

Modification proposal:	Smart Energy Code (SEC) Modification Proposal (MP180): Market-Wide Half-Hourly Settlement Implementation		
Decision:	The Authority ¹ determines that this modification ² should be made ³		
Target audience:	Data and Communications Company (DCC), SEC Panel, Parties to the SEC and other interested parties		
Date of publication:	22 October 2021	Implementation date:	4 November 2021

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. We estimate that it will bring net benefits for consumers of £1.6bn-£4.5bn over the period 2021-2045.⁴

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 'Change' and 'modification' are used interchangeably in this document.

³ This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989 and by section 38A of the Gas Act 1986.

⁴ See our [MHHS Final Impact Assessment](#) for full details.

We launched our Electricity Settlement Reform Significant Code Review⁵ (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 decision on MHHS⁶ 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,⁷ we consulted in April 2021 about the code changes needed to enable MHHS implementation and governance arrangements.⁸ In August 2021, we made a decision on the MHHS implementation and governance arrangements⁹ and provided an update¹⁰ on raising Authority-led modifications to make the relevant code changes.

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. Ofgem has progressed modifications separately for each of the affected codes.¹¹

⁵ 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 our website.

⁶ See the [Electricity Retail Market-wide Half-hourly Settlement: Decision and Full Business Case](#) on our website.

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

⁸ The [April 2021 consultation](#) appears on the Ofgem website.

⁹ Our [decision on MHHS implementation \(11 August 2021\)](#) appears on the Ofgem website.

¹⁰ An [update](#) on the Authority-led modifications for MHHS implementation (12 August 2021) is on our website.

¹¹ The Authority has already approved proposals to modify the BSC, the DCUSA, the CUSC and the REC.

The modification proposal

This Change Proposal would insert a new clause into the SEC obliging 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. The detailed obligations are intended to complement relevant licensees' licence obligations of a 'duty to cooperate' with implementing the outcomes of an SCR.

SEC Change Board¹² recommendation

At its meeting on 29 September 2021, the Change Board considered that SEC Modification Proposal 'MP180: Market-Wide Half-Hourly Settlement Implementation' would better facilitate the seventh SEC General Objective (Objective G). The Change Board unanimously recommended its approval.

Our decision

We have considered the issues raised by the proposal. We have also taken into account the votes of the SEC Change Board as set out in the Conclusions Report dated 29 September. We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the seventh SEC General Objective and will be neutral or positive against the other applicable SEC objectives;¹³ and
- directing that the change is approved is consistent with the Authority's principal objective and statutory duties.¹⁴

¹² The SEC Panel and Change Board are established and constituted pursuant to and in accordance with DCC Licence 22.25(a).

¹³ The Objectives in accordance with DCC Licence 22.10-22.17

¹⁴ The Authority's statutory duties are wider than matters that the Panel must take into consideration and are detailed mainly in the Electricity Act 1989 as amended and the Gas Act 1986 as amended.

Reasons for our decision

We consider that this modification proposal will better facilitate SEC Objective (g) and will be neutral or positive against the other applicable SEC Objectives. The proposal 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. It will also 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.

The seventh General SEC Objective is to facilitate the efficient and transparent administration and implementation of the SEC.

The actual implementation of MHHS, including the design of governance and operational procedures, will be managed by Elexon and regulated through the BSC. As noted above, 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.

Next steps

The current set of code 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 2021,¹⁵ 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.

¹⁵ See the [Update – Electricity Settlement Reform Significant Code Review: Authority-Led Code Modification Proposals](#) on our website.

Decision notice

In accordance with standard licence condition 23 of the Smart Meter Communication licence, the Authority hereby determines that SEC modification proposal (MP180): Market-Wide Half-Hourly Settlement Implementation 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

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