

Modification proposal:	Balancing and Settlement Code (BSC) P423: Market-Wide Half-Hourly Settlement (MHHS) Implementation and Governance Arrangements (P423)		
Decision:	The Authority ¹ directs that this modification be made ²		
Target audience:	Parties to the BSC, the BSC Panel, National Grid Electricity System Operator (NGESO) and other interested parties		
Date of publication:	30 September 2021	Implementation date:	Five Working Days after Authority Decision date

Background

Currently, generators and suppliers trade electricity in the wholesale market in half-hourly periods, but most customers are settled on a 'non-half-hourly' basis, using usage estimates that are based on profiles of average customers and meter readings. There can be considerable variances between these estimates and actual usage.

Market-Wide Half-Hourly Settlement (MHHS) will utilise the potential of smart meters to send accurate signals to suppliers about the cost of serving their customers throughout each day. This will place incentives on suppliers to offer new tariffs and products that encourage more flexible use of energy and help consumers to lower their bills. This will increase competition and innovation in the market and reduce costs, with numerous benefits to consumers and to wider society.³

We launched our Electricity Settlement Reform Significant Code Review⁴ (SCR) in July 2017 to develop and then, subject to an Impact Assessment, implement a transition from the existing settlement arrangements to MHHS. We published our Full Business Case, Impact Assessment and

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

² This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

³ Our [MHHS Final Impact Assessment](#) estimated the net benefit for consumers of £1.6bn-£4.5bn over the period 2021-2045.

⁴ See the [Electricity Settlement Reform Significant Code Review: Launch Statement, revised timetable, and request for applications for membership of the Target Operating Model Design Working Group](#) on the Ofgem website.

decision on MHHS⁵ in April 2021 confirming our plan to do so, with a planned end date of October 2025.

As part of our decision in April 2021, we said that MHHS implementation should be industry-led. The successful introduction of MHHS will require a number of changes to operational and governance procedures across the electricity market. Ofgem will remain overall programme sponsor. Elexon, as the BSC code administrator, will be responsible for MHHS programme management and will be the Senior Responsible Owner (SRO). Following a consultation in January 2021 about the MHHS implementation principles,⁶ we consulted in April 2021 about the code changes needed to enable MHHS implementation and governance arrangements.⁷ In August 2021, we made a decision on the MHHS implementation and governance arrangements⁸ and provided an update⁹ on raising Authority-led modifications to make the relevant code changes.

The modification proposal

On 13 August 2021, BSC modification proposal P423 (the proposal) was raised by Ofgem as an Authority Led SCR Modification Proposal pursuant to Section F5.3A.1 of the BSC. The proposal set out the timetable for the BSC Panel to progress it.¹⁰

The proposal aims to make the changes that are necessary to the BSC, pursuant to the Electricity Settlement Reform SCR, to ensure the BSC reflects implementation and governance arrangements that will allow Elexon to effectively manage and oversee the MHHS programme and require Elexon to undertake that programme management in a transparent, consultative and unbiased way. It will also require MHHS programme parties to develop and deliver the changes to their systems and business processes to ensure timely and cost effective implementation and to cooperate with the programme governance and processes, including testing, qualification and migration.

The proposed code changes will place specific obligations on MHHS programme parties to ensure effective and timely implementation of MHHS, including Elexon, the Data Communications Company (DCC), electricity suppliers, electricity distributors, supplier agents, code bodies and other third parties.¹¹ The detailed code obligations are intended to complement relevant licensees' licence

⁵ See the [Electricity Retail Market-wide Half-hourly Settlement: Decision and Full Business Case](#) on the Ofgem website.

⁶ The [January 2021 consultation](#) appears on the Ofgem website.

⁷ The [April 2021 consultation](#) appears on the Ofgem website.

⁸ Our [decision on MHHS implementation \(11 August 2021\)](#) appears on the Ofgem website.

⁹ An [update](#) on the Authority-led modifications for MHHS implementation (12 August 2021) is on the Ofgem website.

¹⁰ Further details about [P423 and the letter to the BSC Panel chair](#) can be found on Elexon's website.

¹¹ The detailed code changes are set out in, and alongside, the P423 modification proposal.

obligations of a 'duty to cooperate' with implementing the outcomes of a Significant Code Review (SCR).

The Authority, as proposer, considered that the proposal better facilitates Applicable BSC Objectives (c) and (d) and is neutral against all the other objectives.¹² The positive impact of the proposal arises from the establishment of the implementation arrangements for MHHS. This will improve the efficient operation of the balancing and settlement arrangements and the energy market as a whole. In addition, linking future retailers' costs to their customers' actual consumption within the course of a day will have the effect of encouraging new and disruptive business models, facilitating competition in new areas. Market-wide settlement reform is a key enabler of the move to a smarter, more flexible energy system and has a fundamental role in delivering the smart systems and flexibility plan. Our analysis predicts that market-wide half-hourly settlement will bring net benefit for consumers in GB of between £1.6bn and £4.5bn over the period 2021-2045, as well as unquantified benefits such as increased competition and innovation.

BSC Panel¹³ recommendation

At the BSC Panel meeting on 16 September 2021, the BSC Panel (Panel) unanimously agreed that P423 would better facilitate the BSC objectives and the Panel therefore recommended its approval. In particular, the Panel considered that P423 better facilitated Applicable BSC Objectives (c) and (d) and agreed with the evaluation as detailed in the Final Modification Report.

Legal text

The proposal, including the proposed P423 legal text, was subject to a consultation period as part of the directed timetable. Comments from a respondent were received in the consultation. The points raised were discussed between Ofgem (as Proposer) and the respondent, and the red-lined legal text was not altered prior to the Panel's final discussions and recommendation. Ofgem's reasons for not making changes to the legal text following the respondent's comments are set out in Annex 2 of the Final Modification Report.

¹² Applicable BSC Objective (c) is "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". Applicable Objective (d) is "promoting efficiency in the implementation and administration of the balancing and settlement arrangements".

¹³ The BSC Panel is established and constituted pursuant to and in accordance with Section B of the BSC and [Standard Special Licence Condition C3 of the Electricity Transmission Licence](#).

In addition, the MHHS Programme (MHHS¹⁴) provided a separate response to the consultation, querying three aspects of the redlining of legal text. As a result and following a discussion with Ofgem (as proposer), two amendments were made to the legal text in order to provide greater clarity. These were included in the text that the Panel considered on 16 September 2021. Finally, a number of minor, non-material errors in the text have been identified by Ofgem (as Proposer) and corrected. These are of a type which would normally constitute housekeeping updates and do not affect the overall meaning of the legal text. The Panel was consulted on these via email on 20 September 2021. The quorate number of Panel members who responded unanimously agreed the revised legal text, and that the changes did not impact any of the Panel's other P423 recommendations to the Authority.

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 20 September 2021. We have considered and taken into account the responses to the industry consultation which are attached to the FMR.¹⁵ We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the applicable objectives of the BSC;¹⁶ and
- directing that the modification be made is consistent with our principal objective and statutory duties.¹⁷

Reasons for our decision

We consider this modification proposal will better facilitate BSC objectives (c) and (d) and has a neutral impact on the other applicable objectives.

(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

¹⁴ Elxon, acting in its capacity as Implementation Manager for MHHS. See [MHHS Programme](#).

¹⁵ BSC modification proposals, modification reports and representations can be viewed on the [Elxon website](#).

¹⁶ As set out in [Standard Condition C3\(3\) of the Electricity Transmission Licence](#).

¹⁷ The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989.

In their 2016 Energy Market Investigation¹⁸, the CMA concluded that the absence of a firm plan for moving to MHHS gave rise to an adverse effect on competition, through the distortion of suppliers' incentives to encourage their customers to change their consumption profile, which overall reduces the efficiency, and therefore the competitiveness, of domestic and microbusiness retail electricity supply. This proposal, by facilitating the delivery of MHHS, will benefit competition by developing a more effective energy market and encouraging increased market entry by new suppliers and others who will offer new and innovative products and services to consumers. Therefore, we consider that this proposal better facilitates BSC Objective (c).

(d) promoting efficiency in the implementation and administration of the balancing and settlement arrangements

In order to realise the benefits of MHHS, including increased efficiency in the settlement system, we consider that it is necessary to put in place obligations on parties to support the implementation of the programme. These will ensure that all MHHS participants are incentivised to deliver the transition to the new settlement arrangements in a cost effective, timely and efficient manner. Therefore, we consider that the objective of promoting efficiency in the implementation and administration of the balancing and settlement arrangements will be better facilitated by this proposal.

Next Steps

These changes do not themselves introduce the changes needed to give effect to MHHS but provide the implementation framework for doing so. As the transition to full MHHS implementation progresses, we intend to make further code modifications under this SCR and/or use our powers under the Smart Meters Act 2018. Therefore, as explained in our Update of 12 August 2021¹⁹, we do not expect the current set of modifications to be the final ones in respect of the Electricity Settlement Reform SCR. This SCR will remain open until we have made our final decision in relation to the final modification and we will confirm when we consider that to have happened.

We note that we published the Governance Framework²⁰ alongside the proposed modification. Our intention is to designate it in the near future.

¹⁸ See paragraph 187 on page 44 of the CMA's [Energy Market Investigation Final Report](#), June 2016.

¹⁹ See the [Update – Electricity Settlement Reform Significant Code Review: Authority-Led Code Modification Proposals](#) on the Ofgem website.

²⁰ See the [Governance Framework](#) on the Ofgem website.

Decision notice

In accordance with Standard Condition C3 of the Transmission Licence, the Authority hereby directs that modification proposal BSC P423: Market-wide Half Hourly Settlement (MHHS) Implementation and Governance Arrangements be made.

Rachel Clark

Deputy Director and Senior Responsible Owner for Electricity Settlement Reform

Signed on behalf of the Authority and authorised for that purpose