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for energy consumers

Email: HalfHourlySettlement@ofgem.gov.uk

Date: 02 October 2019

Dear Colleague,

Electricity Settlement Reform Significant Code Review:

Open letter on Design Working Group final report, proposed updates to governance structure and

Request for applications for membership of the Target Operating Model Code Change and Development Group and Architecture Working Group.

Ofgem has made the preliminary decision¹ to approve the Design Working Group's (DWG) Final Report on the Target Operating Model (TOM) and Transition Approach. The DWG's Final Report sets out its preferred TOM and Transition Approach for Market Wide Half-Hourly Settlement (MHHS) which were affirmed by industry consultations. We recognise there was a DWG minority view on the preferred TOM.² This is not our final decision on the TOM and we will continue to gather information and feedback on the preferred TOM design through our Request for Information³ and Impact Assessment. Therefore we may request changes to the design, if appropriate, in light of this further work. However, to enable work to progress, we are providing a "least regrets steer" that the development of the TOM be based on the DWG preferred TOM. Ofgem received ongoing advice from the Ofgem-chaired Design Advisory Board (DAB) and took into consideration responses to the DWG consultations on the preferred TOM and the proposed transition arrangements. The DWG's Final Report to Ofgem can be found in Appendix 1.

As this is a least regrets steer, this does not imply that this is the final approach. We will carefully consider the responses to the Request for Information, the coming Impact Assessment and security and privacy issues before reaching our final decisions. This approach will allow the progression of the TOM work with the intention of having the least

¹ A preliminary decision (as set out in the SCR Launch statement governance model) is a decision made by the SRO to advance the TOM design work before deciding upon the final TOM for MHHS.

² The DWG minority view on the preferred TOM was that aggregation should continue to happen competitively outside of central settlement systems, and therefore an alternative TOM should be chosen.

³The Request for Information can be found here on the Ofgem website: <https://www.ofgem.gov.uk/publications-and-updates/request-information-electricity-settlement-reform>

impact on overall programme timescales, while minimising the risk of doing nugatory work. When we reach our final decisions and publish them, which we expect to do using our Full Business Case, we will liaise with the groups working on the TOM development to make any necessary adjustments to the project plan.

This letter concludes Stage 2 of the TOM design work and marks the launch of the TOM Development Phase. Following the delivery of the Final Report, the DWG have now discharged their duties under their Terms of Reference, and will be stood down. This letter and associated Appendices, sets out our proposed new governance arrangements which aim to build on the previous arrangements.⁴ This new phase will allow the continued development of the TOM that was delivered by the DWG, and this work will feed into our final decision on MHHS and the TOM in Q3 2020.⁵ We are seeking stakeholder feedback on the following proposals:

- The overall governance structure as set out in Appendix 2A;
- The TOM Development Principles, which build on the TOM Design Principles, in Appendix 2B;
- The TOM Design Principles⁶
- The updated Terms of Reference for the DAB in Appendix 2C; and
- The Terms of Reference for the two new industry groups, the Code Change and Development Group (CCDG) and the Architecture Working Group (AWG) in Appendix 2D and 2E.

We are also now seeking applications for membership of both the CCDG and AWG groups.

Updated governance structure

To facilitate the new phase of development work on the TOM we are proposing an updated governance structure, which can be found in Appendix 2. It includes the creation of two new industry groups: A Code Change and Development Group (CCDG) and an Architecture Working Group (AWG). Together these groups, chaired by ELEXON, will develop the changes to the industry codes and the system architecture required to implement the TOM. We have also included a new set of TOM Development Principles, which build on the TOM Design Principles. These Development Principles will provide further guidance and direction to the two new industry groups and are intended as a supplement to the TOM Design Principles.

⁴ Original governance arrangements, including terms of reference, can be found with the MHHS SCR launch statement: <https://www.ofgem.gov.uk/publications-and-updates/electricity-settlement-reform-significant-code-review-launch-statement-revised-timetable-and-request-applications-membership-target-operating-model-design-working-group>

⁵ <https://www.ofgem.gov.uk/publications-and-updates/change-timetable-settlement-reform-scr>

⁶ The TOM Design Principles can be found in Appendix 2F and on the Ofgem website, here: https://www.ofgem.gov.uk/system/files/docs/2018/01/updated_target_operating_model_design_principles.pdf

Under this new governance arrangement we propose to continue using the Design Advisory Board (DAB) to provide expert advice on the recommendations from the CCDG and AWG, and also intend to formally expand the remit of the DAB to include providing expert advice on areas of the project outside the TOM design, including the Business Case. We have included an updated Terms of Reference in Appendix 2.

We welcome your views on this new governance model, set out in Appendix 2, which includes the Terms of References for the two new groups, the DAB and the TOM Development Principles. There is a feedback form provided alongside this Open Letter. Please send the completed form to HalfHourlySettlement@ofgem.gov.uk by 29 October 2019.

Applications for the CCDG and the AWG

Following the delivery of the DWG's final report, further work is needed in order to continue the development of the TOM to achieve the SCR objective of developing and implementing, subject to the Business Case assessment, an enduring process to enable MHHS. To do this we propose the creation of two new TOM development groups; the Code Change and Development Group (CCDG), and the Architecture Working Group (AWG). We are proposing that ELEXON will chair and facilitate the two new industry groups, provide the analysis and run the administrative side of the groups. We would like to hear from you by 22 October if you want to be a member of the CCDG and/or the AWG. (Note that this deadline is earlier than the one for providing comments on our proposed governance model)

The Code Change and Development Group (CCDG)

The CCDG members will work to identify the changes required to the industry codes to implement the TOM, and to progress with the detailed development of the TOM design as delivered by the DWG. Details of the areas of expertise required of the membership, on a collective basis, are described in the Terms of Reference for the CCDG in Appendix 2D of this document. Potential members will not be required to have expertise in all of these subjects.

Members will be required to contribute to the working group for up to 18 months, with a maximum of one, in person, all day meeting a month and up to a further day of additional collaboration outside of core meetings. In order to deliver their Terms of Reference, the CCDG may agree to form subgroups on specific topics. The CCDG would decide whether any subgroups should be run informally or with a formal structure. These will require up to 6 months of a member's time per subgroup, with up to one, in person, all day meeting per

month and the potential for more collaboration outside the core subgroup meetings. We expect full members would also be part of at least one subgroup. If you would like to express your interest in joining a CCDG subgroup, rather than the main CCDG, please make this clear in your supporting statement.

The Architecture Working Group (AWG)

The AWG members will work to design and develop the system architecture and interfaces required to implement the TOM. Details of the expertise required of the membership, on a collective basis, are described in the Terms of Reference for the AWG in Appendix 2E of this document. The membership will be made up of both business and system architecture experts and potential members will not be required to have expertise in all of these subject areas.

Members will be required to contribute to the workgroup for up to 12 months, with up to one, in person, all day meeting per month and the potential for more collaboration outside the core meetings.

If you are interested in becoming a member of the CCDG and/or AWG, please email your CV and a supporting statement to HalfHourlySettlement@ofgem.gov.uk by 22 October 2019. Information on the skills and experience we are looking for from members is in Appendix 2D⁷ and 2E⁸. Note that this deadline is earlier than the one for providing comments on our proposed governance framework.

We will review all expressions of interest with ELEXON, who will chair the CCDG and AWG, to ensure there is an appropriate and broad range of expertise and interests on the group. Ofgem will make the decisions on membership. We will publish a list of members in advance of the first meetings of the CCDG and AWG. We may also invite specific people to participate on an ad hoc basis if there is a requirement for particular expertise.

Attending these working groups is not the only way to participate. Consultations will take place at key stages as the TOM develops and we will continue to maintain regular contact with stakeholders throughout the duration of the TOM development work. To do the latter, we regularly engage through a range of communication channels such as teleconference calls, workshops, newsletters and where requested, individual stakeholder meetings.

If you would like to be receive invitations to future teleconferences and events, please email HalfHourlySettlement@ofgem.gov.uk.

⁷ See Section 5 (for the CCDG)

⁸ See Section 6 (for the AWG)

Next Steps

We are seeking your feedback on specific questions related to our updated model for governance; the development principles that will be used; the updated DAB Terms of Reference; the Terms of Reference for the CCDG and AWG; and on whether the TOM Design Principles are still up to date. Through these updated governance arrangements and principles we aim to ensure the further development of the TOM is carried out in a fair and efficient way. It is important that all interested parties have opportunity to engage in the development proposals, that the impacts of changing the whole settlement system (including the impacts on end consumers) are identified and considered, and that future changes to the energy system are taken into account. We would like you to respond to our questions (set out in our feedback form) with these points in mind. Responses will be published on our website, unless marked as confidential, alongside our decisions on any changes we make to our proposals.

You can ask us to keep your comments confidential, and we'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004. If you want us to keep your comments confidential, you should clearly mark your response to that effect and include reasons. If you are including any confidential material, please put it in the appendices. If the information you give in your comments contains personal data under the Data Protection Act 2018, the Gas and Electricity Markets Authority will be the data controller. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000.

Once we have decided on membership of the CCDG and AWG, ELEXON will launch the work groups later in the year.

If you have any questions or comments on this letter, please contact Jasmine.Killen@ofgem.gov.uk, or contact the team mailbox at HalfHourlySettlement@ofgem.gov.uk.

Yours sincerely,

Anna Stacey
Head of Settlement Reform

Appendices

Appendix 1: DWG Final Report Stage 2: Target Operating Model and Transition Approach

Appendix 1A: DWG Attachment A: TOM consultation responses

Appendix 1B: DWG Attachment B: Transition Approach

Appendix 1C: DWG Attachment C: Glossary of Terms

Appendix 2A: Proposed governance model for TOM development phase

Appendix 2B: TOM Development Principles

Appendix 2C: Updated Design Advisory Board Terms of Reference

Appendix 2D: Code Change and Development Group Terms of Reference

Appendix 2E: Architecture Working Group Terms of Reference

Appendix 2F: [TOM Design Principles](#)