

MHHS Programme Implementation Principles

5 March 2021

Introduction

Energy UK is the trade association for the energy industry with over 100 members spanning every aspect of the energy sector – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

We represent the diverse nature of the UK's energy industry with our members delivering over 80% of both the UK's power generation and energy supply for the 28 million UK homes as well as businesses. The energy industry invests £13bn annually, delivers £31bn in gross value added on top of the £95bn in economic activity through its supply chain and interaction with other sectors, and supports 738,000 jobs in every corner of the country.

This is a high-level industry view; Energy UK's members may hold different views on particular aspects of the consultation. We would be happy to discuss any of the points made in further detail with Ofgem or any other interested party if this is considered to be beneficial.

Industry-led Approach & Regulatory Obligations

Energy UK is generally supportive of Ofgem's overall proposal for an 'industry-led' approach for the implementation of the market-wide half-hourly settlement programme (MHHS) and we agree that Elexon has the required expertise with settlement processes to make them good candidates for the proposed role.

However, we have a number of key concerns regarding the proposed delivery via Elexon that we believe Ofgem must address before it progresses with its plans. First and foremost, Ofgem has not set out its rationale for selecting Elexon without undertaking a competitive tender process, and its consideration on how this will reflect on the costs to industry and to customers. We would welcome clarification as to its rationale for this approach, and whether it has considered a competitive tender process to ensure that implementation is as cost-effective as possible for industry and customers.

Ofgem must commit to maintain keen oversight of the programme implementation, particularly surrounding costs and consumer issues, and set clear objectives/milestones/gateways which will trigger intervention if they are not being met. While Elexon has sufficient experience with settlement processes, MHHS is wider than just settlement and there are connected issues and dependencies across the codes and other programmes, such as the smart meter rollout, that will need to be managed effectively. Elexon also lacks in experience with consumer-facing issues, which are integral to the MHHS implementation. It may, therefore, be beneficial for Ofgem to remain as the senior responsible owner for consumer communication elements of MHHS.

Overall, Ofgem must learn lessons from the implementation of Project Nexus and keep a keen oversight role to ensure that these issues are accounted for and addressed so as to ensure that costs are not

unnecessarily increased, nor the programme implementation unnecessarily delayed. Ofgem and Elexon should put in place a plan and governance structure that can satisfactorily address these concerns, including key decision points relating to costs and consumers that will require Ofgem to use its step-in powers. It may also be beneficial for Ofgem to consider putting in place financial incentives and disincentives on Elexon to help ensure a timely and cost-effective delivery of the project.

We believe that greater detail is also needed on the approach that Elexon would take in order for stakeholders to give full account of Ofgem's proposal. For example, we would stress that Elexon will need to show that it has experienced project managers leading its work to ensure efficiency of delivery, that timescales are kept to, and that costs are minimised. As well as Ofgem maintaining a key oversight role, we would stress the importance of the proposed assurance aspects in its plans to the programme's overall success and deliverability.

With specific regard to the new obligations being put onto relevant parties, we would welcome clarification from Ofgem as to why the existing Duty to Cooperate within SLC 11 would be insufficient for suppliers, and an additional obligation is required. We note that in its 2018 decision on the Duty to Cooperate condition, Ofgem confirmed that 'guidance and other material' specific to each Significant Code Review may be necessary, and that the SLC as introduced would provide a degree of future-proofing.¹ Ofgem should seek to avoid unnecessary duplication of obligations where possible.

Challenges & Risks

Energy UK agrees with the challenges and risks identified by Ofgem in the consultation.

However, we are concerned that Ofgem will place expectations onto parties working towards implementation without a proper end-to-end design being finalised, that each party can then work to. At this stage, the details have not progressed much further than the Target Operating Model (TOM) so parties cannot start designing systems for implementation. It will, therefore, be difficult for companies to set up a system design and build project this far ahead of implementation. There needs to be an unambiguous and complete design baseline to ensure that they can begin designing and building the required systems for a successful implementation.

We note that Ofgem has acknowledged concerns with the conflict of interest that Elexon has in being responsible for decision making and for part of the implementation. However, it is unclear how this conflict of interest can be fully resolved without separating Elexon into two distinct legal entities – a step that is likely to be costly and complex. Ofgem should set out clearly how it will seek to address this concern.

The Electricity Settlement Reform Significant Code Review (SCR)

Energy UK does not oppose Ofgem's expected impacts on the SCR process for Electricity Settlement Reform as a result of an industry-led approach to MHHS. The greater importance is for what is actually done, rather than necessarily how it is achieved. However, as previously stated, Ofgem must ensure that it does not step too far away from the process, and that it maintains keen oversight with a willingness to intervene directly to minimise costs and delays to industry and to customers.

If you would like to discuss the above or any other related matters, please contact me directly on 020 7747 2931 or at steve.kirkwood@energy-uk.org.uk.

¹ *Ofgem Decision to Modify the Standard Conditions of the Gas Supplier, Electricity Supplier, Gas Transporter and Electricity Distribution licences*, December 2018, <https://www.ofgem.gov.uk/ofgem-publications/144252>