SEC
Smart Energy Code

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Smart Energy Code

MP180

‘Market-wide Half-Hourly Settlement Implementation’

Modification Report

Version 1.0

31 August 2021

Corporate member of Plain English Campaign
Committed to clearer communication
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About this document

This document is an Authority-Led Modification Report for an Authority-Led Variation submitted by the Authority in accordance with SEC Section D9A.4. It sets out the background, issue, solution, impacts, costs, implementation approach and progression timetable for this modification, along with any relevant discussions, views and conclusions.

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This document also has one annex:

- **Annex A** contains the redlined changes to the Smart Energy Code (SEC) required to deliver the Proposed Solution.

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1. Summary

This is an Authority-Led Variation which has been raised as part of the Electricity Settlement Reform Significant Code Review (SCR), which explores the case for proceeding with and implementing market-wide half-hourly settlement (MHHS). This proposal has been raised by the Authority in accordance with SEC Section D 'Modification Process' 9A.

The purpose behind this modification has been previously consulted on widely with industry stakeholders through Ofgem's January 2021 MHHS Consultation on Programme Implementation Principles and April 2021 MHHS Consultation on Implementation and Governance Arrangements. A decision to proceed with MHHS was published alongside the Full Business Case and Final Impact Assessment (April 2021) which sets out Ofgem's expectation for the transition to full MHHS implementation to be completed by October 2025.

Ofgem has now (August 2021) made its decision on the final implementation arrangements to apply for MHHS, setting out, amongst other things, the final version of the code changes to be made to give effect to the final implementation arrangements.

Ofgem has concluded that Electricity Suppliers should be mandated to settle their customers on a half-hourly basis, as long as the customer does not opt out. In January 2021, Ofgem consulted on its preferred method of programme governance for the MHHS programme, involving industry-led delivery of MHHS implementation with Elexon as the Senior Responsible Owner (SRO) for the programme. While Ofgem acknowledges that licenced parties already have a 'duty to cooperate' with the outcomes of an SCR, it believes more detailed obligations are required on all programme participants. Therefore, all programme participants will be required to comply with the new detailed obligations to be set out in section C12 of the Balancing and Settlement Code (BSC). The proposed changes to the BSC will also include the governance arrangements and provision of independent assurance for the programme.

The intention of this modification is to formalise the Smart Energy Code Company's (SECCo's), and by extension the Smart Energy Code Administrator and Secretariat's (SECAS's), cooperation with the agreed method of MHHS implementation to be set out in the BSC.

This modification will not impact SEC Parties and implementation costs will be limited to SECAS time and effort in updating the SEC. If approved, this modification will be implemented in the November 2021 SEC Release.

2. Issue

What are the current arrangements?

The existing electricity settlement processes are mainly set out in the BSC with supporting processes and information set out or to be set out in other Codes, such as the SEC, the Distribution Connection and Use of System Agreement (DCUSA), the Retail Energy Code (REC) and the Connection and Use of System Code (CUSC).

Ofgem recognises that the implementation of MHHS will impact several different Party types and Industry Codes. To ensure successful delivery of the project, additional sections are being added to the BSC to set out what is expected of participants in the programme.

What is the issue?

Under the proposed governance structure, Ofgem will retain accountability for the successful delivery of the MHHS programme objectives as the Programme Sponsor. Elexon will act as the programme's SRO, giving it the responsibility for establishing, operating and managing appropriate programme governance to ensure timely and effective implementation.

During the January 2021 consultation on MHHS, it was noted that Ofgem would place obligations on relevant Parties, including Suppliers, Network Parties, and the Data Communications Company (DCC), to comply with the programme. The intention of this proposal is to add a paragraph to the SEC which places an obligation on SECCo to identify, plan and deliver all necessary changes on a timescale that is consistent with the baselined MHHS implementation plan in line with section C12 of the BSC.

What is the impact this is having?

The successful introduction of MHHS will be dependent upon all affected Code bodies, including SECCo and SECAS, working collaboratively with Elexon and each other to deliver the changes to Codes, systems and processes necessary for MHHS implementation. Although there are various obligations that create a 'duty to cooperate' with the implementation of the outcomes of an SCR, the Code changes that are being progressed will mandate more detailed obligations. Ofgem is therefore progressing this modification to incorporate the relevant obligation on SECCo and SECAS into the SEC.

Without the addition to the SEC of specific wording which obligates SECCo to comply with the changes to the BSC, there is no legal requirement for SECCo or SECAS (as non-BSC Parties) to support the implementation of MHHS, and no contractual recourse if their duties are not met.

Impact on consumers

Ofgem has estimated that settling consumers on a half-hourly basis would bring net consumer benefits of between £1.6bn and £4.5bn over the period 2021-2045. Ofgem also expects a number of other benefits to consumers, some quantified and others unquantifiable, in terms of incentivising the development of new tariffs and products, lowering the barriers for market entry and progressing decarbonisation of the sector[1].

However, without a coordinated effort across the industry to achieve MHHS, these benefits may not be realised.

[1] Please see Ofgem's final business case and decision to implement market-wide half-hourly settlement for more details.

3. Solution

Proposed Solution

This modification proposes to insert a new clause into the SEC to place an obligation on SECCo to comply with the obligations insofar as these apply to it under BSC section C12 'Market-wide Half-Hourly Settlement Implementation'.

The changes in BSC section C12 place specific obligations on MHHS programme parties to ensure effective and timely implementation of MHHS. These changes also establish the governance framework within which the development and delivery by industry of future changes for MHHS implementation can be made to ensure programme delivery takes place effectively and in a coordinated way. The detailed obligations are intended to complement relevant licensees' licence obligations of a 'duty to cooperate' with implementing the outcomes of an SCR.

This modification proposes to add a new clause within SEC Section C 'Governance', Section C7.13, as follows:

> ***Market-wide Half-Hourly Settlement Implementation***
>
> *7.13 SECCo shall (and the Panel shall ensure that SECCo shall) comply with the obligations expressed to apply to SECCo (either specifically or generically as a category of participant) under section C12 (Market-wide Half-Hourly Settlement Implementation) of the Energy Code known as the Balancing and Settlement Code.*

This change to the SEC will ensure that SECCo (alongside other relevant Code bodies) will work collaboratively with Elexon (who manages and administers the BSC) and each other to deliver the changes to Codes, systems, and processes necessary for MHHS implementation. This obligation will ensure that SECCo (and other relevant Code Administrators) are obliged to identify, plan, and deliver all necessary changes on a timescale that is consistent with the baselined MHHS implementation plan.

4. Impacts

SEC Parties

This modification will have no direct impact on SEC Parties, it will simply formalise existing obligations to comply with the outcomes and implementation of an SCR.

DCC System

This modification will have no impact on DCC Systems.

SEC and subsidiary documents

The following parts of the SEC will be impacted:

- Section C 'Governance'

The changes to the SEC required to deliver the proposed solution can be found in Annex A.

Consumers

This modification will have no direct impact on Consumers. However, it will contribute towards the long-term benefits of a successful delivery of the MHHS initiative.

Other industry Codes

This modification will have no impact on other Codes. It links obligations under the SEC to clauses in the BSC.

Greenhouse gas emissions

This modification will have no direct impact on greenhouse gas emissions. However, it will contribute towards the long-term environmental benefits arising from successful delivery of MHHS.

5. Costs

DCC costs

There are no DCC costs for implementing this modification.

SECAS costs

The estimated SECAS implementation costs to implement this modification is one day of effort, amounting to approximately £600. The activities needed to be undertaken for this are:

- Updating the SEC and releasing the new version to the industry.

SEC Party costs

There are no costs for SEC Parties associated with implementing this modification.

6. Implementation approach

Agreed implementation approach

The Change Sub-Committee (CSC) has agreed an implementation date of:

- **4 November 2021** (November 2021 SEC Release) if a decision to approve is received on or before 28 October 2021; or
- **Five Working Days following approval** if a decision to approve is received after 28 October 2021.

Ofgem is seeking for the relevant changes to Codes and Licences to be implemented in October 2021. Including this change as part of the November 2021 SEC Release will improve efficiency by incorporating it into an existing planned SEC uplift. If a decision is not received in time for this release, the change, if approved, should be made as soon as possible following an Authority decision.

7. Assessment of the proposal

Views against the General SEC Objectives

Proposer's views

The Proposer believes this modification will better facilitate SEC Objective (g)[2]. The actual implementation of MHHS, including the design of governance and operational procedures, will be managed by Elexon and regulated through the BSC. The SEC will be required to stay aligned with these new arrangements, which will ensure improved efficiency and cross-code coordination across the different codes, and ensure that the SEC is aligned appropriately with other codes for MHHS changes.

Views against the consumer areas

Improved safety and reliability

If implemented, this modification will contribute to a positive impact against this consumer area. MHHS is a key enabler for a smarter, more flexible electricity system and will facilitate the development of new, innovative business models. Using innovation enabled by MHHS to reward consumers for matching their consumption with periods of high generation from renewables such as wind and solar photovoltaics (PV) can help to integrate this generation into the system

Lower bills than would otherwise be the case

If implemented, this modification will contribute to a positive impact against this consumer area. MHHS will ensure that charges to Suppliers for wholesale electricity more accurately match actual consumption, rather than relying on estimates of consumer usage. This will incentivise Suppliers to offer new tariffs and products that encourage a more flexible use of energy and help consumers to

[2] Facilitate the efficient and transparent administration and implementation of this Code

lower their bills, for example through time of use tariffs, automation, vehicle to grid solutions and battery storage. It will help to reduce cost to current and future consumers, through reducing the need for infrastructure investment and facilitating more efficient use of generation and network assets. Ofgem estimates that MHHS will deliver net benefits to GB energy consumers in the range of £1.6bn-£4.5bn between 2021 and 2045.

This modification is necessary for MHHS to be successfully implemented and for these benefits to be realised.

Reduced environmental damage

If implemented, this modification will contribute to a positive impact against this consumer area. MHHS will encourage a more flexible use of energy and will create opportunities for the market to develop new products and services, including lowering the barriers for entry for new green energy suppliers and helping to decarbonise the sector cost-effectively.

This modification is necessary for MHHS to be successfully implemented and for these benefits to be realised.

Improved quality of service

If implemented, this modification will contribute to a positive impact against this consumer area. The incentives created by MHHS will encourage development of new products and services for consumers, helping them use electricity more flexibly, saving money and reducing their carbon footprint. MHHS will also make central settlement processes faster and more efficient.

Benefits for society as a whole

If implemented, this modification will contribute to a positive impact against this consumer area. MHHS will increase competition between suppliers (including innovative new entrants to the market), create a more flexible electricity wholesale market and facilitate the development of new, innovative business models, products and services that consumers can engage with in the future. There will be numerous benefits, some quantifiable and some intangible. Ofgem has published an Impact Assessment that sets this out in detail.

This modification is necessary for MHHS to be successfully implemented and for these benefits to be realised.

Appendix 1: Progression timetable

This is an Authority-Led Variation and will therefore follow the expedited process set out in SEC Section D9A. SECAS and the Authority have been coordinating and have agreed the following planned timetable.

The Authority-Led Modification Report was presented to the CSC on 31 August 2021. On 29 September 2021 the Change Board will vote on whether to approve the Authority-Led Variation. The Authority will consider the Change Board vote and determine whether to approve the Authority-Led Variation.

Timetable	
Event/Action	**Date**
Authority-Led Variation raised	23 Aug 2021
Authority-Led Modification Report presented to CSC	31 Aug 2021
Change Board vote	29 Sep 2021
Authority decision (anticipated date)	3 Nov 2021

Appendix 2: Glossary

This table lists all the acronyms used in this document and the full term they are an abbreviation for.

Glossary	
Acronym	**Full term**
BSC	Balancing and Settlement Code
CSC	Change Sub-Committee
CUSC	Connection and Use of System Code
DCC	Data Communications Company
DCUSA	Distribution Connection and Use of System Agreement
MHHS	Market-wide Half-Hourly Settlement
PV	Photovoltaics
REC	Retail Energy Code
SEC	Smart Energy Code
SECAS	Smart Energy Code Administrator and Secretariat
SECCo	Smart Energy Code Company
SCR	Significant Code Review