
Balancing and Settlement Code (BSC) P476: Exemption from MHHS Requirements for Smart Market Segment Supplier Qualification (P476)

Decision	The Authority ¹ directs that this modification shall be made ²
Target audience	National Energy System Operator (NESO), Parties to the BSC, the BSC Panel and other interested parties
Date of publication:	23 January 2025
Implementation date:	27 February 2025

Background

Several suppliers participating in the Market-wide Half-Hourly Settlement (MHHS) Programme have requested exemptions from the requirement to qualify for the Smart Market Segment as part of the MHHS Qualification process. These suppliers do not operate within the Smart Market Segment, which covers smart meters serviced by the Data Communications Company (DCC). As these suppliers only hold a Non-Domestic Supply Licence, they are not registered with the DCC to manage smart meters enrolled in the DCC system. These suppliers serve the Industrial and Commercial sector, managing a portfolio of Advanced Meters, and they have stated that they plan to maintain this focus moving forward. Given the specific nature of their Advanced Meters portfolio, these suppliers have argued that the MHHS requirements, designed primarily for the smart meter market, are not relevant for their operations. Consequently, they seek exemptions to avoid unnecessary compliance obligations that do not align with their operational model. At present, however, there is no provision in the Balancing and Settlement Code (BSC) to enable the BSC's Performance Assurance Board (PAB)³ to grant exemptions from the requirement to qualify for the Smart Market Segment.

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 The PAB conducts and administers activities to provide assurance that all participants in the BSC arrangements are suitably qualified and that the relevant standards are maintained.

The modification proposal

At the PAB's request, the BSC Panel raised this Modification after its meeting on 11 July 2024. The proposal would modify the BSC to permit exemptions for suppliers from qualifying for the Smart Market Segment. Suppliers that only have processes and systems to manage in what will be, under MHHS, the Advanced Market Segment⁴ would be allowed to apply to the PAB for an exemption from Smart Segment Qualification obligations.

Additional measures to promote market integrity

In the Final Modification Report (FMR) dated 12 August 2024, Elexon stated that it would introduce additional measures to protect the integrity of the market. These measures have since been taken forward not as part of this modification proposal but via revisions to the MHHS Qualification Deliverables Documentation.⁵ These documents will, amongst other things, specify the criteria⁶ that suppliers must meet to be eligible for an exemption, and require suppliers to set out the processes and controls⁷ that they have in place to ensure that they do not acquire any meter points outside of the Advanced Market Segment.

Elexon has stated that if a supplier with an exemption acquires a customer in the exempt segment, Elexon (and the REC Code Manager) will work with the relevant PABs to mitigate the risk and address any non-compliance. Elexon believes that existing Performance Assurance

⁴ The Advanced Market Segment is the Market Segment where Settlement Level Period data is collected for Settlement purposes from Advanced Meters.

⁵ For details see the [Qualification Assessment Document - MHHS Programme](#). The Qualification Assessment Document was approved at the Retail Energy Code Performance Assurance Board (PAB) on Tuesday 17 December 2024, and at both the Qualification Advisory Group (QAG) and the Balancing and Settlement Code (BSC) PAB on Thursday 19 December 2024.

⁶ The criteria require that all meters within the Supplier portfolio must only have the meter types associated with the Advanced Market Segment in line with the 'Entity M7' document within the MHHS Design. This will be verified by Code Bodies whilst considering the exemption and the DIP Manager will be informed. The other criteria require that the Supplier has not become a DCC User (which will be verified by Code Bodies and DIP Manager) and that the Supplier must agree a cap on their total portfolio size to allow them to effectively manage their exemption requirements. This will be applied through REC Controlled Market Entry. These criteria have been added to the 'MHHS Qualification Approach and Plan' with the caveat that they are subject to Ofgem approving this Modification Proposal (P476). Note that Ofgem's decision in relation to this Modification Proposal does not extend to the exemption criteria and other materials in the MHHS qualification documentation, which have been developed through Programme governance.

⁷ Suppliers seeking an exemption will need to answer additional QAD questions as part of their BSC/REC MHHS Qualification. We understand that Elexon and REC are aiming to finalise the questions for a proposed Release on 27 February 2025.

Techniques are sufficient to manage this risk. Elexon intends that the BSC PAB will establish a regime of compliance monitoring and reporting in relation to these exemptions and that the PAB will escalate, in line with Section H of the BSC, any severe breaches by suppliers that are not remedied. According to Elexon, these “robust monitoring and control measures will maintain the integrity of the Smart Market Segment”.

BSC Panel⁸ recommendation

At the BSC Panel meeting on 8 August 2024, the BSC Panel considered that P476 would better facilitate BSC objectives (c) and (d) and the Panel therefore unanimously recommended its approval.

Our decision

We have considered the issues raised by the modification proposal and the FMR⁹. We have considered and taken into account both the responses to the industry consultation on the modification proposal and Elexon’s subsequent response to them. We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the applicable objectives of the BSC;¹⁰ and
- directing that the modification be made is consistent with our principal objective and statutory duties.¹¹

⁸ The BSC Panel is established and constituted pursuant to and in accordance with Section B of the BSC and Condition E1 of the Electricity System Operator Licence.

⁹ BSC modification proposals, modification reports and representations can be viewed on the Elexon website at www.elexon.co.uk

¹⁰ As set out in Condition E1 of the Electricity System Operator Licence.

¹¹ 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.

Reasons for our decision

We consider this modification proposal will better facilitate BSC objectives (c) and (d) and has a neutral impact on the other applicable objectives.

(c) promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity

We note that the Panel agreed that P476 would promote effective competition because it would reduce unnecessary workload and resource expenditure for suppliers and allow them to focus on areas that align with their business strategies. The Panel further agreed that, ultimately, this would lead to a more efficient allocation of industry resources and support a more targeted and effective market entry. Ofgem agrees with the Panel and, therefore, agrees that the proposal would better facilitate objective (c).

One respondent to the consultation stated that the proposal could create a conflict between the BSC and the Non-Domestic Electricity Supply Licence, which does not allow suppliers to opt out of servicing specific market segments. In the FMR, Elexon expressed the view that the proposed exemption would not cause a conflict because the Non-Domestic Electricity Supply Licence does not include an obligation to supply, which means that a non-domestic Supplier can refuse to offer terms if it so wishes. (The obligation to offer terms is a domestic supply licence issue only, which is not affected by this Modification.) Ofgem agrees with this interpretation of the licence.

The same respondent also stated that the proposal could create a conflict with government policy on rolling out smart meters. In the FMR, Elexon noted the exemptions to suppliers' smart meter roll out obligations that may apply under conditions 39.5 and 39.6 of the Non-Domestic Electricity Supply Licence. The key point is that, where the supplier has made arrangements to install an advanced meter (or has entered into a contract with a non-domestic microbusiness consumer to install or arrange the installation of an advanced meter), the supplier is obliged to make clear that it will not be installing a smart meter. If the

customer is satisfied with that arrangement, then the roll out duty does not apply. In those circumstances, Elexon expressed the view that the P476 proposal would not conflict with the intent of government policy. We support that position.

Finally, Elexon noted that even if a non-domestic, microbusiness consumer *does* want a smart meter, “it may be reasonable to argue” that the exemption from the roll out duty “would effectively apply”. Again, the key point is that any supplier with only advanced meters in their portfolio must inform their customers of the relevant smart meter information (as defined in the SLCs) and tell the consumer that they will have to change supplier to get a smart meter. It would then be for the customer to decide whether to change supplier to have a smart meter installed. On that basis, Elexon expressed the view in the FMR that the proposed Modification should not conflict with the SLCs. Ofgem supports this view.

(d) promoting efficiency in the implementation and administration of the balancing and settlement arrangements

We note and agree with the Panel’s view that P476 would promote objective (d) by streamlining MHHS Qualification for suppliers that wish only to enter the Advanced Segment of the market. This is because any supplier granted an exemption pursuant to this modification would not need to design, build, and test a brand new system for a market segment (the Smart Market Segment) that they have no intention of entering. On that basis, we agree that the proposal would better facilitate objective (d).

Further remarks

In taking this decision, we have also had regard to the MHHS Qualification Approach and Plan. This document includes material on the assurance techniques to be used by the BSC and REC PABs in relation to suppliers intending to seek exemption from the Smart Market Segment. Amongst other things, this material includes the criteria for granting the exemption and the proposed means of establishing, during the qualification process, what controls the supplier

has in place to ensure that it is and will remain compliant with the terms of the exemption.¹² Finally, we have had regard to the latest draft additional questions to be included in the Qualification Assessment Document for those seeking this exemption. We understand that BSCCo intends to release the agreed text on 27 February 2025.

For the avoidance of doubt, our decision to approve P476 relates only to the changes to the BSC legal text associated with the proposal. It does not extend to the exemption criteria and other materials in the MHHS qualification documentation, which have been developed through the MHHS Programme governance arrangements.

We expect MHHS Programme and the respective code bodies to ensure that all relevant parties are promptly made aware of the relevant MHHS qualification documentation. In due course, we will expect the respective PABs to scrutinise all exemption applications rigorously and to ensure that the ongoing monitoring and control frameworks operate effectively.

Decision Notice

In accordance with Condition E1 of the Electricity System Operator Licence, the Authority hereby directs that modification proposal BSC P476: Exemption from MHHS Requirements for Smart Market Segment Supplier Qualification shall be made.



Melissa Giordano, Deputy Director Retail

Signed on behalf of the Authority and authorised for that purpose

¹² See pages 47-48 of [MHHS-DEL1118 Qualification Approach and Plan V3.2 Clean.pdf](#).