Modification proposal:	**Retail Energy Code (REC) R0003: Market-Wide Half-Hourly Settlement Implementation and Governance Arrangements (R0003)**		
Decision:	The Authority[1] has decided to approve[2] this modification[3]		
Target audience:	REC Board, REC Parties and other interested parties		
Date of publication:	20 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] This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989 and section 38A of the Gas Act 1986.
[3] 'Change' and 'modification' are used interchangeably in this document.
[4] See our MHHS Final Impact Assessment for full details.

We launched our Electricity Settlement Reform Significant Code Review[5] (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 MHHS[6] 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 arrangements[9] and provided an update[10] 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 RECCo, working collaboratively with Elexon and each other to deliver the changes to codes, systems and processes necessary for MHHS implementation. Ofgem has been progressing 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 and the CUSC.

The modification proposal

This Change Proposal would insert a new clause into the REC obliging RECCo 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.

REC Change Panel[12] recommendation

At its meeting on 5 October 2021, the REC Change Panel considered that Change Proposal R0003 would better facilitate the REC Objectives. The Change Panel voted unanimously to recommend to the Authority that Change Proposal R0003 be approved for implementation.

Our decision

We have considered the issues raised by the Change Proposal and the Final Change Report dated 6 October 2021. We have considered and taken into account the responses to the industry consultation.[13] We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the applicable Objectives of the REC;[14] and
- approving the modification is consistent with our principal objective and statutory duties.[15]

[12] The REC Change Panel is established and constituted pursuant to and in accordance with Standard Condition 11B.8(a) of the Electricity Supply Licence and Standard Condition 11.8(a) of the Gas Supply Licence.
[13] REC change proposals, change reports and representations can be viewed on the REC Portal.
[14] As set out in Standard Condition 11B.6 of the Electricity Supply Licence and Standard Condition 11.6 of the Gas Supply Licence.
[15] 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 and the Gas Act 1986.

Reasons for our decision

The Authority considers that the Change Proposal will better facilitate REC Objectives (a), (b) and (c).

(a) to ensure the REC operates and evolves in a manner that facilitates the achievement of its mission statement

This objective will be better facilitated by the implementation of this Change Proposal as it will ensure that RECCo is obliged to identify, plan, and deliver all necessary changes to the REC required to support MHHS implementation. This will support the evolution of the REC required to support wider industry developments.

(b) to ensure customers' interests and data are protected in the operation of the REC

The MHHS programme will deliver significant benefits to consumers. We have estimated net consumer benefits of between £1.6bn and £4.5bn over the period 2021-2045). Ensuring that RECCo supports the timely and efficient delivery of the MHHS programme will help deliver these benefits to consumers, and also help ensure that consumer interests are kept fully in mind as the programme progresses.

(c) to drive continuous improvements and efficiencies in the operation of the REC and the central systems and communication infrastructure it governs

The actual implementation of MHHS, including the design of governance and operational procedures, will be managed by Elexon and regulated through the BSC. The REC 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 REC is aligned appropriately with other codes for MHHS changes.

We note that the Change Panel concluded that the Change Proposal would have a neutral impact on this Objective.

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,[16] 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.

Decision notice

In accordance with Standard Condition 11B of the Electricity Supply Licence and Standard Condition 11 of the Gas Supply Licence, the Authority hereby approves REC Change Proposal R0003: Market-Wide Half-Hourly Settlement Implementation and Governance Arrangements.

Rachel Clark
Deputy Director and Senior Responsible Owner for Electricity Settlement Reform
Signed on behalf of the Authority and authorised for that purpose

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