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Citizens Advice response to Ofgem's Implementation and Governance Arrangements for Market-Wide Half-Hourly Settlement Consultation

Dear Half Hourly Settlement Team,

Thank you for the opportunity to respond. We welcome the opportunity to contribute to this consultation on implementation and governance arrangements for Market-wide Half-Hourly Settlement (MHHS). This submission is not confidential and may be published on your website.

As the statutory advocate for energy consumers, Citizens Advice has provided extensive input into the smart meter rollout and MHHS.

Half-hourly settlement is vital for the development of the electricity retail market in Great Britain as it has the potential to enable improved services to the domestic and microbusiness markets through better billing accuracy, greater network efficiency, reduced costs and lower carbon emissions.

We think Ofgem have defined many well-thought-through obligations on industry parties and outlined the basis for governance processes that will support the realisation of the benefits proposition from MHHS. We support the proposed governance structure and assurance principles but would encourage a complete separation between oversight of the Independent Assurance Provider (IAP) and Elexon, the organisation they are assuring. The scope of work and the incentives on the IAP will be focused on identifying and reporting on issues relating to business separation and Elexon's conflicts of interest. We don't think Elexon can be involved in this process. We recognise the internal separation within Elexon's settlement roles, however, we still expect executive

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teams to have authority in decision making which, where it relates to the SRO function, needs external corroboration of representing its obligations and therefore consumer interests. We believe therefore that Ofgem should oversee the day-to-day assurance management.

Towards closer cross code working

We see efficient delivery of the MHHS programme as significantly dependent on cross code interaction. Currently there is limited detail as to how competing energy governance codes, with different objectives, will reconcile their competing priorities and their industry groups' exposure to costs in the interests of consumers.

To achieve the industry agreement and consumer behaviour change required to deliver the benefits of settlement reform, we encourage Ofgem to set out how to approach cross code cost benefit trade-off decisions. We are currently unable to see clearly how positive consumer net benefit will be assessed and prioritised so that all codes are likely to agree.

This issue could potentially be addressed via a reference in the license obligations to follow defined terms of reference for cross code working, or via guidance or instruction to code governance bodies.

We want code bodies to address the design, delivery and implementation decisions in a way that reflects the needs of MHHS and for their expertise to be well utilised. We encourage Ofgem to require firm commitments to collaborative working and a requirement to present timely cross code cost benefit assessments. This will ensure that Ofgem is not over-relied upon as arbiter. We are not convinced that the current approach of defining where Ofgem will, and will not, intervene will be sufficient. A clearer resolution process between codes is required to stop multiple smaller issues from becoming cumulative to meet the threshold for intervention.

Citizens Advice are concerned that, without greater clarity on a process for reaching cross code agreement, the discretion of code bodies will enable industry parties with an interest in delaying change to force uncooperative code approaches to change. This could be either at a panel or at the working group level, often where transparency is slightly more limited given the lower quoracy requirements and visibility.

It is appropriate that the code panel reflect the views of their constituent parties via the code objectives. As a result, we think there needs to be clear direction from Ofgem about the value prioritisation that codes need to take to realise the benefits of settlement reform as intended. This should include prioritisation of energy and settlement system design that facilitates consumer engagement and behaviour change that constitutes the majority of the potential benefit from settlement reform. This means ensuring key priorities in settlement design include the smart metering experience, consumer access to cost and carbon signals and consumer control of their data.

We are aware that wider code governance and institutional reform is being considered in a different work stream. However given the time pressures for code developments needed to deliver settlement reform, network charging and other cross code impacting modifications we urge better cross code 'ways of working' to be an immediate priority of Ofgem.

Currently, there are numerous fragmented efforts to coordinate activity. For example via Code Administration Code of Practice (CACoP), a panel chair working group, adhoc panel secretariat work on modifications and now cross code working groups and a cross code advisory group. Given the high importance of cross code agreement in the near future we encourage a unified, proportionate and visible process for cross code working to collaboratively both anticipate and then consider modifications that require cross code action.

1. Do you agree that the balance of the duty to cooperate in licences and the more detailed obligations set out here will be sufficient to ensure that all parties are subject to the right obligations to secure timely and effective implementation of MHHS?

We want to see the MHHS programme management receive the necessary industry commitment and technical expertise that will support the efficient delivery of a Target Operating Model (TOM) that has the best overall outcome on consumers energy services. This requires a robust process to ensure a 'duty to cooperate' is monitored and enforced. There is a risk that code interdependencies are used to delay progress with MHHS implementation.

We can't yet see a clear process that shows how the necessary industry expertise will be used to find the practical, proportionate, delivery options efficiently. In particular, this is important to mitigate the key programme risks, which include system impacting changes for centralised systems and diffuse settlement parties and consumers.

This will need to develop over time - however, we note the industry feedback, via Ofgem's recent consultation and the Complete Strategy report, that expresses concerns about Elexon's ability to coordinate the industry change required by the programme and the lack of clarity around the Programme Party Coordinator role. We see a need for expertise in this area to deliver MHHS and for Ofgem, as a sponsor and ultimate owner of a key structural risk for governance delivery, to provide direction.

The proposed Cross Code Advisory Group (CCAG) that Ofgem have outlined will support Elexon acting as MHHS Implementation manager and the Programme Steering Group. We are concerned that it is defined by Ofgem as to simply "operate by consensus". We are unconvinced this will meet the objectives outlined above for two reasons. Firstly, the proposed structure will not bring in the requisite code knowledge and expertise that reflects the key impacted infrastructure at an early stage to support the delivery of a practical and efficient TOM model. Secondly, we expect there to be instances, particularly in the case of the DCC system and supplier impacting modifications where the implementation of impact assessment will require a robust business case to justify change in which whole system benefits need to be assessed.

We note the recommendation of Complete Strategy that *"industry staff are included in the wider programme management function, these staff should be provided by a range of industry parties to provide a fuller breadth of experience and knowledge, and to demonstrate explicitly that MHHS is an industry-wide programme"*. It is reassuring that Elexon has pursued this objective and plans to have wider industry staff working as part of the design authority team within the central programme. We think it is vital that a broad range of industry parties and expertise will be both within the planned mobilisation stage, design authority and implementation teams.

If this is done well it should support effective communication and engagement with industry parties which will be critical to the delivery of the programme.

It would seem sensible for Ofgem to explicitly reference the expected ways of cross code working and consider how they expect efficient ways of working will be revealed.

This includes how coordination of cost benefit assessments reflect whole system outcomes for consumers, in particular what protections will ensure that whole system benefits are prioritised over an overly rigid definition of a TOM. Also, the threshold for Ofgem intervention being based on adherence to the TOM means that whole system impacts may be seen as subordinate even though they may reflect additional value to a consumer.

Please do get in contact if you have any questions relating to this submission.

Kind regards

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Citizens Advice