

# Report

## Update - Electricity Settlement Reform Significant Code Review: Authority-Led Code Modification Proposals

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This update confirms that the Gas and Electricity Markets Authority (the Authority)<sup>1</sup> is today commencing its submission of the first set of Authority-led code modification proposals pursuant to the Authority's Electricity Settlement Reform Significant Code Review (SCR).

During August 2021, or shortly thereafter in the case of the Retail Energy Code (REC),<sup>2</sup> the Authority will submit a first set of Authority-led proposals<sup>3</sup> in respect of code modifications required to put in place the Market-Wide Half-Hourly Settlement (MHHS) implementation and governance arrangements<sup>4</sup> to the relevant panels and administrators of the following industry codes<sup>5</sup>:

<sup>1</sup> The terms "the Authority", "we" and "us" are used interchangeably in this document.

<sup>2</sup> Unless the Authority subsequently amends the time window. In addition, please see below for the position with regard to the REC.

<sup>3</sup> Each of the industry codes defines a code modification proposal raised by the Authority pursuant to an SCR differently, but generally we refer to it in this document as an "Authority-led modification proposal" or "Authority-led proposal."

<sup>4</sup> Please see our [MHHS implementation decision document \(August 2021\)](#) published on our website.

<sup>5</sup> The substantive detailed changes required to implement the design of the new settlement arrangements will be developed and delivered through future code changes as part of the transition.

- Balancing and Settlement Code (BSC)
- Distribution Connection and Use of System Agreement (DCUSA)
- Connection and Use of System Code (CUSC)
- Smart Energy Code (SEC)
- Retail Energy Code (REC)<sup>6</sup>

(together, the “**Relevant Codes**”).

## Background

We launched our Electricity Settlement Reform Significant Code Review (SCR) in July 2017.<sup>7</sup> The purpose of this SCR is to develop and then (subject to an Impact Assessment) implement an enduring process to enable market-wide half-hourly settlement of domestic and smaller non-domestic consumers’ electricity usage. We published our Full Business Case, Impact Assessment and decision to proceed with MHHS in April 2021.<sup>8</sup>

We expect the transition period to full MHHS implementation to take 4 years and 6 months, completing in October 2025.<sup>9</sup> MHHS will place the right incentives on suppliers to develop and offer new tariffs and innovations that encourage and enable more flexible use of energy, such as time of use tariffs, automation, vehicle-to-grid solutions and battery storage. By introducing MHHS, our aim is to deliver benefits for consumers by maximising the opportunities smart metering provides in enabling a smart, flexible energy system. As set out in our Full Business Case, the implementation option we are taking forward will deliver net benefits to GB energy consumers in the range of £1,559m-£4,509m. It will also deliver benefits that we expect to see but cannot quantify, notably increased competition amongst retailers and innovation in new products and services. Delivering MHHS is essential both to ensuring that our future energy system is affordable for consumers and for our journey to net zero.

The obligations that we propose to place on parties (including Elexon, the Data Communications Company (DCC), electricity suppliers, electricity distributors, supplier

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<sup>6</sup> In the case of the REC, REC version 2.0 is expected to come into force no earlier than 1 September 2021. We expect to raise a modification proposal to make the change to the REC after REC version 2.0 has come into force.

<sup>7</sup> Our [Electricity Settlement Reform SCR Launch Statement](#) is on the Ofgem website.

<sup>8</sup> The [MHHS Decision, Full Business Case and Final Impact Assessment](#) is published on our website.

<sup>9</sup> As set out in the MHHS Decision – see footnote 7 above.

agents, energy Code bodies and other third parties) will ensure that all parts of the industry move forward together to support the implementation of MHHS. We are proposing that a set of detailed obligations be included in the BSC, and an addition made to the other affected codes. These obligations will apply to all programme participants and relevant code bodies and will require them to comply with the MHHS implementation and governance processes.

The first set of changes we are proposing to the Relevant Codes will facilitate the arrangements for industry-led delivery. They will also facilitate cross-code working to ensure that the affected codes are changed in a consistent manner whenever substantive changes are made for implementation, eg to develop the detailed MHHS design.

We have also completed a statutory consultation proposing changes to Condition 21 of the Smart Meter Communication Licence that will bring the DCC within the scope of the MHHS implementation obligations to be inserted in the BSC.<sup>10</sup> This is in addition to the existing duty to cooperate already in Condition 21 of that licence which requires the licence holder to cooperate to give full effect to the conclusions of a SCR. We published our decision on making changes to the Smart Meter Communication Licence on 11 August 2021.<sup>11</sup>

### **Authority-led modification proposals: development, timetable and next steps**

Ofgem's 2016 Code Governance Review (phase 3)<sup>12</sup> created three pathways for SCRs with increasing levels of Ofgem involvement in the industry code modification process.<sup>13</sup> In our launch statement for the Electricity Settlement Reform SCR, we said that we would take pathway three for this SCR whereby Ofgem leads an end-to-end process to develop code modifications where we consider those to be required to deliver the outcomes of the SCR. In our April consultation on MHHS implementation and governance arrangements (our April 2021 consultation),<sup>14</sup> we sought views about the proposed changes to the Relevant Codes

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<sup>10</sup> Our [statutory consultation on proposed changes to Licence Condition 21 of the Smart Meter Communication Licence](#) (28 May 2021) is published on our website.

<sup>11</sup> Our [decision](#) to make changes to the Smart DCC licence is available on our website.

<sup>12</sup> Our [Code Governance Review \(phase 3\) final proposals \(March 2016\)](#) are published on our website.

<sup>13</sup> The three pathways are:

Pathway 1: Ofgem directs licensee(s) to raise modification proposal(s), which then follow the standard industry modification processes;

Pathway 2: Ofgem raises modification proposal(s), which then follow the standard industry modification processes; and

Pathway 3: Ofgem leads an end-to-end process to develop code modification(s).

<sup>14</sup> Our [consultation on MHHS implementation and governance arrangements \(April 2021\)](#) is published on our website.

that were set out alongside that consultation. As set out below, we published our response and decision to that consultation on 11 August 2021.<sup>15</sup>

Our April 2021 consultation on the proposed code changes, and the responses to that consultation, give us confidence that this set of Authority-led modification proposals we now plan to raise under the Electricity Settlement Reform SCR have had appropriate input from industry and wider stakeholders. Additionally, the Electricity Settlement Reform SCR process has included the following publications:

- Market-Wide Half-Hourly Settlement (MHHS) – Consultation on Programme Implementation Principles (January 2021)<sup>16</sup>
- Confirmation of DCC’s role in raising a SEC modification for MHHS implementation – Open letter (April 2021)<sup>17</sup>
- Complete Strategy – MHHS Independent Programme Management Assessment<sup>18</sup>
- Proposed Code Changes<sup>19</sup>
- Questions and Answers on MHHS Implementation<sup>20</sup>
- Market-Wide Half-Hourly Settlement – Draft Governance Framework<sup>21</sup>
- Statutory Consultation on proposed changes to Licence Condition 21 of the Smart Meter Communication Licence (May 2021).<sup>22</sup>

We have now carefully considered the responses to our April 2021 consultation and sought further feedback from industry on certain points. We are now in the process of finalising the Authority-led proposals for the BSC, the DCUSA and the CUSC, and are continuing to develop the equivalent SEC and REC Authority-led proposals in the meantime. Our recent and intended next steps of the SCR are as follows:

- 11 August 2021: Ofgem issued a decision document on the issues covered in our April 2021 consultation, in particular our decisions on the code obligations to be placed on parties to ensure compliance, the governance and assurance<sup>23</sup> arrangements for implementation, and the nature of Ofgem’s role in implementation

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<sup>15</sup> See the link in footnote 4 above.

<sup>16</sup> The [January 2021 consultation on MHHS Programme Implementation Principles](#) is published on our website.

<sup>17</sup> This [open letter](#) is published on our website.

<sup>18</sup> The Complete Strategy report is published alongside our [April 2021 consultation](#).

<sup>19</sup> The proposed code changes for MHHS implementation are set out alongside our [April 2021 consultation](#).

<sup>20</sup> The Q&A on MHHS implementation are published alongside our [April 2021 consultation](#).

<sup>21</sup> The draft Governance Framework for MHHS implementation is published alongside our [April 2021 consultation](#).

<sup>22</sup> The [statutory consultation](#) is available on our website.

<sup>23</sup> Our [MHHS implementation decision document \(August 2021\)](#) is published on our website.

- 11 August 2021: Ofgem issued a decision on the smart meter communication licence condition changes<sup>24</sup>
- August 2021: Ofgem puts the code modification/change proposals to the respective code panels (except in the case of the REC, version 2.0 of which will come into force no earlier than 1 September 2021)
- September 2021: Code panels submit final modification/change reports in response to the proposals to Ofgem (or, in the case of the REC, as soon as practicable)
- September/October 2021: Ofgem issues decisions on the code modifications/changes
- April 2022: Progressing the next set of future code changes for MHHS implementation – these will be the code changes that the Code Change Development Group (CCDG) is currently developing for the detailed design of the future MHHS arrangements.

Following discussions with colleagues in the code bodies, we expect to submit this first set of Electricity Settlement Reform SCR modification or change proposals during August 2021 (except for the REC – see above). This means that there may not be a single date for Authority decisions on this first set of Authority-led modification proposals under the Electricity Settlement Reform SCR.

We have been working with colleagues in code bodies to coordinate panel procedures for consideration of the Authority-led modification proposals in line with the following planned timetable:

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<sup>24</sup> Our [decision](#) to make changes to the Smart DCC licence is available on our website.

Code	Authority submits Authority-led modification proposal	First panel meeting	Consultation / Impact Assessment / Voting period	Second panel meeting	Final Modification Report (FMR) submitted to Authority	Authority decision (target)
DCUSA	13 August 2021	18 August 2021	1–22 September-2021 <sup>25</sup>	By 31 August 2021 <sup>26</sup>	22 September 2021	October 2021
CUSC	13 August 2021	27 August 2021	31 August-14 September 2021	24 September 2021	28 September 2021	October 2021
REC <sup>27</sup>	TBC	TBC	TBC	TBC	TBC	TBC
SEC	23 August 2021	31 August 2021 <sup>28</sup>	N/A	29 September 2021 <sup>29</sup>	30 September 2021	October 2021
BSC	13 August 2021	19 August 2021	24 August - 8 September 2021	16 September 2021 (TBC)	20 September 2021	30 September 2021

Each of the Relevant Codes has its own procedures in relation to Authority-led modification proposals. In line with the above planned timetable, the Authority will under separate cover submit to each code panel its Authority-led Electricity Settlement Reform SCR modification proposals in respect of that code, together with instructions in relation to timetables for completion of procedural steps and proposed implementation dates, if the Authority proceeds to approve the relevant modifications. The Authority-led modification proposals in relation to the Electricity Settlement Reform SCR will be published on that code's website in accordance with its own procedures.

The Electricity Settlement Reform SCR is an Authority-led end-to-end SCR and the MHHS programme will require a number of sets of code modifications in the coming years. Our decisions on this first set of Authority-led modifications, should we decide to approve them, will help to establish the governance arrangements for MHHS implementation. As the transition to full MHHS implementation progresses, we intend to make further modifications under this SCR and/or pursuant to our powers under the Smart Meters Act 2018. Therefore, we do not expect the current set of modifications to be the final ones in respect

<sup>25</sup> The DCUSA change proposal will not have a consultation period, but there will be a voting period for parties to vote on the change proposal and submit supporting comments if they wish.

<sup>26</sup> The Panel will meet Ex-Committee to agree to submitting the Change Report to DCUSA Parties for the Voting Procedure.

<sup>27</sup> In the case of the REC, REC version 2.0 is expected to come into force no earlier than 1 September 2021. We expect to raise a modification proposal to make the change to the REC after REC version 2.0 has come into force.

<sup>28</sup> The "first Panel meeting" for the SEC modification proposal will be a meeting of the Change Sub-Committee (CSC) which has delegated responsibility from the SEC Panel to progress the modification proposal.

<sup>29</sup> The "second Panel meeting" for the SEC modification proposal will be a SEC Change Board meeting, in accordance with the SEC change procedures.

of the Electricity Settlement Reform SCR. This SCR will remain open until we have made our final decision in relation to the final modification, and we will confirm when we consider that to have happened.

We have provided our target dates for decisions on the first set of proposals in this matter above. It will then be for the panels of the Relevant Codes to implement the modifications, if the Authority decides to approve the proposals, to allow efficient and timely implementation of MHHS by October 2025.

Finally, we would like to extend our thanks to the Code Panels and code administrators for their support in developing the legal text for the SCR modification proposals along the timelines that have been required by the MHHS programme.

If you have any questions or comments on this document, please contact [HalfHourlySettlement@ofgem.gov.uk](mailto:HalfHourlySettlement@ofgem.gov.uk).

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