



Elexon

Independent assessment of preparations to establish and undertake the role of MHHS Programme Manager

19 April 2021

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1. Introduction

This report presents the results of an assessment by Complete Strategy of the effectiveness of Elexon's preparations for establishing and undertaking the industry-wide programme management role for the Market Wide Half Hourly Settlement (MHHS) Programme.

Elexon, at Ofgem's request and with Ofgem's approval, engaged Complete Strategy to undertake this assessment. Ofgem approved the scope of the assessment, which Complete Strategy has undertaken in two stages:

- an initial assessment of Elexon's preparations undertaken during the period 1-12 March 2021; and
- a review of progress against the recommendations from our initial assessment, undertaken during the period 1-16 April 2021.

Our assessment has been undertaken in the context of Ofgem's plans, set out in the consultation published on 22 January 2021, that Elexon will be Senior Responsible Owner (SRO) for the MHHS Programme. This responsibility will entail establishing, operating, and managing programme structures and governance, in order to give the industry more control over the implementation of MHHS and allow more ready access to deeper knowledge and understanding of industry systems and processes.

Following the direction set in the January 2021 consultation, and within the limits of what is appropriate before Ofgem makes a formal decision, Elexon has started to define the work that will be needed to take on the SRO, programme management and governance roles, and has developed proposals for MHHS programme management and governance arrangements to:

- provide strong, effective and experienced programme management;
- draw on externally-procured expertise for roles where Elexon and the wider industry do not have the capacity to fulfil them;
- encourage rapid decision-making with decisions driven by consumer outcomes;
- provide all parties with an appropriate voice in decision-making; and
- separate Elexon's responsibilities for programme management and development of central settlement systems to minimise conflicts of interest within Elexon.

Our assessment has focused on two complementary questions across the areas that we have reviewed:

- has Elexon identified and started the work that will be required to establish the type of industry-wide programme management function required for MHHS, and, where this is not the case, does Elexon have plans to do this work in the remaining period of programme mobilisation?
- will the proposals that have resulted from this work address Ofgem's and the industry's likely requirements and concerns, and will the proposed approach maximise the likelihood of a successful outcome for the programme?

In simple terms, therefore, we have assessed: (1) **Is Elexon doing, or planning to do, the right things in the right way?** and (2) **Has Elexon come up with the most appropriate answers?** Throughout our assessment, we have taken into account that the decision to appoint Elexon as SRO and programme manager had not been confirmed, so Elexon was able to allocate only limited resources to this work.

Thus, in undertaking the assessment we have recognised that we have not been assessing a fully mobilised programme, rather we are assessing the progress and status of Elexon's preliminary work in preparation for taking on the SRO and overall programme management roles. We therefore highlighted in our initial assessment where we did not see evidence of work and outputs that we would have expected to see, even at an early stage. We have not focused on areas of work that we know will be more appropriately undertaken later.

Our assessment has focused on assessing how effectively key aspects of Elexon's proposals for activities such as programme management, governance and procurement will help deliver the programme successfully. We did not, in the brief time allowed for the initial assessment, undertake detailed or comprehensive reviews of items such as the programme mobilisation plan, detailed resourcing requirements, programme budget, proposed job descriptions, or terms of reference for programme governance groups. Our recommendations in these areas therefore only reflected the most immediate requirements for action.

Furthermore, because the focus of our assessment has been on the effectiveness of Elexon's preparations and plans for establishing the industry-wide programme management function, we have not made any assessment of Elexon's ability to undertake these industry-wide programme management roles throughout the full duration of the programme. We have, however, applied our understanding of the specific challenges that different stages of a complex multi-party programme will face, to highlight the likely consequences of approaches proposed by Elexon for later stages of the programme.

This document provides the results of our initial assessment and subsequent review of progress. Section 2 provides a summary of recommendations from our initial assessment and the progress that has been made against those recommendations and Section 3 provides further background and detail on the findings that have led us to our conclusions.

2. Summary of conclusions, recommendations and progress against recommendations

Elexon has a strong intent to serve the industry, and has undertaken some detailed work in anticipation of being formally appointed as overall programme manager for the MHHS Programme. Our initial assessment noted the need for this work to reflect sufficiently the very different, much larger and more complex challenge that MHHS programme management represents in comparison with roles that Elexon has undertaken in previous programmes. We emphasised that the thinking underpinning Elexon’s proposals for establishing and undertaking MHHS overall programme management needed to be driven by a fundamental assessment of what arrangements will be needed to manage a programme of the scale and complexity of MHHS to a successful conclusion.

We recognised the limited time that Elexon has had to develop its thinking between the January 2021 consultation and our initial assessment, but we considered that significant broadening and deepening of Elexon’s early thinking would be required to ensure that the programme management function is designed, planned and established in a way that will provide robust and effective foundations for the full programme.

The table below summarises the recommendations from our initial assessment, and the progress that has been made since we made those recommendations. We present more detail of our findings that led to these conclusions and recommendations, and the progress since, in Section 3.

	Recommendation from initial assessment	Summary of progress against recommendation
1	Procure core programme management services, including the Programme Manager, from a lead delivery partner with experience of having successfully undertaken similar roles.	Elexon has appointed an experienced Programme Manager and plans to appoint a Mobilisation Partner to assist in setting up the central programme and supporting Elexon through the mobilisation stage. This will include determining the approach for subsequent procurements, including the programme management/PMO services. We therefore expect the Mobilisation Partner role to be similar to the first role that would have been undertaken by the programme management partner that we recommended was appointed in our initial assessment, so we support this approach.

	Recommendation from initial assessment	Summary of progress against recommendation
2	Involve industry representatives actively in the procurement of programme management services, to the extent possible, through the Programme Steering Group (PSG) of industry representatives that will be established to support decision-making and provide direction to the MHHS Programme.	Elxon had recognised the need for this before our initial assessment and aims to achieve industry participation in procurement of the Mobilisation Partner by inviting the BSC Panel to propose two members of the tender committee, because this procurement is expected to take place before the PSG is established.
3	Simplify the way in which governance arrangements are presented to participants so that they are more intuitive, and focus on key functions and how industry parties will be involved in decision-making.	Elxon has adopted a much simpler representation of the programme management and governance arrangements in more recent documents, delineating more clearly the responsibilities for programme oversight and senior decision-making, programme management and execution, and consultation and engagement with industry parties. Ofgem has also proposed programme governance arrangements as part of its April 2021 consultation.
4	Define and agree the responsibilities and accountabilities of the Programme Sponsor and SRO roles, and how they will work together in practice.	The programme governance arrangements developed by Ofgem provide a summary of the Programme Sponsor and SRO responsibilities. This provides a basis for Ofgem and the SRO to work together to facilitate effective decision-making, but will need further work and agreement between the involved parties to agree in detail how the governance arrangements should operate, and how the programme management and governance structures will work effectively together.
5	Review and test the proposed programme management and governance arrangements to ensure they represent the best approach to involving industry parties, enabling streamlined decision-making and minimising conflicts of interest.	The programme governance arrangements proposed by Ofgem have been specifically designed to facilitate industry involvement and streamlined decision-making. The proposals provide a basis to achieve this and, if necessary, responses to the April 2021 consultation can be used to strengthen the arrangements further. It will then be a key responsibility of the individuals and parties involved, including Ofgem, the SRO and the PSG, to work through how the governance arrangements should be applied in practice to enable rapid and effective decision-making.

	Recommendation from initial assessment	Summary of progress against recommendation
6	Prepare urgently a high-level plan that covers all of the programme mobilisation work in a form that makes it a useful and essential tool in planning and managing progress.	Elexon had recognised the need for such a high-level plan before our initial assessment, and has subsequently developed a draft 'plan on a page' for the mobilisation stage of the programme. Elexon will develop this further as the basis for a full 'mobilisation stage plan'.
7	Involve industry staff in development and agreement of the 'mobilisation stage plan' to improve commitment and support for the programme and Elexon's role.	Elexon had already recognised the need to do this and will seek industry views when the 'mobilisation stage plan' has been developed further.
8	Develop of a more detailed description of how the Systems Integrator (SI) will operate, as has been done for the Independent Assurance Provider (IAP) role.	Elexon plans to define how the SI will operate as part of the mobilisation stage of the programme, as input to defining the scope and plan for the SI's work, and to provide a basis for procurement of SI services.
9	Review the approach to procurement of the SI, in the light of the programme management function being procured from a lead delivery partner, to ensure a coherent overall approach to procurement.	Elexon will develop its approach to procurement of the services needed by the programme, including for the SI role, as part of the mobilisation stage.
10	Ensure that where industry staff are included in the wider programme management function, they are provided by a range of industry parties to provide a fuller breadth of experience and knowledge, and to demonstrate explicitly that MHHS is an industry-wide programme.	Elexon was initially and understandably concerned that seeking industry support for the programme would place a burden on market participants. However, having tested this idea with some industry parties, Elexon has received some industry support for this approach. Elexon plans to progress this, with an initial focus on industry staff working as part of the design authority team within the central programme for pre-agreed time-bounded periods.
11	Define the required approach to communication and interactions between the programme and participants, driven primarily by the nature and frequency of interactions that will be needed with participants at different stages of the programme.	Elexon plans to define how the PPC will operate as part of the mobilisation stage of the programme, as input to defining the scope and plan for the PPC's work, and to provide a basis for procurement of PPC services.
12	Define how the Programme Party Coordinator (PPC) will operate in practice (in the form of a set of principles, as has been done for the IAP).	

	Recommendation from initial assessment	Summary of progress against recommendation
13	Involve appropriate industry representatives directly in the design of the principles for the PPC, to ensure it is established in a way that will actively support and help industry parties.	Elexon recognises that industry parties must be actively involved in the definition and design of how the PPC will operate, so that it will provide added value through support and guidance to participants, in addition to providing progress monitoring information for the central programme.
14	Make it very clear to the industry that Ofgem and the PSG will have the key roles in selecting the IAP, with Elexon's role limited to contract administration.	Ofgem has revised the assurance principles since our initial assessment to make it clear that it (Ofgem) will specify the assurance requirements, carry out the procurement process, and sign the contract with the assurance provider, with Elexon's role limited to contract management and administration.
15	Ensure that bidders for the IAP role use the assurance principles as a guide in developing their proposals, but also use their experience to make the IAP role as effective as possible.	Ofgem has accepted this recommendation and will seek to embed this philosophy in the procurement approach for the IAP.
16	Develop the assurance principles document further to consider explicitly how independent assurance will help mitigate potential conflicts of interest within Elexon's roles.	Ofgem has revised the assurance principles to stress explicitly the need for the assurance provider to periodically assess and report on whether processes in place for managing potential conflicts of interest in Elexon are appropriate and operating effectively.
17	Ensure that Ofgem has the authority to require changes to manage any conflict of interest within Elexon, through its step-in powers or other measures.	Ofgem proposes amendments to the BSC to give it a power of direction in relation to MHHS implementation, which will allow it to direct Elexon, as SRO, in a number of areas, including related to conflicts of interest.
18	Ensure explicit and visible physical, organisational and cultural separation of the programme management function from other parts of Elexon's work.	Elexon has initiated work to identify office accommodation for the MHHS Programme team that is physically separate from other accommodation used by other Elexon staff, and to establish separate MHHS Programme website and email addresses.
19	Prepare further for the required degree of separation between the programme management role and other Elexon activities.	

3. Detailed findings, recommendations and comments on progress

We were asked to assess Elexon's preparations for mobilising and undertaking the MHHS SRO and programme management roles within the categories of capability, capacity, conflict of interest and incentives. We undertook our initial assessment through discussions with Elexon and Ofgem, and by reviewing Elexon documents related to its preparations for undertaking these roles. We recognised in our initial assessment the short time for Elexon to undertake any work to prepare for the SRO and programme management roles since the January 2021 consultation, and the limited resources that Elexon was able to apply to this work, so we focused on items that we would have expected to see, even at this early stage of those preparations, rather than on work that will be undertaken in later stages of the mobilisation.

While we present our findings, our recommendations from our initial assessment, and our comments on the progress made since within this broad structure, some of the findings affect more than one of the categories we were asked to assess. As an example of this, Elexon's proposed approach to establishing and resourcing the programme management function reflects its capability to fulfil the programme management role with existing staff and the appropriateness of those proposed arrangements for the MHHS Programme, as well as Elexon's capacity to manage the programme.

Therefore, while our findings, recommendations and comments on progress follow the broad structure of the four categories we were asked to consider, we present them under headings that provide a more coherent overall assessment.

Elexon capability to undertake the programme-wide programme management role

Elexon has a very clear purpose to serve the electricity industry and support building a path to net zero, and sees its proposed role in the MHHS Programme as a key contributor to this. Elexon staff have expressed confidence in Elexon's capabilities to fulfil the programme management role in a way that will maximise the chances of successful delivery, citing Elexon's technical knowledge, previous experience of managing programmes, the strong incentives on Elexon to succeed and Elexon's non-profit status as reasons for this confidence.

This confidence contrasts with feedback from some industry participants, who have commented that while Elexon is very effective in its core role as central settlement systems provider, it does not have the track record or skills to manage a programme with the magnitude and complexity of MHHS, suggesting that programme management should be independently procured following best practice standards and operated independently from Elexon.

Elexon's roles in leading programmes have been largely limited to smaller programmes with narrower scope and much less complexity and risk than MHHS, such as new releases of central settlement systems and Project TERRE. The programme management requirements for MHHS will be much more wide-ranging, demanding and unpredictable than previous programmes that Elexon has managed. Programme management, especially in a programme

of this size and complexity, is not primarily a technical role, but one that will demand:

- very strong leadership and the ability to build and motivate diverse teams towards a common purpose;
- broad and deep experience of the type of issues that are likely to arise at different stages of the programme;
- responsiveness to issues raised by industry parties and an acute awareness of the positions of different parties;
- a relentless focus on risk management, issue resolution, effective decision-making and delivery;
- creativity to devise and implement workable solutions to difficult cross-party issues; and
- the ability to broker solutions with senior stakeholders that may have very different perspectives on how issues should be addressed.

While Elexon has some experience of meeting these requirements, including brokering agreement between industry parties, this has been on smaller programmes with less complexity and narrower scope. We have not seen evidence that Elexon has these capabilities to the extent required to manage the MHHS Programme. We therefore support Elexon's plans to procure external resources for the programme.

Approach to establishing the programme management function

Elexon had recognised before our initial assessment that it does not have staff to fulfil the senior programme management roles, and informed us that it proposed to use external resources to fulfil the Programme Manager and other selected roles. Elexon's intended approach was based on recruitment of suitably qualified individuals for the Programme Manager and other senior programme roles, procuring other parts of the wider programme management function (notably the Programme Management Office (PMO), SI and PPC functions) from external suppliers, and augmenting the programme management team with Elexon staff.

We were aware that Elexon had undertaken some assessment of options for resourcing the programme management function, and had concluded that its proposed approach would be the most effective on the grounds of cost (including lower unit costs for external staff) and greater certainty of delivery. We understood why Elexon may have come to this conclusion, but we are not aware of any other industry programme of this scale and complexity that has taken this specific approach and been successful, and therefore we did not agree that this approach will be most likely to result in a successful outcome for the MHHS Programme. ***We therefore recommended strongly in our initial assessment that Elexon procures core programme management services, including the Programme Manager, from a lead delivery partner with experience of having successfully undertaken similar roles (Recommendation 1).***

Elexon has since recruited a Programme Manager with significant major programme experience for this MHHS Programme Manager role. We have discussed with Elexon,

including its Programme Manager, how Elexon should establish the wider programme management function that will be required for the MHHS Programme. Elexon plans to appoint a Mobilisation Partner to assist in scoping and planning the mobilisation stage of the programme, and then supporting Elexon with undertaking the mobilisation stage of the programme.

We support this approach, which is consistent with our earlier recommendation, as the first role of the programme management partner that we had recommended should be the same as the role that will be undertaken by the Mobilisation Partner. The mobilisation stage will include work to: establish the central programme team; confirm ways of working between Ofgem as Programme Sponsor, the SRO, the PSG and Elexon's Programme Manager; implement programme governance arrangements; seek direct industry involvement in the programme team; and establish the optimum scope, approach and timing for subsequent procurements, including programme management/PMO, SI and PPC.

We indicated in our initial assessment that while Elexon should take the lead role in preparing for and managing the procurement of programme management services, industry representatives should also be involved in this work. We commented that the PSG would be the natural choice to fulfil this role as this would build ownership in the group to which the delivery partner will be accountable. We also recognised in our initial assessment that it may be difficult to achieve this as the procurement of programme management services may need to be undertaken before the PSG is formally established, but this should not preclude direct involvement of industry in the procurement. ***We therefore recommended that industry representatives should be involved actively in the procurement of programme management services, and that, to the extent possible, this should be achieved as a key early role for the PSG (Recommendation 2).***

Elexon had recognised the need for industry representatives to be involved in the selection of any delivery partners for the MHHS Programme before our initial assessment. We confirm that we believe that the PSG should play this role in this if timing allows, but we understand that Elexon intends to invite the BSC Panel to propose two members to the tender committee for procurement of the Mobilisation Partner. This is likely to be the best solution possible for any procurement that is undertaken before the PSG is established.

Proposed programme management and governance arrangements

The proposed programme management and governance arrangements described in the Elexon documents that we reviewed during our initial assessment were unnecessarily complex. We were expecting to see a simple presentation of the governance arrangements as they will be represented to the wider industry. We did not see this during our initial assessment, so ***we recommended that governance arrangements presented to participants for consultation should be streamlined to be more intuitive, focusing on key functions and how industry parties will be involved in decision-making (Recommendation 3).***

Significant progress has been made in defining and documenting the proposed programme management and governance arrangements since our initial assessment. The proposed

governance arrangements are described in the Ofgem's April 2021 consultation. In particular, this highlights the PSG of industry representatives as the key group that will support decision-making and give direction to the programme, the SRO and Elexon's Programme Manager. We have also seen a much simpler representation of the programme management arrangements proposed by Elexon, which delineates more clearly the responsibilities for programme oversight and senior decision-making, programme management and execution, and consultation through working groups to enable other decisions (such as on design changes) to be made to support programme progress.

Programme Sponsor and SRO roles in programmes are often combined and undertaken by the same senior person, which led us to conclude in our initial assessment that splitting the roles could create a risk of lack of clarity over responsibilities. We were made aware at the time of our initial assessment that Ofgem intended to define the role that it will undertake in the programme, including as Programme Sponsor. We highlighted the need for this to be done in a way that recognises other parts of the governance arrangements, including Elexon's responsibilities as SRO, and the remit of the PSG, so ***we recommended that the responsibilities and accountabilities of the Programme Sponsor and SRO roles, and how they will work together in practice, should be defined and agreed as soon as possible (Recommendation 4).***

Ofgem's April 2021 consultation provides a summary of the responsibilities of Ofgem as Programme Sponsor, the SRO and the PSG. The consultation also includes more detail on Ofgem's role as Programme Sponsor, the criteria that will be used to determine when decisions should be referred to Ofgem, how the need for Ofgem's involvement can arise, and Ofgem's proposed powers of direction. We believe that this provides a basis for Ofgem, the SRO and the PSG to work together to facilitate effective decision-making, to enable Ofgem to achieve its objective of not being involved in day-to-day management of the programme while retaining the senior decision-making or approval role when it is required, and to place accountability for delivery with Elexon and the industry.

We highlighted in our initial assessment a risk that Elexon might base its proposed programme management approach and the proposed governance arrangements on existing Elexon ways of working, rather than on the need to establish a more independent function that will best meet the full range of programme and industry objectives. ***We therefore recommended that the proposed programme management and governance arrangements should be reviewed to ensure they represent the best approach to involving industry parties, enabling streamlined decision-making and minimising conflicts of interest (Recommendation 5).***

The proposed programme management and governance arrangements described in Ofgem's April 2021 consultation have been specifically designed to facilitate industry involvement and streamlined decision-making. We believe that the proposals as presented in the consultation provide a sound basis for the programme and we recognise that industry parties will provide responses to the consultation that might further strengthen the proposed governance arrangements. When the arrangements have been updated and confirmed following the consultation, it will be a key responsibility of the individuals and

parties involved, including Ofgem, the SRO, the PSG and Elexon's Programme Manager, to work through how the governance arrangements should be applied in practice to enable effective and lasting decisions to be made to support programme progress. We believe that this should include work to ensure that the programme management and governance arrangements will work together in a coherent and consistent manner, and to test the proposed governance structure against potential scenarios they will need to deal with, to confirm how the arrangements will work in practice to facilitate decision-making. It may be necessary to make refinements to the governance arrangements to make them fully effective following this scenario testing. We believe that this should be one of the early deliverables from the initial mobilisation stage work.

Mobilisation planning

We saw two different project plans during our initial assessment covering some of the work planned over the coming months to mobilise the MHHS Programme. These plans were too detailed to support effective overall management of the mobilisation work, covered different scopes of work, and we did not have confidence that they would support delivery of all of the required outcomes and deliverables.

We indicated to Elexon during our initial assessment that we would expect to see key deliverables and decisions from the programme mobilisation stage to be reflected in a Programme Definition Document (PDD) setting out the purpose, objectives and required outcomes from the full MHHS Programme, and how the programme will be managed and governed to achieve these outcomes. We did not see the type of easy-to-understand description of the full set of deliverables and outcomes of the programme mobilisation stage (in effect a table of contents for the PDD), or a usable high-level overview plan of all of the mobilisation work, that we would have expected to see, even at this early stage, as the basis for more detailed plans. **We therefore recommended urgent preparation of these, and based on them, that Elexon should maintain, as 'Programme Manager in waiting', a high-level plan that covers all of the programme mobilisation work in a form that makes it a useful and essential tool in planning and managing progress over the coming months (Recommendation 6).** We also said during our initial assessment that without this clear and agreed understanding of the deliverables and outcomes required from the mobilisation stage, there would be a significant risk that key tasks and important dependencies could be missed, and mobilisation of the programme would be less effective than it should be.

Elexon had already recognised the need for a such a high-level plan and has developed a draft 'plan on a page' for the mobilisation stage of the programme since our initial assessment. Elexon plans to develop this plan further, and to base it on the deliverables, outcomes and decisions needed from the mobilisation stage.

Work to develop the PDD should also support development of a robust plan for the mobilisation stage of the programme, as the PDD should reflect the full scope of what the mobilisation stage must produce, including: an updated business case for the programme; the work breakdown structure for the full programme, with descriptions of workstreams and

work packages; a baseline full programme plan and budget; programme organisation and resourcing; the approach to sourcing and procurement; the approach to communication and coordination with stakeholders; governance and decision-making; risk and issue registers; and how risks and issues will be managed.

The full mobilisation stage plan that is developed from Elexon's 'plan on a page' should be produced in a simple and easy to understand form at an appropriate level of detail to support reviews of progress across the programme management team and with the PSG and the IAP. The plan should also be a useful and usable tool for managing work across the broad range of mobilisation activities on a week-by-week basis. Given the need to secure widespread industry buy-in to the way the programme will be managed, ***we recommended that staff from the industry parties should be requested to comment on the mobilisation plan (Recommendation 7)***, either through early formation of the PSG, or through selected direct involvement at a deeper level and in a more interactive way than can be achieved through consultation responses. We confirm our view that this should be an essential part of agreeing the 'mobilisation stage plan', and Elexon intends to secure this involvement and feedback when the mobilisation stage plan has been developed further.

System integration

We agree with the broad remit for the SI set out in Ofgem's June 2020 consultation, and we indicated during our initial assessment that more work should be undertaken to define and agree the specific responsibilities of the SI and how it will operate in practice to plan and manage a large, complex multi-party testing and integration programme. ***We therefore recommended development of a more detailed description of how the SI will operate, as has been done for the IAP role (Recommendation 8)***.

We have not seen the further definition of the SI role as a set of principles that we recommended in our initial assessment in the limited time that has been available to Elexon. Elexon intends to develop this as part of the mobilisation stage of the programme. We recommended during our initial assessment that this definition of the SI role could be modelled on the structure of the assurance principles document that was in draft at the time. Further work on the assurance principles document, which describes in turn the objectives, scope and approach to assurance, reinforces our view that it provides a useful template for describing the context for the SI role and how it should operate (at a level of detail that will be needed to scope and plan the SI's work for inclusion in the full programme plan to be developed during the mobilisation stage). The definition of the SI role will also provide a basis for procurement of SI services.

We agreed during our initial assessment with Elexon's proposal that the SI should be procured from an external supplier as neither Elexon nor any other industry party has the experience or resources to lead this role, and ***we recommended that the approach to procurement of the SI is reviewed in the light of the programme management function being procured from a lead delivery partner, to ensure a coherent overall approach to procurement (Recommendation 9)***.

Exelon has recognised the need for a coherent overall approach to procurement of key services required by the MHHS Programme, including for the SI role. Exelon will develop its overall approach to procurement of the services needed by the programme as part of the mobilisation stage, drawing on specialist expertise from its selected Mobilisation Partner to assist in this, including helping define the required scope and scale of testing and integration that will be needed as input to procurement of the SI.

Industry participation in the programme team

We noted during our initial assessment that Exelon proposes that the SI function should be supported by Exelon's Enterprise Architecture and other technical experts. We agree that the SI function should include industry staff with relevant experience but, given the need to involve the wider industry to the maximum extent possible in cross-industry testing, we suggested that these industry staff should not be limited to being provided by Exelon, so should come from across the parties impacted by MHHS, including, where relevant, Industry Code bodies. ***We therefore recommended that where industry staff are included in the wider programme management function, these staff should be provided by a range of industry parties to provide a fuller breadth of experience and knowledge, and to demonstrate explicitly that MHHS is an industry-wide programme (Recommendation 10).*** We recognised Exelon's understandable concerns that it may be difficult to secure commitments from industry parties and Industry Code bodies to provide people to work as part of the SI or elsewhere in the programme management team, and we also recognised the risk that only larger companies may be able to free people up for these roles.

Exelon has consulted some industry parties on a range of topics since our initial assessment, including to seek their views on providing industry staff to work as part of the central programme team. We understand that feedback from some of these parties to this approach has been broadly positive, on the basis that any such 'secondments' should be for pre-defined periods in specific well-defined roles. We understand that Exelon is pursuing this, with an initial focus on industry staff working as part of the design authority team within the central programme. We see this as a very positive development and we encourage Exelon to follow this up, through development of role descriptions and further discussions with receptive industry parties.

Participant management and communication

Effective communication and working with the very large number of industry parties affected by MHHS, and the diverse interests they represent, will be one of the most essential requirements for the success of the programme. Communication must be appropriate (both for the specific party and the stage of the programme) and must be based on an agreed approach that avoids duplication and places clear responsibility for interactions between the central programme and industry parties within an agreed overall approach. The central programme must respond to legitimate issues raised by industry parties, and the central programme's requirements on parties must be very clear and intuitive. There should be no

ad hoc, unplanned, unexpected or 'without clear purpose' interactions with industry parties in the MHHS Programme.

We noted in our initial assessment that the programme management arrangements proposed by Elexon included multiple roles with some responsibility for interacting with industry parties, including a Programme Engagement Manager and a Programme Communications Manager, in addition to the PPC proposed in Ofgem's June 2020 consultation. We reviewed job descriptions for the two former roles and the additional information on the PPC in documents provided to us by Elexon at the time. These documents did not indicate the degree of clarity that will be needed in planning and undertaking communication and interaction with industry parties. **We therefore recommended that further work should be undertaken to define the required approach to communication and supporting industry parties, driven primarily by the nature and frequency of interactions that will be needed at different stages of the programme (Recommendation 11).**

We broadly agree with the outline remit for the PPC in the Ofgem June 2020 consultation, and we suggested during our initial assessment that it may be possible to remove the need for the two additional roles proposed by Elexon, with the lead role in planning and managing communication and interaction with industry parties taken by the PPC. Elexon will review the roles needed for participant coordination during its further planning of the programme in the mobilisation stage.

We agreed during our initial assessment that management of the PPC will need to be procured externally due to lack of appropriate experience and skills within Elexon and the wider industry, but we do not believe that the staff in the PPC should be provided entirely by the external provider as it could be more cost-effective to create the PPC by drawing on a blend of delivery partner staff, contractors and industry staff. Such an approach is more likely to create a participant-centred approach within the PPC team.

At the time of our initial assessment we had not seen any documents that build on the information in the June 2020 consultation and that describe the principles of how the PPC will operate, both as a team within the wider programme management function, and in its interactions with industry parties. **We therefore recommended that work should be undertaken to define how the PPC will operate (in the form of a set of principles as has been done for the IAP) (Recommendation 12).** We suggested that this work should be driven by the type of interactions with industry parties that will be required over the course of the programme, and the operating style that will be needed for the PPC. As with other aspects of programme mobilisation over the next few months, **we also recommended direct involvement of appropriate industry representatives in the design of the PPC, to ensure it is established in a way that will actively support industry parties (Recommendation 13).** We indicated that this work should also inform the approach to procurement of the PPC, to ensure that suppliers that tender for this role understand the philosophy, skills and experience that will be needed, and that the PPC should not be overly focused on monitoring and reporting.

We have not seen the further definition of the PPC role that we recommended in our initial assessment in the limited time available to Elexon. Elexon intends to develop this as part of the mobilisation stage of the programme. As for the SI role, this can be modelled on the structure of the programme assurance principles document to define the objectives, scope and approach for participant coordination and the PPC role. This definition of the PPC role will also provide a basis for procurement of PPC services.

Independent programme assurance

The programme assurance function must be independent of all aspects of the programme on which it will provide assurance. We therefore consider it important that all interested parties have the opportunity to comment on the principles on which the programme assurance function will operate. We are aware that this is Ofgem's intention through the April 2021 consultation.

We noted in our initial assessment that the programme assurance function must be established in a way that makes it fully independent of all programme parties. We therefore expressed concern that using Elexon as the contracting party may undermine perceptions that the IAP is truly independent.

We therefore recommended that it is made very clear to the industry that Ofgem and the PSG will have the key roles in selecting the IAP, with Elexon's role limited to contract administration (Recommendation 14), and with Elexon's role defined and carried out in a way that cannot impact the independence of the IAP.

The programme assurance principles now make it clear that Ofgem will specify the requirements, carry out the procurement process to select the best provider, and sign the contract with the IAP, to ensure that the procurement is wholly independent of any party in the programme. Elexon's role will therefore be largely limited to day-to-day contract management and administration, as Elexon's SRO and programme management roles make it best-placed to provide ongoing support to the IAP across the whole programme.

The programme assurance principles also make it clear that arrangements must be put in place to ensure that the assurance provider can act independently of Elexon and that its findings and recommendations should not be influenced or altered by Elexon. As part of this, it is intended that the assurance provider can be tasked independently by, and report directly to, the PSG and/or Ofgem. It is also intended that contract management and reporting for independent assurance will be separated from other MHHS programme management and reporting arrangements within Elexon. Furthermore, Elexon, in its MHHS Programme role under the BSC, will be subject to the same assurance requirements as other parties, irrespective of its role as contract manager for the assurance provider. The IAP should therefore seek regular assurance that Elexon is undertaking its SRO and programme management roles in the best interests of customers and the whole industry.

We highlighted in our initial assessment that agreeing the key principles for the IAP role (focusing on its remit, authority, reporting lines and style of working) will be important in gaining widespread support across the industry for the way in which the role should be

undertaken. The principles should therefore provide a basis for procurement of a supplier to undertake the assurance role. We suggested, however, that potential suppliers should use the principles as a guide, not as a prescriptive set of requirements, so they are not constrained in applying their experience to make proposals that will make the IAP role forward-looking in identifying issues that might adversely impact the programme, and achieving the required level of rigour and independence. ***We therefore recommended in our initial assessment that bidders are asked explicitly to use the programme assurance principles as a guide, and to use their experience in their proposals to make the IAP role as effective as possible, so the programme gains the maximum value from the assurance role (Recommendation 15).***

While the assurance principles do not form a document against which the assurance service can be procured, they provide the background and context required to define the specific requirements against which the IAP will be procured. We recognise that Ofgem will be bound by its procedures for major procurements in defining the requirements and undertaking procurement of the assurance provider, but we consider it important that the procurement also provides the opportunity for potential providers to apply their experience to make proposals that will enable the assurance to have the best outcome for the overall programme. Ofgem has accepted this recommendation and will seek to embed these requirements in the procurement approach for the IAP.

Managing conflicts of industry and the need for separation

Feedback from some industry parties has highlighted concerns that inherent and unavoidable conflicts of interest make Elexon unsuited to undertaking the MHHS programme management role. This was recognised by Ofgem in both the June 2020 and January 2021 consultations, with measures proposed to mitigate concerns through separation within Elexon, governance and independent assurance.

Our discussions with Elexon during our initial assessment indicated high confidence that Elexon can effectively manage any conflicts of interest. We were concerned, however, that insufficient focus had been placed on the practical measures required to achieve this.

Ofgem's January 2021 consultation proposed that the IAP should play an important role in identifying potential conflicts of interest within Elexon's roles, by recommending measures needed to mitigate any conflicts, and assessing, on an ongoing basis, whether conflicts of interest are being effectively managed. We agree that the assurance function should have a key role related to potential conflicts of interests in Elexon's roles. There was, however, no explicit reference to the IAP's role related to conflicts of interest in the draft assurance principles document that we reviewed during our initial assessment. ***We therefore recommended that in the further development of the programme assurance principles, explicit consideration should be given to how independent assurance will help mitigate potential conflicts of interest within Elexon's roles (Recommendation 16).*** We also agreed with Ofgem's view that the role of the IAP in mitigating conflicts of interest reinforces the need for Elexon not to be involved in selection of the IAP, and for Elexon's role in relation to the IAP contract being limited to contract management and support to the IAP.

Ofgem has developed and improved the programme assurance principles significantly since the draft that we reviewed in our initial assessment, culminating in the version that has been published as part of the April 2021 consultation. The assurance principles explicitly include the need for the IAP to identify potential conflicts of interest and to recommend actions to remove or mitigate any such conflicts, including where concerns are raised by industry parties. Managing and minimising conflicts of interest is therefore now an integral component of the assurance principles, and we are confident from our discussions with Ofgem that this will be carried forward to the procurement of the IAP.

We commented in our initial assessment that relying solely on independent assurance and actions that Elexon undertakes to achieve separation is unlikely to be sufficient to manage conflicts of interest to the satisfaction of all industry parties. While Ofgem does not intend to play as active a role in the management of the MHHS Programme as it has for some previous industry-wide programme, it is the only organisation with the authority to enforce ways of working within industry parties. ***We therefore recommended that Ofgem ensures that it has plans and the authority to require changes to manage any conflict of interest within Elexon, through its step-in powers or other means (Recommendation 17).***

The description of Ofgem's role as Programme Sponsor included in the April 2021 consultation indicates that Ofgem proposes amendments to the BSC to give Ofgem a power of direction in relation to MHHS implementation, which would allow Ofgem to direct Elexon, as SRO, in a number of areas, including related to conflicts of interest. We have not seen the proposed BSC drafting that will give Ofgem this power, but we are confident from our discussions with Ofgem that this is seen as a high priority and that the necessary measures will be put in place.

While measures can be taken by Elexon, through programme assurance and by Ofgem to reduce the likelihood and impact of real or perceived conflicts of interest, defining and implementing such measures will have limited impact without visible and consistent demonstration that Elexon, as SRO and overall programme manager, is operating appropriately.

Therefore, in addition to establishing appropriate governance and assurance measures, ***we recommended explicit and visible physical, organisational and cultural separation of the programme management function from other parts of Elexon's work (Recommendation 18)***, where:

- physical separation should include measures such as separate office accommodation, a separate website and separate email addresses for the programme management function with no mention of Elexon, and distinct branding for all communication from the central programme;
- organisational separation should limit the programme management's reporting to Elexon operational management, Executive and Board to the absolute essential minimum; and

- cultural separation or 'separation in the mind' should be driven by the need for all Elexon staff in the programme management function to see themselves first and foremost as part of the industry-wide MHHS Programme, not as part of Elexon.

While our initial assessment indicated that Elexon recognised the need for this separation, we saw little in terms of practical proposals on how this would be achieved and maintained, so ***we recommended that more should be done to prepare for the required degree of separation between MHHS programme management and other Elexon activities (Recommendation 19).***

We commented in our initial assessment that physical separation will be relatively easy to achieve, and should be implemented as soon as Elexon's role as overall MHHS programme management is formalised. Elexon has subsequently taken steps to identify office accommodation for the MHHS Programme team that is physically separate from other accommodation used by Elexon staff involved in central settlement and other activities. Elexon has initiated work to identify office accommodation for the MHHS Programme team that is physically separate from other accommodation used by other Elexon staff, and to establish a separate MHHS Programme website and email addresses. We have discussed with Elexon the measures that it plans to take, and we urge Elexon to expedite the work to achieve physical separation as soon as practicable.

Organisational separation will be Elexon's responsibility, though Ofgem should review the measures that Elexon proposes, including the degree of oversight that the Elexon Executive will have over the programme, to help allay potential industry concerns.

Achieving cultural separation will be the most difficult of the three types of measure needed. Use of delivery partners and contract staff can be used to promote a distinct and separate culture for the MHHS Programme team, and use of wider industry staff, not just Elexon staff, into design and integration roles will also help, but we anticipate the need for specific 'awareness training' (which cannot be delivered by Elexon staff) to reinforce these measures.

Incentives on Elexon

Elexon directors and staff believe that Elexon will be strongly incentivised to undertake the MHHS programme management role in a way that will maximise the chance of a successful outcome for the whole industry. This belief is based on settlement being the core of Elexon's business and the reason why it exists. The Elexon staff and directors we spoke to during our initial assessment consider that Elexon has most to gain through successful implementation of the major changes to settlement that MHHS will bring about, and that the reputational implications of failure will be incentive enough to secure a successful outcome. Elexon staff also suggested that as a non-profit organisation it will have stronger incentives than if an external organisation undertakes the programme management role.

We understand why Elexon holds this view, but we are not convinced that reputational incentives and Elexon's non-profit status will necessarily translate into the behaviours required of individuals in the team, or that these will necessarily make an Elexon-led approach more likely to lead to a successful outcome than other viable approaches. We have

experience of many programmes, both industry-wide and within individual organisations, some internally-managed and some managed by suppliers, from which we conclude that it is how the programme is sponsored, directed, led, managed and executed, not the internal versus external delivery model, that is the key determinant of success.

We are also not convinced that Elexon's non-profit status will increase incentives on Elexon as this effectively provides a cost pass-through mechanism for Elexon to recover all of the costs it incurs. Elexon will therefore not suffer directly the financial consequences of delay or cost overrun, which might lead it to propose solutions that are not optimal for the industry. In contrast, if properly structured and managed, external procurement of delivery programme management services could create very strong commercial and reputational incentives on delivery partners.

These observations emphasise the importance of the IAP's role in identifying potential conflicts of interest, recommending measures needed to mitigate any conflicts, and assessing, on an ongoing basis, whether conflicts of interest are being effectively managed.