacts to our systems (MPAS, DUoS billing, LDSO) much more significant and will make it very difficult for us to achieve compliance with the original programme timescales communicated to us.

We are therefore concerned that a requirement to *'take all reasonable steps within its control to facilitate completion of MHHS Implementation in accordance with the MHHS Implementation Timetable'* may be contentious.

Addressing this concern requires early clarity on some of the key design assumptions and the development of a detailed and accurate industry plan with full consultation with all affected parties.

The second is in relation to the proposed Section 12.12.2 of the BSC which includes a requirement that *'...an MHHS Participant cannot seek to avoid or delay undertaking its obligations as an MHHS Participant by reason of cost. The MHHS Implementation Timetable has been set on the basis of engagement with parties and evidence as to an appropriate and overall cost effective implementation timetable, and will be subject to evidence-based review and change as appropriate...'*

Based on the evidence to date we are concerned that changes to the programme may result in unexpected and excessive costs for our business. It is not clear that the current Relative Price Controls and PDCM model for cost recovery for IDNO would allow us to recover sudden excessive costs that may be incurred by requirements from this project. This may therefore make acceptance of significant sudden revised project requirements by us challenging.

Again, resolution of this concern lies with ensuring that the project sets out and defines the scope of its impacts to all parties at an early stage and builds these implications into an accurate project plan that parties agree to.

Responses to specific consultation questions:

Question 1: Do you agree that the balance of the duty to cooperate in licences and the more detailed obligations set out here will be sufficient to ensure that all parties are subject to the right obligations to secure timely and effective implementation of MHHS?

In general they seem reasonable, although we would only be able to commit to delivering to timescales and requirements that were reasonably achievable from both a cost and timescale perspective.

Question 2: Do you agree that the proposed obligations on all programme parties in respect of MHHS implementation, and the proposed obligations on Elexon in its roles as the BSC code administrator, are sufficiently well defined to ensure that ownership and accountability for implementation of MHHS is clear? If not, how could the proposed obligations be changed to allow this to happen?

Yes, they seem clear although we still have concerns that all consequential cross code impacts will be fully taken into account by the programme when they are developing implementation plans.

Question 3: Do you have any comments on the scope or drafting of the draft obligations themselves? We would appreciate all comments, but suggestions for changes in wording where you think what is proposed does not work would be particularly helpful.

We would suggest the following amendment to the proposed section 12.12.2:

~~12.12.2 For clarity, an MHHS Participant cannot seek to avoid or delay undertaking its obligations as an MHHS Participant by reason of cost. The MHHS Implementation Timetable has been set on the basis of engagement with parties and evidence as to an appropriate and overall cost effective implementation timetable, and will be subject to evidence-based review and change as appropriate. If an MHHS Participant considers that the costs of compliance become or are likely to become disproportionate, then it may raise the issue or seek a change under the MHHS Governance Framework, but shall nevertheless continue to comply with its obligations from time to time as an MHHS Participant.~~

As worded this obligation places little onus on the Elexon SRO to engage with stakeholders to understand the implications of their proposals or any changes that they may make to an agreed baseline. It appears to be a pay-up and challenge later approach that does not appear justified or warranted in a collaborative industry programme.

Question 4: Do you support the governance structure as described in the Governance Framework? We welcome all comments, but if you have proposals for changes to the governance structure it would be particularly helpful if you could clearly set out your preferred alternative in any specific area of the governance structure.

Yes, the programme structure looks thorough, although we note that a lot of the lower-level working groups have yet to be designed. This is a complex project with many potential impacts, ensuring that all these are understood and considered should not be underestimated.

Question 5: Do you agree with the approach of Ofgem designating the governance structure as set out in the Governance Framework as a baselined document in the BSC with which Elexon and all programme parties will have to comply? If not, can you suggest an alternative method of embedding the governance structure, contained in the Governance Framework, in the programme and providing confidence to all programme parties?

Yes, these seem a reasonable way on ensuring compliance. An advantage of this approach is that it can be amended via a BSC modification raised by any party to the code.

Question 6: Do you have any comments on the proposed assurance principles?

The assurance principles look comprehensive.

Our only comment in relation to the assurance service is to question the logic for it being contract managed by Elexon rather than Ofgem. If the service is being procured and reports to Ofgem (as well as the Programme Steering Group) then it is not immediately apparent what benefit Elexon provide from contract managing the service.

Question 7: Do you agree that specific thresholds should be set for Ofgem intervention to avoid the risk of Ofgem being drawn into day-to-day management of MHHS implementation?

Setting thresholds for Ofgem intervention is useful in helping understand what is in the scope of the programme to make decisions upon and what should be referred to Ofgem. However, as we note in the answer to the following question the threshold for Ofgem intervention varies between criteria in question. It would seem from the consultation that the cost threshold only applies to central programme implications.

The threshold for Ofgem intervention for an issue that affects party costs rather than central costs is not entirely clear. These may be significant for the individual party but not meet the criteria to affect the overall business case, especially considering the very large sums suggested within this. This may leave a gap in the governance process for parties unhappy with the impact assessments carried out by Elexon to appropriately challenge.

Question 8: Do you agree that Ofgem intervention should be based on the five key criteria of: adherence to the TOM, delivery of benefits and costs, timeliness of delivery, impact on competition and consumer impact? Do you agree with the specific TOM, cost and timeliness thresholds? If not, what others would you propose?

The categories of criteria seem reasonable ones for Ofgem to use to determine whether intervention is needed in the programme.

We note that the individual thresholds for these vary depending on the potential criteria that is being considered. For impacts to central programme costs these are clearly defined which is useful and will provide clarity on where decision making on issues lie.

For other criteria, such as the impact to the market or consumers, the threshold seems less defined and more open to interpretation by a party. This is reasonable in the circumstance. What is not clear is whether the IPA will have a sufficiently reasonable understanding of the implications of an issue to the market or to consumers to judge whether an issue merits referral to Ofgem.

It would therefore be better to allow any affected party to refer an issue with the programme on the grounds of 'impact on competition or market stability', 'consumer impact' or 'significant governance change' directly to Ofgem. This should save time, costs from IPA and avoid potential disputes between parties and the IPA.

Question 9: Are there any other criteria that you consider may warrant Ofgem intervention? Please give reasons why.

Intervention might be required to facilitate or react to cross code or broader policy issues that have a material impact upon the programme or other industry programmes. It is not clear if this type of situation is covered by the criteria as set out.

Question 10: Do you also agree that Ofgem should have a role in ensuring that conflicts of interest are properly managed within MHHS implementation?

Yes