

ELEXON

Market-wide Half Hourly Settlement (MHHS) Programme Budget



Introduction

Ofgem has determined that Industry will be responsible for implementing Market-wide Half Hourly Settlement (MHHS) and that Elexon, as the code manager for the BSC will be responsible for the overall programme management of MHHS implementation and will be Senior Responsible Owner (SRO). In addition, Ofgem approved BSC Modification P413 (alternative proposal).

Consequently, Suppliers will fund the MHHS programme via an increase in Elexon's costs. This represents a widening of the scope of the BSC and a necessary increase in Elexon's budget.

The BSC formally requires that we issue any proposed within-year changes to our Business Plan and associated budget, to allow BSC Parties to comment. In addition, Elexon is continually looking for feedback from BSC Parties and welcomes the opportunity to consider and act on it.

Therefore, this exercise is to issue the changes to the BSC Business Plan and the proposed BSC budget to cover the MHHS Programme budget. It will also seek feedback from Suppliers, BSC Parties, all MHHS Programme participants and other stakeholders on our proposed approach to the MHHS Programme, including their willingness to provide secondees to the programme.

Document overview

This document provides:

1. An introduction to MHHS
2. Elexon's MHHS Programme roles
3. The MHHS Programme objectives and principles
4. The MHHS Programme functions and structure
5. The MHHS Programme Budget

The main feedback areas are:

1. The MHHS Programme budget
2. The Programme objectives and governance principles
3. The Programme Management structure
- 4.. A request for secondees from Programme participants

We want to hear your views on these topics by **08:00 on Monday 14th June**. We will review responses submitted to us and then collate and present them to the Elexon Board in June for their due consideration. After this, we will publish the approved MHHS Programme budget, focussing on the current BSC Year 2021/2022 and start to invoice Suppliers by the end of July 2021. Please note that the first invoice will recover programme costs incurred from April to July.

It is proposed that Elexon's existing 2021/22 BSC Business Plan will be amended by including a new section relating to the MHHS programme implementation, and a new section relating to the associated MHHS programme implementation budget. These are set out later in this document. We look forward to receiving your feedback. We intend to follow this format in our main business plan document for the subsequent years during the implementation of MHHS.

Introduction to Market-wide Half Hourly Settlement (MHHS)

MHHS will be one of the largest and most significant overhauls of electricity Settlement since privatisation in 1998. The outcome will be a faster, more accurate Settlement process for all market participants, based on the use of half-hourly smart meter reads.

The new Settlement arrangements will encourage innovation, including greater demand-side response, the next generation of 'time of use' retail tariffs, peer to peer trading and electric 'vehicle to grid' schemes. It will also support the electricity sector in helping the UK make the transition to net zero greenhouse gas emissions at the lowest cost to consumers.

Exelon has already had significant involvement in preparation for MHHS. Since 2017, we have been leading industry work for Ofgem to deliver the MHHS Target Operating Model (TOM). Ofgem gave final approval to the TOM as part of its decision to implement MHHS in April 2021. Our work has involved chairing and providing technical leadership to two industry working groups (the [Architecture Working Group](#) and the [Code Change and Development Group](#)) which are further developing the TOM.

Ofgem published the [MHHS Full Business Case \(FBC\)](#) on 20 April 2021, which confirms that MHHS will be implemented through an industry-led programme, managed by Exelon. Ofgem's final impact assessment for MHHS identifies net benefits for GB consumers of £1.6bn to £4.5bn from 2021 to 2045.

Exelon's Programme role

On 23 April Ofgem published its consultation on [MHHS programme governance](#). This includes obligations on Exelon (via changes to BSC documentation), and on all MHHS programme parties (via new licence obligations and BSC obligations). It also sets out the principles of an independent assurance provider.

Given Ofgem's decision that the Programme is industry-led, the governance approach is focused on ensuring effective industry decision making for the design and implementation of the MHHS plans (including the end-to-end design, software build, testing, integration and migration).

At the same time Ofgem confirmed Exelon as the Senior Responsible Owner (SRO) and MHHS Programme Manager to ensure successful delivery of the new [Settlement Target Operating Model \(TOM\)](#). Ofgem will retain oversight as the Programme sponsor. Ofgem expects MHHS Programme implementation to complete by October 2025.

Modification Proposal [P413](#) is the mechanism by which Exelon's responsibilities under the BSC are widened to include being the MHHS Programme Manager, procure programme services from third parties and recover the associated costs. Ofgem published its Modification P413 decision on 20 April, approving the alternate proposal. The P413 alternative provides that MHHS Programme Management costs will be recovered from BSC Suppliers only, on a per meter point basis.

Ofgem has clearly set out proposed [obligations](#) on Exelon (as changes to the BSC), which establish specific requirements on Exelon relating to both the accountability for MHHS implementation (and how that accountability is delivered).

In summary, these obligations are that Exelon will:

- a) Act as SRO for the MHHS Programme
- b) Procure (or otherwise provide) the necessary functions to provide all the central programme management functions
- c) Put in place separation of Exelon functions as required to address conflicts of interest, e.g. 'as SRO and programme manager' and as 'MHHS programme participant' delivering central system changes
- d) Operate the programme governance (as designated by Ofgem)
- e) Manage an independent Assurance Provider (procured by Ofgem)

To deliver these obligations Exelon will mobilise new MHHS Programme functions. These MHHS function costs will be recovered from BSC Suppliers, through Exelon invoicing under a new 'MHHS Programme Budget MHHS Implementation Management Monthly Charge' (on a per meter point basis).

In the following section, we set out Exelon's proposed approach to mobilising the Programme and our draft structure with supporting rationale and cost elements.

MHHS Programme Overview

Ofgem consulted on Elexon fulfilling the Programme SRO and MHHS Programme Manager roles in January 2021. We have been developing our views on how we would mobilise, structure and operate the MHHS Programme. These activities will determine both the budget and whether we have the right framework in place to manage implementation successfully. To help, we set out the following Programme objectives.

Programme Objectives



Ensure programme delivers industry and consumer benefits



Operate openly and transparently for all programme parties



Deliver the MHHS Target Operating Model to quality, cost and on time



Bring in expertise, secondees, and delivery partners to support programme delivery



Support pathway to net zero and wider smart meter benefits

Programme Governance Principles

To achieve these Programme Objectives we have established the following Programme Governance Principles

- Establishing effective governance for MHHS implementation is critical for ensuring successful delivery. It should also build confidence of BSC Parties, MHHS programme participants and all other stakeholders in the implementation process. Ofgem issued a consultation on 23 April 2021 on the [MHHS Programme Governance Framework](#), which set out the governance structure and the programme participants' roles and responsibilities
- Scrutinising programme progress, through an independent assurance provider procured by Ofgem
- Using independent highly skilled and experienced delivery partners to add programme management capability and capacity

Exelon's MHHS Programme

Following the Ofgem MHHS Programme announcement and analysis of the approach to programme implementation undertaken by Complete Strategy, the initial mobilisation stage will analyse the best programme approach. Exelon recognises two key concerns, which were raised by some industry parties: the potential for a conflict of interest for Exelon in delivering the Settlement central system solution, and our capability and capacity to deliver large complex industry programmes.

To address the first point, during the mobilisation phase we are to assess separation of Programme activities from Exelon's other BSC activities. The principle of this work is that the Programme will be independent of Exelon, including decision-making, resource, budget and reporting. Nobody should be able to work on both the Programme and Exelon's day-to-day business (including Exelon's internal programme to re-develop the BSC central systems). Equally, there will be a principle of ensuring that there is no bias towards Exelon's central delivery of MHHS, or to that of any individual or collective group of BSC Parties. This piece of work includes functional separation, cultural identity, the need for office space, an MHHS website and emails specific to the MHHS Programme team.

In respect of the second concern, during the mobilisation phase we are to assess how best to build the capability and capacity of the Programme, so that the Programme is set up for success and employs a culture of programme excellence. We know we will require resource, such as Senior Programme resource, Programme Management Office, System Integrator, Programme Party Coordinator and Design Authority Functions. Early decisions will include our assessment of whether we should procure single or multiple providers to fulfil these functions and which roles Exelon could fulfil, and which should be contracted.

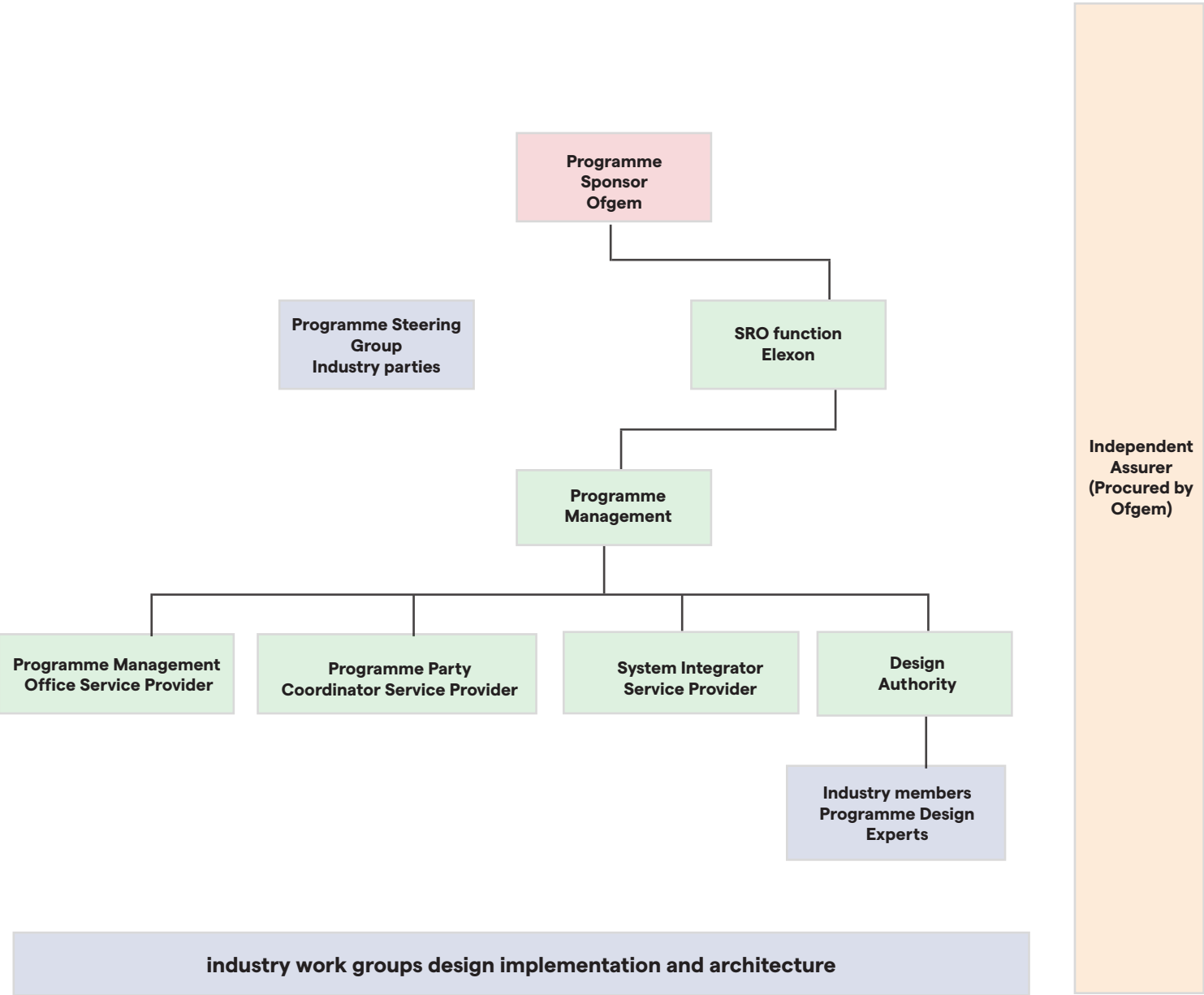
The procurements referred to above will commence with a Request for Proposals (RfP) and we will use a tender committee containing Programme staff and industry representatives to assess the proposals. The contract(s) should be awarded in the autumn of 2021. To ensure some activities of the programme can start earlier, the SRO team and Design Authority team are likely to be in place earlier. We have used the Ofgem consultation information, the Complete Strategy Report and our analysis to form a programme structure, which in turn we have used to create the BSC MHHS Programme budget. The proposed programme structure and budget information are provided in the following pages.



Proposed MHHS Programme Structure

Proposed MHHS Programme Manager Structure

Key: blue boxes = industry responsibility
green boxes = Elexon responsibility



MHHS Programme Management Functional Roles

Programme Sponsor (Ofgem)	Ofgem sets the design and implementation plan baselines in the Decision Document published in April 2021. Ofgem retains overall accountability for achieving the outcomes set out in the FBC. Any decisions that would materially change the design or implementation plan baselines, or that would materially impact on costs or consumers, will need to be approved by Ofgem
Senior Responsible Owner (SRO)	Elxon has responsibility and accountability for delivering MHHS according to the design and implementation plan baselines set by Ofgem
Programme Steering Group (PSG)	Industry representatives, chaired by the SRO. The PSG is the key programme decision-making group. The SRO will make decisions in PSG, informed by PSG and seeking consensus among PSG members. Constituency groups are to nominate representatives to be PSG members
Programme Management (PM)	The Programme Management function will lead the programme, make day-to-day programme decisions, and manage the roles below
Programme Management Office (PMO)	The PMO will manage programme parties at the programme workgroup level and be responsible for managing the programme plan, programme communications, engagement and meeting management
Programme Party Coordinator (PPC)	The PPC will assess and report programme party readiness ahead of key milestones and work with outliers to meet programme milestones
System Integrator (SI)	The SI will be responsible for managing programme parties' programme plans, bilateral programme party meetings / engagement and supporting technical workgroups and managing the system testing and integration phase
Design Authority (DA)	A team of Elxon experts (and industry secondees) responsible for all design decisions, and all change requests that impact on design
Industry work groups	These groups will resolve design / architecture / testing / transition / security / data and other implementation issues required
Independent Party Assurer (IPA)	The focus of the IPA will be to provide evidence throughout the implementation of MHHS to the PMO, to the Programme Steering Group and ultimately to Ofgem, to support key decision points, milestones and quality gates in the programme. The IPA will be procured by Ofgem

Budget required to deliver the MHHS Programme Management role

Our role in managing the MHHS Programme will involve significant extra activity, in addition to the work we carry out to manage the other BSC activities.

In creating the budget for the MHHS Programme we have assessed the estimated costs for each of the programme roles. In addition, Elexon typically has contingency within our budgets, to ensure that we do not have to return to BSC Parties through the year to ask for additional funds, as we have been advised by industry that they prefer certainty of our costs.

It is worth noting that Elexon is a not for profit organisation and does not hold any reserves. For these reasons the MHHS budget includes a 15% contingency against the estimated costs. In respect of the contracted activities the final costs will not be known until after a competitive procurement is undertaken for the Programme delivery partners, and internal staff resources are in place. As ever, we will endeavour to ensure that we place value for money at the heart of our procurement process and return any underspend to BSC Parties.

We have determined an overall MHHS Programme budget of £90m for the period 2021-2025 with the 2021/22 budget being £14.55m. We note that this amount is consistent with similar industry programmes, such as Faster Switching.

This budget (see the table overleaf) reflects the estimated costs of service providers and the cost of the resources that Elexon needs to carry out our work in 2021/22.

The key elements of the MHHS budget are:

- our Elexon staff costs for (i) the SRO function and (ii) the Design Authority function, the largest element of which is resources and associated overheads; and
- third party expenditure for the service providers, e.g. PM/PMO, SI, PPC, a new Data Exchange Service (for Settlement flows) and the Independent Assurance Provider

If approved, the first bills for the MHHS Programme activity will be invoiced in July 2021. As per Modification P413, Elexon will recover Programme costs using Trading Parties' Main Funding Shares initially and then reconcile these payments once the new Supplier only MHHS Implementation Management Monthly Charge is in place.

We have budgeted based on our view of what is required for each programme function, the significance and complexity of the implementation of MHHS across industry (involving over 180 organisations, Suppliers, Supplier Agents, distribution businesses, the Data Communications Company and Elexon).

We have made a budget provision in Year 1 to mobilise the programmes through recruiting the core SRO team, to run a procurement for delivery partner(s), to fund the delivery partner activities and to resource the DA team, plus legal support, communications, and Code change mobilisation costs.

Furthermore, due to the scale of uncertainties at this current mobilisation stage of the programme, we have added an additional item of contingency in the budget of £9m. This recognises that the procurement of the programme functions PMO / SI / PPC (and IPA procured by Ofgem) will not complete until later this year and hence these costs are not known, or finalised yet.

By adding in this contingency the budget for the entire programme accords with Ofgem's FBC decision, which suggested that the budget be estimated at £90m. According to Ofgem, its estimate of £90m accounted for the potential that we have an "optimism bias" in our bottom up approach to the budget.

In addition Ofgem also accounted for potential uncertainties, given the scale and length of the programme that is to be undertaken. We propose that this additional contingency (£9m) would only be released subject to PSG/Ofgem approval. It is not unusual for programmes of this scale to hold contingency of this nature, at the early stage of mobilisation.

The paragraphs above describing the MHHS Programme Implementation and associated budget, represent the changes to the 2021/22 Elexon BSC Business Plan (including budget changes), on which we are seeking comments.

Budget table (£ms)

	Year 1 2021/22	Year 2 2022/23	Year 3 2023/24	Year 4 2024/25	Year 5 2025/26	Total Value
MHHS Team:						
TOTAL Resource costs incl. 15% Contingency	3,641,429	1,436,681	1,211,645	1,226,127	1,221,299	8,737,181
Overheads and Other operational costs incl 15% Contingency	854,916	600,616	562,942	562,942	562,942	3,144,359
	Year 1 2021/22	Year 2 2022/23	Year 3 2023/24	Year 4 2024/25	Year 5 2025/26	Total Value
Total Outsourced incl. 15% Contingency	8,556,690	14,949,920	15,063,330	14,563,330	11,158,180	64,291,450
Total Excl. Contingency	£11,350,465	£15,032,363	£14,837,319	£14,349,912	£11,384,715	66,954,774
Contingency included above	£1,702,570	£1,954,854	£2,000,598	£2,002,487	£1,557,707	9,218,216
Programme uncertainty	£1,500,000	£1,917,139	£1,900,289	£1,845,494	£1,460,652	8,623,574
OVERALL Total	£14,553,035	£18,904,356	£18,738,206	£18,197,893	£14,403,074	84,796,564
Indexed - Budget amount	£14,553,035	£19,471,486	£19,879,363	£19,885,329	£16,210,787	90,000,000

Request for industry experts (secondtees)

We welcome industry's views on the roles secondees could perform and the availability and secondment time-periods.

We believe the industry has considerable and valuable expertise, which could benefit the programme's activities of design, system development, testing and migration. Secondtees could reduce relevant risks in the implementation of MHHS across all programme parties. Additionally, programme parties may see benefits from embedding their employees into the market-led programme.

Our initial thoughts are that secondees could work within the Design Authority during the mobilisation phase. We received feedback that the secondments should be for short periods such as four or six months, so not to negatively affect the parent company resourcing.

We believe experts are needed from summer 2021 onwards. We would welcome views from programme parties on whether they would expect secondees to be seconded on a full term basis for the duration of the requirement, or whether part time secondments would be acceptable.

In responding to this question we would like to understand if programme parties have any concerns about secondees working part time on the programme, and part time in their parent company - we ask this as Elexon is putting in restrictions in this regard to meet the concerns over conflict of interest.

How to provide feedback

To provide feedback please email your responses to communications@elexon.co.uk If you have any further questions please contact us using the same email address.

Webinar

We will host a webinar in June to walk programme parties through our plan and budget, and to help parties respond. We will confirm the date of the webinar, and details of how to sign up shortly.

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