

P413 'Require Elexon to be the Programme Manager for the implementation of Market-wide Half Hourly Settlement'

This Modification Proposal will require Elexon, as the BSC Company (BSCCo), to provide the Programme Manager function for the implementation of Ofgem's Market-wide Half Hourly Settlement (MHHS) Significant Code Review (SCR), to include the roles of Programme Co-ordinator, System Integrator and Programme Party Co-ordinator. Elexon will be required by the BSC to deliver this function, but will be accountable to Ofgem (as the Senior Responsible Owner for the MHHS delivery programme) for its performance. Elexon's costs in performing this function will be BSC Costs and will be recouped from BSC Parties in proportion to their market share (since Ofgem proposes that this is the case whoever provides this function). As with all BSC Costs, Elexon will be required to report its Programme Manager activities and costs transparently through its Annual BSC Report, Business Strategy and Annual Budget.



Elexon recommends P413 is progressed to the Assessment Procedure for an assessment by a Workgroup



Elexon does not consider it likely that P413 will impact the European Electricity Balancing Guideline (EBGL) Article 18 terms and conditions held within the BSC

This Modification is expected to impact:

- BSC Parties
- Elexon

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About This Document

This document is an Initial Written Assessment (IWA), which Elexon will present to the Panel on 10 September 2020. The Panel will consider the recommendations and agree how to progress P413.

There are two parts to this document:

- This is the main document. It provides details of the Modification Proposal, an assessment of the potential impacts and a recommendation of how the Modification should progress, including the Workgroup's proposed membership and Terms of Reference.
- Attachment A contains the P413 Proposal Form.

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1 Summary

What is the issue?

If the BSC is not amended to require Elexon to perform the implementation Programme Manager function for Market-wide Half Hourly Settlement (MHHS), there is a risk that this results in longer implementation timescales, higher costs for the industry and a longer period to see the benefits outlined in Ofgem's [Draft Impact Assessment Consultation](#).

What is the proposed solution?

This Modification Proposal will require Elexon, as the BSC Company (BSCCo), to provide the Programme Manager (PM) function for the implementation of MHHS. Elexon will be accountable to Ofgem to its performance as PM, since Ofgem will be the Senior Responsible Owner (SRO) for the MHHS delivery programme.

Impacts

Ofgem's Draft Impact Assessment proposes that the costs of the PM function are recovered from BSC Parties, regardless of who provides the PM role.

Under this Modification Proposal, which will require Elexon to be the PM, the costs incurred by Elexon in providing this function will be recouped from BSC Parties proportionally according to their market share.

If Elexon was not the PM, changes would still be needed to the BSC to introduce provisions for recovering PM costs from BSC Parties – either through a separate Modification Proposal or Ofgem-directed changes.

Implementation

The Modification Proposal suggests that, as a Code-only change, it should be implemented 5 Working Days after Ofgem approval.

This will ensure that there is no undue delay in establishing the PM function, and therefore to the implementation (and benefits) of MHHS.

Recommendation

We invite the Panel to:

- **AGREE** that P413 progresses to the Assessment Procedure;
- **AGREE** the proposed Assessment Procedure timetable;
- **AGREE** the proposed membership for the P413 Workgroup; and
- **AGREE** the Workgroup's Terms of Reference.

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2 Why Change?

What is the issue?

Ofgem's MHHS SCR process

In July 2017, Ofgem launched its Significant Code Review (SCR) on Electricity Settlement Reform. On Ofgem's behalf, Elexon has chaired and provided technical leadership to [three industry working groups](#) tasked by Ofgem with developing the Target Operating Model (TOM) for MHHS: the Design Working Group (DWG), Code Change and Development Group (CCDG) and Architecture Working Group (AWG). Elexon is accountable to Ofgem for the quality and timely delivery of these workgroup's outputs under the SCR. Ofgem, as the SRO, remains the final decision-maker on whether to approve the workgroups' recommendations.

Ofgem will make the final decision on how and when to implement MHHS in its Full Business Case decision. Ofgem's latest indication is that this will be published in Spring 2021. Ofgem then intends to use its powers under the Smart Meters Act to make the necessary changes to licences and Industry Codes, which will therefore not follow the normal Code change processes (i.e. they will not be progressed through Modification Proposals or Change Proposals). There will need to be programme management for the implementation of these document changes, as well as for the:

- Changes required to central industry systems and processes;
- Changes required to participant systems and processes; and
- Transition of all Metering Systems from the old to the new Settlement arrangements.

Ofgem's proposed MHHS delivery programme functions

On 17 June 2020, Ofgem published its [Draft Impact Assessment Consultation](#) for MHHS. In Section 9 of the consultation, Ofgem sets out its thinking on how best to manage the delivery programme for the implementation of MHHS.

Ofgem proposes that accountability for successful delivery of the programme objectives will remain with the Ofgem SRO, with Ofgem performing the role of Programme Sponsor. It identifies the need for a separate **Programme Management** (PM) function, which Ofgem expects to include the following three roles:

- An overall **Programme Co-ordinator** (PC) or **Programme Management Office** (PMO), responsible for creating and managing the overall end-to-end programme delivery plan including communication with stakeholders;
- A **System Integrator** (SI), responsible for managing the integration, testing and transition to the new central settlement system and new service components, including integration testing with participants on new or amended interfaces; and
- A **Programme Party Co-ordinator** (PPC), responsible for monitoring Parties' implementation progress (including scrutinising Parties' self-assessments) and reporting this to the PC/PMO.

Ofgem also proposes a separate **Assurance** function, responsible for assuring Ofgem that the PC/PMO, SI and PPC are able to achieve their delivery plans and that robust systems of accountability are in place to incentivise this.

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Ofgem has identified the following potential options for delivering these roles:

1. Ofgem taking responsibility for some or all of these roles;
2. An industry body (with relevant knowledge and capability) taking responsibility for some or all of these roles; and/or
3. A third party (not integral to the delivery of MHHS) taking responsibility for some or all of these roles on Ofgem's behalf.

Ofgem's consultation proposes that the costs of all roles comprising the overall PM function will be met by BSC Parties using the current BSC funding structure under all three options, even if Elexon is not performing these roles. If this proposal is taken forward by Ofgem, this will require changes to the BSC in any event.

This Modification Proposal will require Elexon to provide the PM function, including the PC/PMO, SI and PPC roles, with an associated BSC cost-recovery mechanism. Although the Assurance function will need to be provided by a separate entity, the proposal suggests that its scope of this Modification Proposal should also include a BSC cost-recovery mechanism for that function.

We expect that Ofgem will require the PM function to be in place no earlier than Spring 2021, when it publishes its Full Business Case decision. Ofgem also anticipates that the function will be required to run for at least four years, based on its proposed four-year MHHS implementation timeline in Section 6 of its consultation. Ofgem is still considering the impact of COVID-19 on this timeline.

Why should Elexon provide the MHHS PM function?

The primary impacts of MHHS are on the BSC. The TOM will deliver new/amended BSC services and Settlement arrangements (including a new Settlement timetable). It will also require a run-off of the existing Non Half Hourly (NHH) arrangements, which Elexon operates under the BSC. The Modification Proposal states that Elexon is best placed to deliver the PM function due to Elexon's:

- In-depth technical knowledge and experience as BSC Code Manager;
- Technical leadership to the DWG's/CCDG's development of the meter-to-bank MHHS TOM design (including working with other code bodies to identify changes to impacted Industry Codes);
- Technical leadership to the AWG's development of the solution architecture to deliver the MHHS TOM;
- Proven track record of delivering BSC and cross-code changes to time and quality, including programme management and system integration; and
- Proven track record in supporting Ofgem's MHHS SCR.

If the BSC is not amended to require Elexon to perform this function, there is a risk that this results in longer implementation timescales, higher costs for the industry and a longer period to see the benefits outlined in Ofgem's draft Impact Assessment consultation.¹

¹ Ofgem's draft Impact Assessment identifies total net benefits of MHHS for GB consumers of £1.6bn to £4.6bn.

The Modification Proposal argues that the PM function should be embedded within the BSC governance regime, to allow recovery of costs through BSC funding mechanisms (as proposed by Ofgem’s consultation) and to ensure transparency for BSC Parties.

Desired outcomes

This Modification Proposal will require Elexon to provide the PM function, with overall accountability to Ofgem for its performance. The costs incurred by Elexon in providing the PM function will be recovered from BSC Parties.

This Modification Proposal should also include a BSC cost-recovery mechanism, and potentially governance provisions, for the separate Assurance function.

Proposed solution

This Modification Proposal will require Elexon, as the BSCCo, to provide the PM function for the implementation of Ofgem's MHHS SCR. This will include performing the roles of PC/PMO, SI and PPC.

Elexon will be required by the BSC to deliver the PM function, but will be accountable to Ofgem (as SRO) for its performance. The Modification Proposal suggests incorporating into the BSC the right for Ofgem to remove some or all of the function from Elexon in the event of poor performance, without requiring a further Modification Proposal. It also suggests that a Workgroup considers what other associated governance needs to be included in the BSC, for example on the scope and responsibilities of the PM function.

The costs incurred by Elexon in performing the MHHS PM function will be BSC Costs. They will be recouped from BSC Parties in proportion to their market share (for example, they could be recovered from Trading Parties through the Main Funding Share). Elexon will be required to report its PM activities and costs transparently through its Annual BSC Report, Business Strategy and Annual Budget – as it does for all other BSC costs/activities. Elexon will also be required to provide all relevant information to the Assurance function provider.

The MHHS Assurance function will need to be provided by a separate entity to the PM function. However, this Modification Proposal should still include a BSC recovery mechanism for the costs associated with this function. It could also include provisions for the appointment and governance of the Assurance provider. One potential model could be for Elexon to procure and appoint the Assurance provider in a similar way to other Elexon/BSC audit processes. The Modification Proposal suggests that a Workgroup considers the appropriate governance.

Benefits

The Modification Proposal argues that requiring Elexon to be the PM will ensure that:

- The entity with the greatest subject-matter expertise provides the PM function for Ofgem's MHHS delivery programme, and that the programme is not relying on an entity who is trying to understand the in-depth electricity Settlement process and drivers;
- The function is delivered on a not-for-profit basis;
- The function is provided by an entity whose sole purpose is to provide services for the benefit of BSC Parties and the energy market; and
- Industry delivery costs and timescales are therefore minimised.

Applicable BSC Objectives

Impact of the Modification on the Relevant Objectives:	
Relevant Objective	Identified impact
a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence	Neutral
(b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System	Neutral
(c) Promoting effective competition in the generation and supply of electricity and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity	Neutral
(d) Promoting efficiency in the implementation of the balancing and settlement arrangements	Positive
(e) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency [for the Co-operation of Energy Regulators]	Neutral
(f) Implementing and administrating the arrangements for the operation of contracts for difference and arrangements that facilitate the operation of a capacity market pursuant to EMR legislation	Neutral
(g) Compliance with the Transmission Losses Principle	Neutral

As the primary impacts of the MHHS programme are on the BSC, this will better facilitate the achievement of Applicable BSC Objective (d) 'Promoting efficiency in the implementation of the balancing and settlement arrangements'.

Elexon believes if the BSC is not amended to require Elexon to perform the implementation Programme Manager function for MHHS, there is a risk that this results in longer implementation timescales, higher costs for the industry and a longer period to see the benefits outlined in Ofgem's Draft Impact Assessment Consultation.

Implementation approach

The Modification Proposal suggests that, as a Code-only change, it should be implemented 5 Working Days after Ofgem approval.

This will ensure that there is no undue delay in establishing the PM function, and therefore to the implementation, and benefits, of MHHS.

4 Areas to Consider

In this section we highlight areas which we believe the Panel should consider when making its decision on how to progress this Modification Proposal, and which a Workgroup should consider as part of its assessment of P413. We recommend that the areas below form the basis of a Workgroup's Terms of Reference, supplemented with any further areas specified by the Panel.

The table below summarises the areas we believe a Modification Workgroup should consider as part of its assessment of P413.

Outside of the standard terms of reference, Elexon is seeking Workgroup views and discussion around budget availability and how cost recovery would be managed, how Elexon's performance would be managed by Ofgem and if the solution should include provisions for the appointment and governance of the Assurance provider.

Areas to Consider
The exact BSC cost-recovery mechanism (e.g. whether this is through the BSC's Main Funding Share and whether these costs are funded by BSC Trading Parties only)
How the BSC provisions will ensure that Elexon is accountable to Ofgem for delivery of the PM function, including whether the BSC should give Ofgem the right to remove some or all of the function from Elexon in the event of poor performance
Whether the solution should include provisions for the appointment and governance of the Assurance provider
How will P413 impact the BSC Settlement Risks?
What changes are needed to BSC documents, systems and processes to support P413 and what are the related costs and lead times? When will any required changes to subsidiary documents be developed and consulted on?
Are there any Alternative Modifications?
Should P413 be progressed as a Self-Governance Modification?
Does P413 better facilitate the Applicable BSC Objectives than the current baseline?
Does P413 impact the EBGL provisions held within the BSC, and if so, what is the impact on the EBGL Objectives?



Next steps

This Modification Proposal should not be treated as Self-Governance and should therefore be sent to Ofgem for decision. It has a material impact on Elexon's activities under the BSC and therefore on BSC governance. It requires an Ofgem decision, since the provider of the PM function will be accountable to Ofgem under its wider MHHS delivery programme.

Workgroup membership

Elexon will seek Workgroup membership by 9 September 2020, and commence Workgroup activities in September in order to complete the Modification by March 2021.

We propose that membership should be drawn from participants with experience and expertise in BSC governance, MHHS and other major Ofgem or industry delivery programmes.

Timetable

Proposed Progression Timetable for P413	
Event	Date
Present Initial Written Assessment to Panel	10 September 20
Workgroup Meeting 1	W/B 21 September 20
Workgroup Meeting 2	W/B 12 October 20
Workgroup Meeting 3	W/B 16 November 20
Assessment Procedure Consultation	14 December 20 – 15 January 21
Workgroup Meeting 4	W/B 25 January 21
Present Assessment Report to Panel	11 February 21
Report Phase Consultation	15 February 21 – 1 March 21
Present Draft Modification Report to Panel	11 March 21
Issue Final Modification Report to Authority	15 March 21

What is the Self-Governance Criteria?

A Modification that, if implemented:

(a) does not involve any amendments whether in whole or in part to the EBGL Article 18 terms and conditions; except to the extent required to correct an error in the EBGL Article 18 terms and conditions or as a result of a factual change, including but not limited to:

- (i) correcting minor typographical errors;
- (ii) correcting formatting and consistency errors, such as paragraph numbering; or
- (iii) updating out of date references to other documents or paragraphs;

(b) is unlikely to have a material effect on:

- (i) existing or future electricity consumers; and
- (ii) competition in the generation, distribution, or supply of electricity or any commercial activities connected with the generation, distribution, or supply of electricity; and
- (iii) the operation of the national electricity transmission system; and
- (iv) matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies; and
- (v) the Code's governance procedures or modification procedures; and

(b) is unlikely to discriminate between different classes of Parties.

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6 Likely Impacts

Impact on BSC Parties and Party Agents

Party/Party Agent	Potential Impact
BSC Parties	The costs incurred by Elexon in providing the PM function will be recouped from BSC Parties proportionally according to their market share. Consideration will need to be given to whether these costs are funded by BSC Trading Parties only, as well as to the exact cost-recovery mechanism (e.g. whether this is through the BSC's Main Funding Share).

Impact on the NETSO

No impact identified.

Impact on BSCCo

Area of Elexon	Potential Impact
Assurance	Support if appointing an independent Assurance provider
Finance	Support cost-recovery activities
Supply Chain Management	Support any required procurement activities for the Assurance provider

Impact on BSC Settlement Risks

No impact identified

Impact on BSC Systems and processes

BSC System/Process	Potential Impact
No impact identified	

Impact on BSC Agent/service provider contractual arrangements

BSC Agent/service provider contract	Potential Impact
No impact identified	

Impact on Code

Code Section	Potential Impact
Section C	Changes will be required to BSC Section C 'BSCCo and its Subsidiaries', which governs Elexon's required and permitted activities under the BSC

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Impact on Code	
Code Section	Potential Impact
Annex X-1	Any associated additions or changes to BSC Defined Terms will need to be included in BSC Annex X-1 'General Glossary'

Impact on EBGL Article 18 terms and conditions
No impact identified

Impact on Code Subsidiary Documents	
CSD	Potential Impact
No impact identified	

Impact on other Configurable Items	
Configurable Item	Potential Impact
No impact identified	

Impact on Core Industry Documents and other documents	
Document	Potential Impact
Ancillary Services Agreements	No impact identified
Connection and Use of System Code	
Data Transfer Services Agreement	
Distribution Code	
Distribution Connection and Use of System Agreement	
Grid Code	
Master Registration Agreement	
Supplemental Agreements	
System Operator-Transmission Owner Code	
Transmission Licence	
Use of Interconnector Agreement	

Impact on a Significant Code Review (SCR) or other significant industry change projects

This Modification Proposal is linked to Ofgem’s SCR on Electricity Settlement Reform. However, the Modification Proposal argues that it should not be subsumed into the SCR itself but that it should be progressed as a normal Modification Proposal.

This is because BSC Parties will fund the costs of the PM function. Any requirement on Elexon (as the BSCCo) to provide this function should therefore be considered and progressed under BSC governance.

This Modification Proposal will still require Ofgem approval. The proposal therefore argues that progressing it separately has no adverse impact on the SCR.

Impact on Consumers

MHHS will deliver system-wide net welfare benefits, including benefits to consumers and the environment. Ofgem’s Draft Impact Assessment Consultation identifies total net benefits for consumers of £1.6bn to £4.6bn.

While this Modification Proposal has no direct impact in these areas, it argues that appointing Elexon to undertake the PM function will be the best chance of realising these consumer benefits as early as possible and through an efficient not-for-profit service.

Impact on the Environment

This Modification is neutral with the net zero target.

7 Recommendations

We invite the Panel to:

- **AGREE** that P413 progresses to the Assessment Procedure;
- **AGREE** the proposed Assessment Procedure timetable;
- **AGREE** the proposed membership for the P413 Workgroup; and
- **AGREE** the Workgroup's Terms of Reference.

Appendix 1: Glossary & References

Acronyms

Acronyms used in this document are listed in the table below.

Acronym	
Acronym	Definition
AWG	Architecture Working Group
BSC	Balancing and Settlement Code
CCDG	Code Change and Development Group
CSD	Code Subsidiary Document
DWG	Design Working Group
EGBL	European Electricity Balancing Guideline
EMR	Electricity Market Reform
IWA	Initial Written Assessment
LDSO	Licensed Distribution System Operator
MHHS	Market-wide Half Hourly Settlement
NETSO	National Electricity Transmission System Operator
NHH	Non Half Hourly
PC	Programme Co-ordinator
PM	Programme Management
PMO	Programme Management Office
PPC	Programme Party Co-ordinator
SCR	Significant Code Review
SI	System Integrator
SRO	Senior Responsible Owner
TOM	Target Operating Model
VLP	Virtual Lead Party

External links

A summary of all hyperlinks used in this document are listed in the table below.

All external documents and URL links listed are correct as of the date of this document.

External Links		
Page(s)	Description	URL
4	MHHS Working Groups	https://www.elexon.co.uk/committees-meetings/market-wide-half-hourly-settlement-mhhs-working-groups/

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External Links		
Page(s)	Description	URL
4	Draft Impact Assessment Consultation	https://www.ofgem.gov.uk/publications-and-updates/electricity-retail-market-wide-half-hourly-settlement-draft-impact-assessment-consultation