

Modification proposal:	Distribution Connection and Use of System Agreement (DCUSA) DCP393 – Market-Wide Half-Hourly Settlement (MHHS) Implementation and Governance Arrangements		
Decision:	The Authority ¹ directs that this modification be made ²		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	11 October 2021	Implementation date:	18 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 2021-2045.³

We launched our Electricity Settlement Reform Significant Code Review⁴ (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 MHHS⁵ in April 2021 confirming our plan to do so, with a planned end date of October 2025.

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.

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

⁴ 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.

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

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,⁶ we consulted in April 2021 about the code changes needed to enable MHHS implementation and governance arrangements.⁷ In August 2021, we made a decision on the MHHS implementation and governance arrangements⁸ and provided an update⁹ 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 DCUSA Limited, 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.¹⁰

The modification proposal

On 13 August 2021, Ofgem raised DCUSA change proposal DCP393 (the proposal) as an Authority Led SCR Modification Proposal. The change proposal set out our timetable for the DCUSA change process to follow.¹¹ The proposal seeks to ensure that DCUSA Limited (alongside other relevant code bodies) will work collaboratively with Elexon and each other to deliver the changes to codes, systems and processes necessary for MHHS implementation. The proposed approach is to place an obligation on DCUSA Limited (and other relevant code bodies) to identify, plan and deliver all necessary changes on a timescale that is consistent with the MHHS implementation plan.

The proposal places an unambiguous requirement on DCUSA Limited to comply with the obligations insofar as these apply to it under Section C12 (Market-wide Half-Hourly Settlement Implementation) of the Balancing and Settlement Code (BSC). The changes in BSC C12 place specific obligations on MHHS programme parties to ensure effective and timely implementation of MHHS. These changes also establish the governance framework

⁶ The [January 2021 consultation](#) appears on the Ofgem website.

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

⁸ Our [decision on MHHS implementation \(11 August 2021\)](#) appears on the Ofgem website.

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

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

¹¹ Further details about [DCP393 and the letter to the DCUSA Panel](#) can be found on DCUSA's website.

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.

The Authority, as proposer, considers that the proposal would better facilitate DCUSA General Objectives (1), (2) and (4).¹² The Authority considers that the proposal would be neutral against Objective (3) and have no impact on Objective (5). The Authority also considers that the proposal would support the development of more efficient and effective electricity wholesale settlement markets.

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.

DCUSA Parties' recommendation

In each party category where votes were cast there was unanimous support both for the proposal and the proposed implementation date. No votes were cast in the CVA Registrant or gas supplier party category.¹³ In accordance with the weighted vote procedure, the recommendation to the Authority was that DCP393 is accepted. The outcome of the weighted vote is set out in the table below:

DCP393	WEIGHTED VOTING (%)									
	DNO ¹⁴		IDNO/ OTSO ¹⁵		ELECTRICITY SUPPLIER		GAS SUPPLIER		CVA ¹⁶ REGISTRANT	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	100%	0%	100%	0%	100%	0%	N/A	N/A	N/A	N/A
IMPLEMENTATION DATE	100%	0%	100%	0%	100%	0%	N/A	N/A	N/A	N/A

¹² DCUSA General Objective (1) is 'The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks.' DCUSA General Objective (2) is 'The facilitation of effective competition in the generation and supply of electricity and (so far as is consistent therewith) the promotion of such competition in the sale, distribution and purchase of electricity.' DCUSA General Objective (4) is the promotion of efficiency in the implementation and administration of the DCUSA.

¹³ There are currently no gas supplier parties.

¹⁴ Distribution Network Operator

¹⁵ Independent Distribution Network Operator/Offshore Transmission System Operator

¹⁶ Central Volume Allocation

Our decision

We have considered the issues raised by the proposal and subsequently in the Change Report and Change Declaration dated 1 and 22 September 2021 respectively. We have considered and taken into account the vote of the DCUSA Parties on the proposal which is attached to the Change Declaration. We have concluded that:

- implementation of the Change Proposal will better facilitate the achievement of the Applicable DCUSA objectives;¹⁷ and
- directing that the Change Proposal is approved is consistent with our principal objective and statutory duties.¹⁸

Reasons for our decision

We consider that this Change Proposal will better facilitate DCUSA Objectives (1), (2) and (4), will have a neutral impact on Objective (3) and will have no impact on Objective (5).

Applicable DCUSA Objective (1) - the development, maintenance and operation by the licensee of an efficient, co-ordinated, and economical Distribution System

The successful implementation of 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 lower their bills, for example through time of use tariffs, automation, vehicle to grid solutions and battery storage. It will also 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. This modification provides the framework within DCUSA, alongside the changes to other affected industry codes, for MHHS to be successfully implemented.

Applicable DCUSA Objective (2)– the facilitation of effective competition in the generation and supply of electricity and (so far as is consistent with that) the

¹⁷ The Applicable DCUSA Objectives are set out in Standard Licence Condition 22.2 of the Electricity Distribution Licence.

¹⁸ The Authority's statutory duties are wider than matters that the Parties must take into consideration and are detailed mainly in the Electricity Act 1989 as amended.

promotion of 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 DCUSA, alongside the changes to other affected industry codes, to implement MHHS successfully and for these wider benefits to be realised.

Applicable DCUSA Objective (4) - the promotion of efficiency in the implementation and administration of the DCUSA 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 DCUSA 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 DCUSA 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 2021,¹⁹ 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.

We note that we published the Governance Framework²⁰ alongside the proposed modification. Our intention is to designate it in the near future.

¹⁹ See the [Update – Electricity Settlement Reform Significant Code Review: Authority-Led Code Modification Proposals](#) on our website.

²⁰ See the [Governance Framework](#) on our website.

Decision notice

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP393: 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