

Market-wide Half-Hourly Settlement Programme Implementation Budget - Update

BSC Panel

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Summary **This paper provides a summary of the responses received on the draft MHHS Programme Budget and the decision of the Board to approve a 2021/22 budget of £14.5m**

1. Executive Summary

- 1.1 Following discussion and approval of the draft MHHS budget at the June Board meeting the BSC MHHS Budget was issued to industry for comment representing ~£90m over 5 years with 2021/22 being £14.5m.
- 1.2 Prior to the comment period closing out we held a webinar on 10 June, where we explained the budget and how it was put together, the proposed approach to the programme and the governance that is proposed to support the programme (noting that Ofgem is consulting on the governance approach). There were 38 attendees at the webinar, representing BSC Parties, possible service providers for the programme and other interested parties. There were a number of questions raised within the webinar, including about the proposed Data Exchange Service (DES (otherwise referred to as the Event Driven Architecture)), treatment of costs under the price cap and how secondments to the programme would operate.
- 1.3 The period for comment closed on the 14 June and responses were received from Centrica, Eon, ScottishPower and Electralink. The BSC Parties who responded had common concerns with the contingency being too high and the lack of detail to assess the budget, whereas Electralink was asking about secondees.
- 1.4 Mark Bygraves and Angela Love subsequently met with Eon and Centrica and have offered to meet with ScottishPower, who have not taken up this offer. However Mark and Angela had already met with a senior ScottishPower representative ahead of their response being submitted and discussed the premise of ScottishPower's response.
- 1.5 At its June meeting, the Panel approved the introduction of a specific Supplier charge for 2021/22 (expressed as £/MWh) equivalent to £14.5m for 2021/22, based on the draft budget and agreed that it would consider whether this rate needed to be changed following Board approval of the final budget (noting that this was only likely if the budget for 2021/22 changed materially).
- 1.6 The Board discussed the responses received and the explanations already provided (see below), at its July Board meeting and after careful consideration concluded to leave the 2020/21 MHHS implementation budget unchanged at £14.5m. The Board noted that it would keep expenditure under review and that if forecast 2021/22 expenditure fell materially short of this budget then the Panel had the power to reduce the Supplier charge (and so recover a lower amount) during the year.
- 1.7 The first invoices for the MHHS implementation work were issued in July 2021 (using the rate agreed by the Panel at the June Panel meeting) and include the period April to July 2021 to 'catch up', something we have been clear about in our general, and OSM direct, communications.

2. MHHS Budget Responses

- 2.1 In total only four responses to the MHHS Budget were received – these were from Centrica, Eon, Scottish Power and Electralink. Response summaries are below (and Appendix 1).
- 2.2 The BSC Party responses included common concerns with a lack of detail to assess the budget, the level of the contingency fund, the price cap (and whether Suppliers would be able to pass MHHS Programme costs through to consumers) and requesting more detail regarding how secondments would operate and be funded. In summary the comments were:
 - 2.2.1 Centrica raised a specific question regarding how the Data Exchange Service (DES) costs would be allocated to programme parties and whether P413 (whereby Suppliers only are invoiced) included those costs.
 - 2.2.2 Eon raised specific questions regarding greater Covid-19 cost impacts and how the transition invoicing will operate.
 - 2.2.3 ScottishPower raised a concern with the contingency amount and how the MHHS Programme can over spend by a further £20m (cumulative) before Ofgem will step in (we have clarified with Ofgem that the ability to spend up to a further £20m is not in relation to the MHHS Programme Management, but in relation to what market participants have to spend in re-developing their systems – given that this makes up part of the business case for the programme overall).
 - 2.2.4 Electralink offered to provide technical secondees to support the development of the technical and system design work. We have reverted to Electralink to advise that we would not propose that they become involved in the programme, in respect of resourcing it, if they might be considering bidding for any aspects of the work that will be tendered.

3. Elexon Response to Consultation Responders

- 3.1 A meeting was organised between the Elexon Exec, the MHHS Programme and each party that responded. The key points from these bilateral engagement meetings are:
 - 3.1.1 We acknowledged parties' concerns and re-emphasised that the budget was created using a detailed bottom up approach and clarified that the detail was not shared, because we/Ofgem are undertaking procurement processes and we don't want potential bidders to have this commercially sensitive information. The parties understood this.
 - 3.1.2 We acknowledged the concern regarding contingency namely that the budget contained 15% contingency and then a further 10% had been added to reflect the Ofgem £90m and Ofgem's stated concern of 'optimism bias'. Given that, at this early stage of preparing for the MHHS Implementation Manager procurement (Lead Delivery Partner, System Integrator and Independent Assurance Provider) whose costs are unknown at this point, we highlighted to the BSC Parties that it would probably not be prudent to recommend removing the contingency. We highlighted that the risk of reducing the contingency is a re-opening of the budget mid-year. Parties accepted that at the end of the financial year any over recovery will be returned to them, as we do with any other BSC costs. We agreed to share the Supplier's contingency concerns with the Board, which we have done.
 - 3.1.3 We acknowledged the Supplier price cap concerns and advised that we had raised this a number of times with Ofgem, but that they have been clear that the price cap is not a matter for Elexon or for the MHHS programme and that concerned Suppliers should discuss this with the Ofgem price cap team.
 - 3.1.4 For the secondments, in the main the Suppliers seem not to have the capacity to provide Programme resource, although we have been asked for details of the skills that we will be looking for and the arrangements for how secondments would work. Electralink have offered resources, but their offer is likely to compromise them as a service provider, should they wish to bid for any of the MHHS roles.
 - 3.1.5 Specifically Centrica raised concerns about DES, questioning whether those costs related to the management of the programme or to technology, their point being that BSC Modification P413 allows Elexon to recover the costs from Suppliers of the MHHS Programme Management/Implementation, but does not specifically cover infrastructure such as the DES solution. Other costs associated with central systems, if not recoverable via

ELEXON

P413 would be demand led costs recoverable from both Suppliers and Generators. At the present time there are costs included within the £90m budget for DES, but these do not feature in the 2021/22 budget.

Appendices

Appendix 1 – MHHS Budget response summary

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Appendix 1 - Summary MHHS Budget responses from Centrica, Eon, Scottish Power and Electralink

Organisation	Customer Response Summary
Centrica	<ul style="list-style-type: none"> Expected a bottom up budget including a full resource plan – therefore they conclude a lack of granularity to assess if budget is reasonable – e.g. no separate PMO, SI, PPC and DES costs. MHHS budget should only include Implementation Management and Independent Programme Assurance costs only. They believe Data Exchange Service (DES) should not be included. Under the Default Tariff Cap, there is no automatic pass-through to recover additional costs from end-user consumers subject to the cap. They believe 15% contingency is excessive and should be set at 10%. (£9m should be removed). £12.5m has been allocated within the 2021/22 Elexon budget to fund development and delivery of Kinnect components. They believe it is impossible to differentiate how much of the programme budget is to cover genuine programme costs and how much is to cover any central system upgrades required to support MHHS. Secondment process clarity and understanding their funding.
Eon	<ul style="list-style-type: none"> Does not have confidence in the level of budget given that Ofgem's Impact Assessment jumped from £40m to £90m between the draft and final version. Why £90m is required when the transitional period is shorter [(4.5 years is shorter than previous 6 year period). Want to understand what cost controls will be in place to manage contingency and over spend. Concerned by the lack of detail within the budget. Uncertain how the costs would be applied with a price cap and want Elexon to provide Ofgem with detailed Supplier costs. Unclear if budget takes into account Covid considerations, such as lower staff costs due to working from home. Unclear how transition invoicing processes will work and if generators are temporarily picking up costs. Unclear when the transition period will end. Welcome further clarity on how secondments will work and how they will be funded.
Scottish Power	<ul style="list-style-type: none"> Believe it is important Ofgem remains responsible for delivering a successful industry change It is unacceptable that Elexon can project a further £20m before OFGEM step-in given that the proposed £90m budget already includes £10m contingency. Critical that there is clearly defined separation of BSC and MHHS PIM activities during the MHHS programme. Concerns regarding the SRO's authority to act as the sole decision-maker on behalf of the Programme Steering Group (PSG). They are unable to provide resource.
Electralink	<ul style="list-style-type: none"> Offers secondees to support the programme's activities of design, system development, testing and migration.

- They believe they have suitable technical skills to support the system development work.