

Modification proposal:	<b>Balancing and Settlement Code (BSC) P413: Enable Elexon to be the Programme Manager for the implementation of Market-wide Half-Hourly Settlement (P413)</b>		
Decision:	The Authority <sup>1</sup> directs that the alternative modification be made <sup>2</sup>		
Target audience:	National Grid Electricity System Operator (NGESO), Parties to the BSC, the BSC Panel and other interested parties		
Date of publication:	20 April 2021	Implementation date:	5 WDs after date of Authority decision

## Background

Market-wide Half-hourly Settlement (MHHS) is a vital enabler of flexible energy use. It will send accurate signals to suppliers about the cost of serving their customers throughout each day. These signals will incentivise suppliers to offer new tariffs and products, for example time of use tariffs, automation, vehicle to grid solutions and battery storage, that encourage more flexible use of energy and help consumers lower their bills. Making best use of existing infrastructure should reduce the need for future generation and network investment, help decarbonise the sector cost-effectively and will benefit all consumers and wider society. Implementation of MHHS will build on the introduction of elective half-hourly settlement (HHS) for domestic and smaller non-domestic consumers from 1 April 2017.<sup>3</sup>

In June 2020, we published a draft Impact Assessment (IA) consultation which set out a number of programme objectives for the transition to MHHS implementation.<sup>4</sup> We consulted on whether we had identified the right delivery roles needed for successful implementation

<sup>1</sup> References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

<sup>2</sup> This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

<sup>3</sup> Our [conclusions paper on introducing elective HHS](#) is on the Ofgem website.

<sup>4</sup> The [June 2020 draft Impact Assessment consultation](#) is on our website.

and on possible options for managing these delivery roles. We proposed that the costs of these delivery roles would be met by BSC parties under the current funding structure.

In January 2021, we set out our plan to clearly place responsibility for managing and delivering MHHS implementation on industry, drawing on their deeper knowledge of, and expertise with, industry systems and processes, and allowing them to take greater ownership of the reforms.<sup>5</sup> We said that we planned that Elexon, recognising its existing role in relation to settlement as the BSC code administrator, would be the Senior Responsible Owner (SRO) for the programme.<sup>6</sup> Ofgem would remain the Programme Sponsor. We also consulted on putting appropriate solutions and mitigations in place to address the challenges and risks of our planned approach. We also published a summary of the June 2020 consultation responses referring to MHHS implementation delivery. We noted that a majority of respondents favoured our proposal that funding for MHHS implementation should be recovered via the BSC.

We have reviewed the responses to the January 2021 consultation and are of the view that it will be possible to put in place appropriate solutions and mitigations. In our April MHHS Decision Document, which we are also publishing today, we are confirming our plans for industry-led delivery, with Elexon as the SRO. We are outlining there the further work which we are undertaking to establish the appropriate governance and assurance framework for MHHS implementation.<sup>7</sup> This decision in relation to P413 is the first part of that further work.

## **The modification proposal**

P413 was raised by Scottish Power (the proposer) in August 2020. The proposal originally sought to require Elexon to provide MHHS implementation Programme Management (PM) services, with overall accountability to Ofgem for its performance. After initial workgroup discussion, the proposal was amended to enable Elexon to do so. P413 would provide a clear basis for Elexon to recover its costs for providing MHHS PM services, and its costs of bidding for these services in any competitive process run by Ofgem (with bid costs capped at £100k),

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<sup>5</sup> The [January 2021 consultation about MHHS programme implementation principles](#) is on our website.

<sup>6</sup> We confirmed the MHHS programme implementation delivery roles as: a Programme Management Office (PMO), a System Integrator (SI), and a Programme Party Co-ordinator (PPC). A separate Independent Assurance function would provide assurance and accountability to us and stakeholders that these roles are being performed effectively.

<sup>7</sup> The [MHHS Decision Document](#) (20 April 2021) is available on our website. We will shortly be consulting on implementation and governance arrangements for MHHS and the consultation will be available on our website.

from BSC Parties using the Main Funding Share mechanism.<sup>8</sup> P413 also sought to add provisions into the BSC for a separate Assurance function as part of MHHS programme governance. The proposer considered that the P413 original proposal better facilitates BSC Applicable Objective d (promoting efficiency in the implementation of the balancing and settlement arrangements).

The workgroup assessing P413 raised an alternative proposal. The alternative is the same as the original proposal except that cost recovery for Elexon's provision of MHHS PM services would fall on suppliers only through a new Specified BSC Charge with individual suppliers' cost share based on their market share across all suppliers.<sup>9</sup> Any Elexon bid costs would still be recovered from BSC Parties using the Main Funding Share.

The P413 workgroup recommended by majority that the alternative was better compared to the original proposal against BSC Applicable Objective d. The majority of the workgroup thought suppliers were primary beneficiaries of MHHS implementation and so, in principle, non-supplier BSC Trading Parties should not pay for the cost of Elexon providing MHHS PM services. The full views of the workgroup are in the Final Modification Report.

### **BSC Panel<sup>10</sup> recommendation**

At the BSC Panel meeting on 11 March 2021, the Panel considered that P413 would better facilitate the BSC objectives, specifically Applicable Objective d (promoting efficiency in the implementation and administration of the balancing and settlement arrangements), and that it was neutral in respect of the other objectives. A majority of the Panel recommended approval of the P413 original proposal and a minority recommended the alternative. Either was considered better than the current BSC baseline. The Panel's reasons are set out in the Final Modification Report.

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<sup>8</sup> A BSC Party's Main Funding Share is its energy volume as a percentage share of total energy volumes across all Parties paying the Main Funding Share. The Main Funding Share is paid by various BSC Parties. Around 60% of costs recovered using the Main Funding Share comes from suppliers and around 40% from generators – see page 29 of the [P413 Final Modification Report](#).

<sup>9</sup> The proposed new BSC Specified Charge would be levied on a monthly basis per SVA metering system registered to each supplier in that month but not be a SVA cost. Suppliers' overall share of BSC costs would increase. The business requirements for the new Specified BSC Charge are in the [P413 Final Modification Report](#) (see page 15) as are details of the limited circumstances in which the new BSC Specified Charge would not be used, eg in the initial set-up phase and in relation to bad debt. Elexon calculate the estimated implementation costs for the new BSC Specified Charge to be in the range £51-63k.

<sup>10</sup> The BSC Panel is established and constituted pursuant to and in accordance with Section B of the BSC and [Standard Special Licence Condition C3 of the Electricity Transmission Licence](#) available.

## Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 15 March 2021. We have considered and taken into account the responses to the industry consultation(s) which are attached to the FMR.<sup>11</sup> We have concluded that:

- implementation of the alternative modification proposal will better facilitate the achievement of the applicable objectives of the BSC;<sup>12</sup> and
- directing that the alternative modification be made is consistent with our principal objective and statutory duties.<sup>13</sup>

We have also concluded that approving the P413 alternative proposal will support our ongoing work on the governance arrangements through which Elexon should perform the MHHS PM roles. We think there should be additional specification of the governance arrangements and so we will be consulting on further amendments to the BSC and other codes shortly as part of the ongoing Significant Code Review.

## Reasons for our decision

### *MHHS implementation – the way forward*

Alongside this code decision, we are publishing a Decision Document confirming our intention to implement MHHS.<sup>14</sup> The decision sets out further information about the transition plan for MHHS implementation, including performance of the programme delivery roles. P413 was raised when we were still considering what the programme delivery roles should look like and who should perform them.

Our Decision Document confirms that Elexon will be SRO for MHHS implementation and that it should undertake PM services, including ensuring an effective Programme Management function independent of Elexon's BSC system operation role, and procuring an independent

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<sup>11</sup> BSC modification proposals, modification reports and representations can be viewed on the [Elexon website](#).

<sup>12</sup> As set out in [Standard Condition C3\(3\) of the Electricity Transmission Licence](#).

<sup>13</sup> The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989.

<sup>14</sup> The [MHHS Decision Document](#) (20 April 2021) is accompanied by the Full Business Case (FBC) and final Impact Assessment (IA) for MHHS setting out the detailed economic assessment behind our decision.

System Integrator and a Programme Party Coordinator function. This approach ought to avoid any dilution of Elexon's existing role in relation to settlement and should help ensure implementation of MHHS is able to benefit from wider market experiences of delivering industry change programmes. We will undertake procurement of an Independent Assurance Function to ensure transparency and confidence in the management and reporting of the programme. We expect that the contract will be managed on a day-to-day basis by Elexon who will also be responsible for the costs of the Independent Assurance function, which will also be included in the cost recovery mechanism introduced through this P413 modification.

Responses to our January 2021 consultation, and some of the responses to the P413 report phase consultation, highlighted a number of concerns about Elexon's role. We intend to put in place further governance arrangements to address these concerns and will be publishing a further consultation about them shortly. We will set out detailed proposals about the governance and assurance arrangements around Elexon's role, the application of effective independent assurance and the placing of code obligations on all programme parties, including upon Elexon. We believe that these will help reassure parties taking part in the MHHS programme about Elexon's capacity and capability to act as SRO and as PM provider, and help ensure that the balancing and settlement arrangements are implemented and administered even more efficiently. An independent assessment of Elexon's plans for its MHHS implementation role has been carried out, with recommendations for action to address any areas of concern. This assessment will be published alongside the further consultation.

Approving P413 supports efficient delivery of the balancing and settlement arrangements on a transitional basis while we develop and embed the detailed governance and assurance arrangements needed for MHHS implementation. In particular it provides a degree of transparency around Elexon's costs, recognises the benefits that third party providers may bring and allows oversight and flexibility in how the programme delivery roles will be performed.<sup>15</sup>

#### *Cost recovery for MHHS implementation*

P413 sets out two options for recovering the cost of MHHS PM services. We note that Panel members who supported the original proposal (recovery from all BSC parties using the Main

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<sup>15</sup> We also note the provisions in P413 which enable Elexon to participate in any competition for these services. We are comfortable that they are neutral, or potentially marginally positive, regarding BSC Applicable Objective d.

Funding Share mechanism) consider that MHHS implementation would benefit all parties, including generators, that poorly managed implementation affects all BSC parties, and that this implied that implementation costs should therefore be socialised.

In our view, cost recovery from the demand side (suppliers only) – the alternative – rather than from all BSC parties – the original – is more efficient in the particular context of MHHS PM services. In reaching this view, we have considered the extent to which these costs can be influenced by the different BSC parties, and what mechanisms otherwise exist to incentivise parties to engage effectively with MHHS PM services, and support efficient delivery of MHHS.

In the case of MHHS implementation costs, we are not persuaded that generators can influence or change them through any actions they take. We consider that industry as well as consumers as a whole will benefit from MHHS, but that, ultimately, generators are unlikely to be able to influence the speed at, or efficiency with which, it is delivered as a project. We are of the view that it is suppliers who can predominantly affect the implementation timescales for MHHS (and therefore the costs associated with such implementation), and that it is therefore appropriate to recover these costs from suppliers. We consider that this will act as a further incentive to suppliers to engage fully in the process and make timely changes and so better help support overall efficiency in the operation of the BSC. We also note that this approach is more consistent with wider and ongoing work in relation to cost recovery charges.

We recognise that there are some initial limited costs payable by BSC parties to implement a new supplier-only BSC Specified Charge. In approving the alternative proposal, we are comfortable that those costs are comparatively low and the alternative remains more efficient overall.

***(d) promoting efficiency in the implementation and administration of the balancing and settlement arrangements***

For the reasons given above, we consider that the P413 alternative modification proposal will better facilitate this BSC Applicable Objective by providing a more efficient approach to cost recovery of MHHS PM service costs compared to the BSC baseline or the original proposal. It places cost recovery onto those BSC parties (suppliers) who will also have an incentive to implement MHHS efficiently to keep costs down. The additional costs of establishing a new funding mechanism are relatively low in comparison.

Our approval of P413 alternative also provides a degree of transparency around Elexon's costs, recognises the benefits that third party providers may bring and allows oversight and flexibility in how the programme delivery roles could be performed in the future.

P413 alternative will therefore better facilitate BSC objective (d) and has a neutral impact on the other applicable objectives.

### **Decision notice**

In accordance with Standard Condition C3 of the Transmission Licence, the Authority hereby directs that the alternative modification proposal BSC P413 'Enable Elexon to be the Programme Manager for the implementation of Market-wide Half-Hourly Settlement' be made.

**Rachel Clark**

**Deputy Director, Switching Programmes – Consumers and Markets**

Signed on behalf of the Authority and authorised for that purpose