

Design Advisory Board Meeting 12

From: Anna Stacey

Date: 05/08/2020

Time: 10:00 – 13:00

Location: Teleconference

1. Welcome and Meeting Overview (Slides 1 – 2)

Anna Stacey

1.1. The Ofgem Chair, Anna Stacey (AS – Chair), opened the Design Advisory Board (DAB) and set out the meeting's objectives:

- To discuss the key points from Ofgem's Draft Impact Assessment (IA) and Consultation
- To update the DAB on the implementation timescales being consulted on
- To discuss implementation programme governance, and
- To update the DAB on the work of the new Target Operating Model (TOM) working groups.

1.2. AS welcomed new member Chris Welby (Bristol Energy) to the board, he was previously a member of the DWG. She also welcomed first time attendees David Sykes (Octopus Energy) who is acting as alternate for Elizabeth Allkins (OVO Energy) while she is on sabbatical, Rajni Nair (Citizen's Advice) alternate for Stew Horne, and Ian Mitchell who is the Ofgem Technical Consultant on the Architecture Working Group (AWG). Apologies were given from Rachel Clark (Ofgem).

2. Draft IA & Consultation Document (Slides 3 – 18)

Andy MacFaul & Josep Garcia-Sole

2.1. AS introduced Josep Garcia-Sole (JG-S) to discuss the benefits to consumers and the load-shifting assumptions set out in the [Draft Impact Assessment \(IA\)](#). JG-S set out the goal of the consumer impact work, which is to understand how consumers will react to the new products and services incentivised by Market-wide Half-hourly

Settlement (MHHS). Ofgem published a [consumer impacts paper](#) alongside the Draft IA, which brings together the responses to our 2019 call for evidence, and further analysis.

2.2. JG-S explained that the economic case for MHHS is based on the system benefits of peak consumption reduction, shifting electricity use to times when it is cheaper and lower-carbon to generate and transport. To understand load-shifting potential under MHHS, a review of the research was undertaken on the take-up of smart tariffs and the level of load shifting by customers on smart tariffs. This resulted in the high and low load shifting scenarios that can be seen in the IA. The qualitative assumptions made to differentiate between the counterfactual and Ofgem's preferred option were: assuming that domestic and small non-domestic low energy users have low potential for load shifting under the elective half hourly (EHH) arrangements but more under MHHS, and that domestic high energy users have a significant load shifting potential under EHH, but an even higher potential under MHHS. JG-S invited the board to comment on the load shifting assumptions presented in the draft IA.

2.3. A board member asked what evidence had been considered around the uptake of time of use (ToU) tariffs by Electric Vehicle (EV) users. JG-S explained that evidence of the behavior of EV users was used, but the number of EV users in the period 2025-2035 is uncertain. The board member also asked whether there was evidence available of how business customer behavior changed after the introduction of Balancing and Settlements Code modification P272¹ where large non-domestic customers moved to HH settlement. JG-S answered that there appears to be limited evidence available relating to business customers and one of the reasons for this is that their consumption patterns tend to be fixed and therefore there is little available shiftable

¹ More information on BSC modification [P272 'Mandatory Half Hourly Settlement for Profile Classes 5-8'](#) can be found on the ELEXON website.

load. AS added that Ofgem would be interested in hearing from anyone with more evidence on non-domestic consumer load shifting. A board member stated that they believe caution is needed around any assumptions that large amounts of future flexibility will be provided by customers with heat pumps. A board member suggested that assumptions around who would benefit should be challenged, based on the member's experience with customers in receipt of the warm home discount typically having a 'cheaper' shape than other customers, especially when it is not known how technology will develop and at what pace.

2.4. JG-S then explained the analysis of the distributional impact on consumers of MHHS, explaining that such analysis is necessarily broad-brush. It's important we understand the situation for customers who have neither the means nor the ability to respond to price signals and what their needs may be. We need good data-sets and to think about factors such as time (whether a consumer's lifestyle can adapt to more non-peak usage), affordability (whether they can access flexibility which suits their needs) and the scope for community based solutions. A board member asked whether Ofgem have undertaken a similar analysis with micro and small businesses. AS answered that Ofgem have spoken to the Federation of Small Businesses and BEIS, but there appears to be limited evidence available. Another board member stated that small businesses tend to interact with the market via brokers, and getting brokers to engage with ToU tariffs is difficult as they are difficult to compare directly, but that engaging with brokers would be a useful way to understand small businesses. AS agreed that Ofgem should engage further with brokers.

2.5. Andy MacFaul (AM) set out the options considered in the Draft IA: Option 1 – keep the existing Elective HHS arrangements, Option 2 – our preferred option, to introduce MHHS for all MPANs over a period of 4 years, and option 3 – which is to introduce

MHHS for import MPANs only, over a 5 year period. AM then told the board that the IA indicated a net benefit to consumers of £1.6-4.5 billion relative to the counterfactual against a base year of 2018, plus additional unquantified benefits.

2.6. AM showed board members the costs broken down by stakeholder type (see slide 7) and invited the board to comment. Board members asked questions about which costs to suppliers were and weren't included, in particular they felt that costs of modernising or digitising supplier IT systems or changes to billing systems should not be counted as these investments are expected to take place regardless of MHHS. AM explained that while some suppliers have included the costs associated with updating their billing systems in their Request for Information responses, these costs were not included in the draft IA costs.

2.7. AM asked the board for their comments on the benefits and net benefits presented in the draft IA (see slide 11). A board member asked how the analysis accounts for customers who may not benefit from the reforms as they cannot participate in load shifting and may be vulnerable. AS explained that this issue is being looked at as part of the consumer impacts work that JG-S discussed earlier. A board member asked whether Ofgem had considered the impact of changing BSUoS costs, like that has been seen during the COVID-19 crisis. Another board member asked which value of avoided cost of carbon had been used in the calculations: 80% reduction by 2050 or Net Zero by 2050. JG-S clarified that the Green Book values were used and although these are not in line with the most up to date targets, a sensitivity analysis was done on the cost of carbon.

2.8. AM stated that Ofgem intends to do further work on the cost drivers, and to undertake further bilateral engagement with software providers and the wholesale arms of suppliers. He then asked the board if they felt there were other areas that needed to be looked at further. One board member asked about how the transition timelines

proposed in the IA had been interrogated. AS said that would be discussed in the implementation discussion.

3. Implementation (slides 19 - 23)

Jasmine Killen

- 3.1. Jasmine Killen (JK) set out Ofgem's preferred option of a 4 year transition from the time of the Full Business Case (FBC) decision. In light of COVID-19, timelines are expected to be pushed back by approximately 6 months, which would lead to an FBC decision in Spring 2021, then the design, build and test phase would begin. She explained that the timetable in the consultation document was built based on conversations with stakeholders, including central systems and taking into account other change programmes like Faster Switching that may affect industry resource. The timeline is made up of two phases. The first includes the design build and test of all systems, qualification of industry parties and a year where early movers could move to the new systems earlier if they so wished. The second phase is a year of mandatory migration at which point all suppliers must be able to accept MPANs under the new TOM. JK stated that this timeline is being reviewed in light of COVID-19, but is still believed to be realistic and achievable, when shifted back six months. JK invited the board to comment on the proposed implementation timeline.
- 3.2. A board member asked what changes would be required to registration systems and how this interacted with the Central Switching Service. **ACTION:** *Ofgem to follow up with the member about registration changes.* Several board members suggested areas to consider as part of the testing phase. It was suggested that suppliers should demonstrate their ability to perform the actions required to move a customer to the TOM successfully with scalable testing data, and that both market and volume testing would also be needed. A member highlighted a recent change to XoServe's systems where the capacity that the systems could handle during transition was not communicated, and stated that constraints must be clearly communicated to

participants. A further board member agreed, and highlighted that issues could arise if a number of suppliers wait until the end of the migration window to begin migration, and that Ofgem should consider co-ordinating a phased migration. The member also asked whether Ofgem had considered using the Elective HH customers as an opportunity for early integration testing. JK said it has been considered, but no decision has been made. Members also mentioned the requirement for thorough documentation for the industry to work from, including setting out the process of how to migrate a customer to the TOM, and rapid feedback on any changes or updates.

- 3.3. AS stated that because the next item on the agenda is Project Governance and how that might be implemented, Kevin Spencer and Justin Andrews (ELEXON) would leave the meeting for this agenda item to preserve impartiality, as it is possible that ELEXON is interested and capable of providing some of these functions.

Kevin Spencer and Justin Andrews (ELEXON) left the meeting

- 3.4. JK described Ofgem's proposals on implementation governance. She stated that Ofgem believes oversight will be required because of the number of parties involved, and set out the roles Ofgem expects will be required: Programme management office, system integrator, programme party coordinator and assurance function. Ofgem will continue to take the role of project sponsor, however we acknowledge Ofgem doesn't necessarily need to lead on these delivery functions and so instead are considering the possibilities for where they could sit.
- 3.5. JK set out the different options that are being considered, which are on a sliding scale of low to high Ofgem involvement. Low Ofgem involvement would see an industry party take the responsibility for procuring and managing these roles, but this party would be accountable to the Ofgem Senior Responsible Owner. High involvement would see Ofgem take responsibility for procuring programme management like in the

Faster Switching or Project NEXUS. JK asked the members what key factors Ofgem should take into account when making a decision on programme management.

- 3.6. One board member stated that they felt the industry would have more confidence if the programme management was done by an industry party, rather than a third party procured by Ofgem, and that this party should act as a critical friend to parties involved in the change. JK asked the member if they felt any particular industry party would be suitable. The member stated they believed ELEXON would be suitable, but in that case, the assurance function would need to be carried out by a different party. Another member agreed, but said they believed that Ofgem should procure all the roles so that Ofgem retains ultimate responsibility. The member continued that they felt it was important to get the right engagement from parties, and that the best incentive to deliver is when the incentives are on all parties.
- 3.7. JK explained that Ofgem have considered different options on how to put obligations on parties – through code modifications or license changes. For example, a license obligation could be put on suppliers to set up a governance body. She asked for the board's view on these options. A member stated that based on lessons learned from P272, that a license obligation is not enough, there needs to be a further incentive on industry to drive the development of the programme.
- 3.8. JK asked board members to elaborate on how engagement with suppliers could best be managed. One more board member felt that the technical people from the different parties need to be speaking to each other if possible, rather than having many layers of people between them. They added that any design documentation must be robust. JK said that the intention with the AWG was to encourage more direct engagement with the technical people within industry parties, but that Ofgem are interested in hearing more about how to get the right people involved in the technical design.

- 3.9. A member stated that the policy questions should be separated from what needs to be delivered, to allow parties who want to engage with the policy to do so, but also allow parties who are only interested in implementing the solution to easily find the documentation they require. Another member added that more thought needs to be given to industry change, not just system build, and how that is coordinated with suppliers and supplier agents and that this should inform the required governance structure.
- 3.10. A member stated that they were in favour of Ofgem appointing ELEXON to carry out the programme governance and for Ofgem to hold ELEXON to account. The member also felt that compared with other code bodies, ELEXON has a good record of delivering significant changes and for serving as a critical friend. The member added in this case Ofgem should retain the assurance role to ensure that ELEXON take into account other industry systems like registration and the DCC. Two further members agreed that recognition of systems wider than central settlement would be required, based on learnings from P272, and one added that their preference would be a project team lead by ELEXON, but with staff from other code bodies seconded into the PMO team.
- 3.11. A board member stated that they felt the assurance function should be undertaken by an industry party that could add value (with knowledge of industry systems and terminology) rather than a non-industry third party (providing generic project management services), because they felt a third party would have more incentive to meet targets on interactions and milestones, rather than make sure industry is genuinely delivering the necessary changes. The member continued that they felt it should not be necessary for parties to attend all meetings, and the documentation should be kept up to date so that parties can use it without having to

attend meetings. A further member agreed with this comment about meetings and documentation as this helps suppliers manage their resources more effectively.

4. Target Operating Model working group update (Slides 25 – 31)

Saskia Barker & Jasmine Killen

Kevin Spencer and Justin Andrews (ELEXON) re-joined the meeting

- 4.1. AS welcomed Justin Andrews and Kevin Spencer (ELEXON) back to the meeting, and introduced Saskia Barker (SB) to update the board on the Code Change and Development Group (CCDG). Ofgem and ELEXON praised the working group members and ELEXON team for helping meetings to continue efficiently during the COVID-19 crisis.
- 4.2. SB talked the board through the proposed high-level updated timelines for the Architecture Working Group (AWG) and CCDG in light of the COVID-19 crisis and a three-week IT outage experienced by ELEXON. This means that the groups are running five to six months behind the original plans shown to the board in January, and these plans are still being finalised. Because, as JK mentioned, the FBC is now expected to be published in spring 2021 the delays to the AWG and CCDG timelines do not impact the overall project timelines. SB continued by highlighting that a subgroup of the AWG and CCDG was created to capture the detailed business requirements in a form that the AWG can use to populate their interface documents.
- 4.3. SB then gave the board an update on the work the CCDG has done. She highlighted three areas where the CCDG has decided to diverge from the DWG's preferred TOM. The first is removing Measurement Classes and replacing them with Consumption Component Classes aligned with the TOM market segment, the second is transitional arrangements that extend beyond the final implementation of the TOM for switched load customers (e.g. E7 or RTS) with a traditional meter which would require profile classes to be retained so these customers can be identified, and finally that the load

shaping service should create load shapes for the advanced and UMS market segments to be used for defaulting. A board member welcomed the proposed transitional arrangements for economy 7 customers, and highlighted [a paper written by Maxine Frerk](#) on the potential future solutions for customers with electric heating.

- 4.4. SB then gave the board an update on the work being done by industry code administrators to identify the impacted sections of their code documents. She said that the DCUSA, MRA and BSC draft code impact matrices were all presented to the CCDG in May, and that the DCUSA and BSC changes are on track to be completed by the CCDG consultation. She continued that the changes to the MRA have been marked-up in the MRA, and that the Ofgem TOM team is working with the switching team to understand how the delay to REC go-live will impact the MHHS legal drafting. For the CUSC, all the impacts are to NHH charging, which is currently under review by the TCR, so it was agreed that this won't be looked at until the legal text for the TCR CUSC modifications are finalised, which is expected to be October this year. SB then explained that the SEC impacts of MHHS would be determined by the way DCC implements the MHHS changes. She informed the board that JK, SB and Kevin Spencer (ELEXON) would join the TABASC on August 6th where a solution would be considered. Once a solution is agreed, the SEC changes can be identified. SB made the board aware of some views expressed at TABASC, that the supplier should be the only party to retrieve data, rather than creating a new DCC User role for suppliers to be able to appoint an agent to do so on their behalf. Their concerns were about DCC capacity if more than one party is collecting data from a meter. Ofgem have advised TABASC to formally respond to the draft IA consultation. A board member pointed out that if the TOM needed to be redesigned, this may have knock on impacts on time lines and some of the innovation benefits and future business models identified in the consultation.

4.5. SB handed over to JK to give the board an update on the AWG, and the potential next stages of design work. JK set out the principles the AWG have agreed on. These are: solution architecture principles, data architecture principles and security guidelines.² The intention is that when the AWG makes recommendations they will assess them against these agreed principles. The AWG is also looking at the specifications for the 7 interfaces between services identified as part of the TOM. The group are also looking at whether further interfaces, like that between suppliers and the registration system should also be in scope. This is currently being determined. JK also highlighted the monthly newsletter that Ofgem publishes³ which contains up to date information about both the CCDG and AWG as well as updates on the SCR.

4.6. JK then showed the board the phases that are expected as part of the technical design that needs to be undertaken to produce an output that industry can build against. She set out that the current phase, the AWG, won't identify the technology solutions, so following the AWG recommendations it is expected that a follow on group would be created to select the technology solutions which would include technical consultants from across the industry. JK noted that earlier a board member mentioned that they believed that every industry party wouldn't be required to take part in this phase of the design. The board member clarified that because many industry parties use third party software providers that in some cases the software providers would be more appropriate to be involved. JK noted that it is intended that third party software providers are involved in the next phase of the design, and that they are currently involved in the AWG. Another board member stated that they felt that designing technology 'by committee' is not the best approach; instead, parties should feed into the interface specifications, but through a set of documents to comment on rather

² These principles can be found on [the AWG page](#) on the ELEXON website.

³ These can be found [on the Settlement Reform page](#) on the Ofgem website, under the heading 'Newsletter'

than be part of the design process. A member agreed, stating that a small group should develop the straw men solutions for industry, or potentially a 3rd party, to assess.

- 4.7. Justin Andrews (ELEXON) asked Board members to comment on how to best balance the existing architecture that parties have invested in, including the DTN, and facilitating new infrastructure. A board member answered that industry need to agree principles about the design process, but that the party building the systems should answer the structural questions like whether to use the DTN, API or another solution. The member added that they believe all suppliers use an API in some capacity, and that they feel it is unlikely that the DTN will be the best option for the future. They also stated that they felt implementing a system that works with an API and the DTN would be too complicated. A further member agreed that the industry should agree principles, and provide feedback on the design. A member suggested that the design should be separated into blocks, and that the parties involved in that block should be involved, but not the rest of the industry. A board member commented that the best approach to the design work would become clearer if information was to be gathered on the systems and preferences of the parties involved.

5. Closing Remarks

Anna Stacey

- 5.1. AS asked members if they had anything further they would like to mention on any of the points that have been discussed in the meeting. A board member encouraged the Ofgem team to consider export from EVs and the potential for buildings as power stations. A board member asked whether export, as well as demand reduction, was considered as part of the load shifting analysis **ACTION:** *Ofgem to clarify this whether export is considered in the load shifting analysis.* Another member asked for an update on Ofgem's current thinking on access to data. AS said that most of the major decisions have been taken, and that Ofgem have [published a paper](#) alongside the draft

IA to clarify some of these points. She highlighted that there are questions in the consultation about access to data, including the granularity at which data should be collected for consumers who have opted out, and customer messaging.

5.2. AS reminded the board of the consultation closing date, September 14th, and highlighted to the board that Ofgem intends to hold another stakeholder workshop on September 3rd to take stakeholders through some of the issues discussed. She closed the meeting by thanking the board and setting the expectation that the DAB would meet next in October after the responses to the consultation have been received.

DAB Actions:

1. *Ofgem to follow up with the member about registration changes.*
2. *Ofgem to clarify this whether export is considered in the load shifting analysis.*

Export was not considered as part of the load shifting analysis. The analysis focused on consumption that would move away from the peak to other times of the day, and does not capture things like overall demand reduction or export.

Attendees:

Andy MacFaul (Ofgem)

Anna Stacey (Ofgem, Chair)

Chris Allanson (Northern Power Grid)

Chris Welby (Bristol Energy)

David Crossman (Cornwall Insights)

David Sykes (Octopus Energy)

Graham Oaks (Graham Oaks Ltd)

Ian Mitchell (Ofgem)

Jasmine Killen (Ofgem)

John Christopher (BEIS)

Josep Garcia-Sole (Ofgem)

Judith Ward (Sustainability First)

Justin Andrews (ELEXON)

Kevin Spencer (ELEXON)

Mark Bellman (Scottish Power)

Professor Nick Pidgeon (Cardiff University)

Rajni Nair (Citizens Advice)

Rick Hitchcock (Ørsted)

Saskia Barker (Ofgem)