

Modification proposal:	<b>Connection and Use of System Code (CUSC) CMP378: Market-wide Half-Hourly Settlement (MHHS) Implementation and Governance Arrangements (CMP378)</b>		
Decision:	The Authority <sup>1</sup> directs that this modification be made <sup>2</sup>		
Target audience:	National Grid Electricity System Operator (NGESO), Parties to the CUSC, the CUSC Panel and other interested parties		
Date of publication:	12 October 2021	Implementation date:	15 October 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.<sup>3</sup>

We launched our Electricity Settlement Reform Significant Code Review<sup>4</sup> (SCR) in July 2017 to develop and then, subject to an Impact Assessment, implement a transition from

<sup>1</sup> 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.

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

<sup>3</sup> See our [MHHS Final Impact Assessment](#) for full details.

<sup>4</sup> 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.

the existing settlement arrangements to MHHS. We published our Full Business Case, Impact Assessment and decision on MHHS<sup>5</sup> 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,<sup>6</sup> we consulted in April 2021 about the code changes needed to enable MHHS implementation and governance arrangements.<sup>7</sup> In August 2021, we made a decision on the MHHS implementation and governance arrangements<sup>8</sup> and provided an update<sup>9</sup> 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 NGESO and the CUSC Code Administrator, working collaboratively with Elexon and each other to deliver the changes to codes, systems and processes necessary for MHHS implementation. Ofgem is progressing modifications separately for each of the affected codes.<sup>10</sup>

Together, the proposed code changes (including this one) 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.<sup>11</sup> The detailed code obligations are intended to complement relevant licensees' licence obligations of a 'duty to cooperate' with implementing the outcomes of a SCR.

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

<sup>6</sup> The [January 2021 consultation](#) appears on our website.

<sup>7</sup> The [April 2021 consultation](#) appears on our website.

<sup>8</sup> Our [decision on MHHS implementation \(11 August 2021\)](#) appears on our website.

<sup>9</sup> An [update](#) on the Authority-led modifications for MHHS implementation (12 August 2021) is on our website.

<sup>10</sup> In parallel, we have been progressing modifications to the BSC, the DCUSA, the REC and the SEC. On 30 September 2021, the Authority approved the proposal to modify the BSC. See [BSC P423 Decision Letter](#).

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

## The modification proposal

On 12 August 2021, Ofgem raised CUSC modification proposal CMP378 (the proposal) as an Authority Led SCR Modification Proposal. The proposal set out the timetable for the CUSC modification process to follow.<sup>12</sup>

The proposal inserts a new Clause into the Connection and Use of System Code (CUSC) to place an obligation on The Company (defined in the CUSC as National Grid Electricity System Operator (NGESO) Limited) and upon the CUSC Code Administrator to comply with the obligations insofar as these apply to them under Section C12 (Market-wide Half-Hourly Settlement Implementation) of the Balancing and Settlement Code (BSC).

Without this modification, NGESO (and the CUSC Code Administrator) will have no explicit obligation to identify, plan and deliver all the necessary CUSC changes (to the CUSC code, systems and processes) for MHHS implementation. This change to the CUSC will provide certainty about the obligations being placed by the Authority on NGESO (and the CUSC Code Administrator) and will promote a consistent approach with all the codes that are affected by the MHHS implementation provisions.

The Authority, as proposer, considered that the proposal better facilitates CUSC Objectives (a), (b) and (d) and that it is neutral against CUSC Objective (c).<sup>13</sup> The Authority, as proposer, also considered that the proposal will have a positive impact on all the categories of stakeholder/consumer benefit.

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. As noted above, our analysis predicts that MHHS 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.

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<sup>12</sup> Further details about [CMP378 and the letter to the CUSC Panel](#) can be found on CUSC's website.

<sup>13</sup> CUSC Objective (a) is "the efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence. Objective (b) is "facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity." Objective (d) is "promoting efficiency in the implementation and administration of the CUSC arrangements."

## **CUSC Panel<sup>14</sup> recommendation**

At its meeting on 24 September 2021, the CUSC Panel agreed that CMP378 would better facilitate the CUSC objectives and unanimously recommended that it should be implemented.

## **Our decision**

We have considered the issues raised in the Final Modification Report (FMR) dated 28 September 2021. We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the applicable objectives of the CUSC;<sup>15</sup> and
- directing that the modification be made is consistent with our principal objective and statutory duties.<sup>16</sup>

## **Reasons for our decision**

The Authority considers that this modification proposal will better facilitate CUSC Objectives (a), (b) and (d) and that it will have a neutral impact on CUSC Objective (c).

### ***(a) the efficient discharge by the licensee of the obligations imposed upon it under the Act and by this licence***

This modification will place an obligation on NGESO and in its role as the CUSC code administrator to ensure it complies with its obligations as set out in the BSC Section C12 (MHHS Implementation). The modification ensures that CUSC remains aligned with the rest of the affected industry codes and therefore that the licensee is able to meet these obligations efficiently.

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<sup>14</sup> The CUSC Panel is established and constituted from time to time pursuant to and in accordance with section 8 of the CUSC.

<sup>15</sup> As set out in Standard Condition C10(1) of the Electricity Transmission Licence, see: <https://epr.ofgem.gov.uk/Content/Documents/Electricity%20transmission%20full%20set%20of%20consolidated%20standard%20licence%20conditions%20-%20Current%20Version.pdf>

<sup>16</sup> 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 as amended.

***(b) facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity***

The successful implementation of MHHS will ensure that electricity suppliers and other retailers face the true costs of serving all of their customers, incentivising the development and offering of new tariffs and services encouraging customer behaviour which contributes to a more cost-effective electricity system. This, alongside reduced barriers to entry from faster and more efficient settlement processes, will increase competition and facilitate new and disruptive business models in the energy market. This modification provides the framework for NGESO and the CUSC Administrator, alongside the changes to other affected industry codes, to implement MHHS successfully and for these wider benefits to be realised.

***(d) promoting efficiency in the implementation and administration of the CUSC arrangements***

The actual implementation of MHHS, including the design of governance and operational procedures, will be managed by Elexon and regulated through the BSC. The CUSC 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 CUSC 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<sup>17</sup> of 12 August 2021, 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.

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<sup>17</sup> See the [Update – Electricity Settlement Reform Significant Code Review: Authority-Led Code Modification Proposals](#) on our website.

We note that we published the Governance Framework<sup>18</sup> alongside the proposed modification. Our intention is to designate it in the near future.

### **Decision notice**

In accordance with Standard Condition C10 of the Transmission Licence, the Authority, hereby directs that modification proposal CMP378: *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

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<sup>18</sup> See the [Governance Framework](#) on our website.