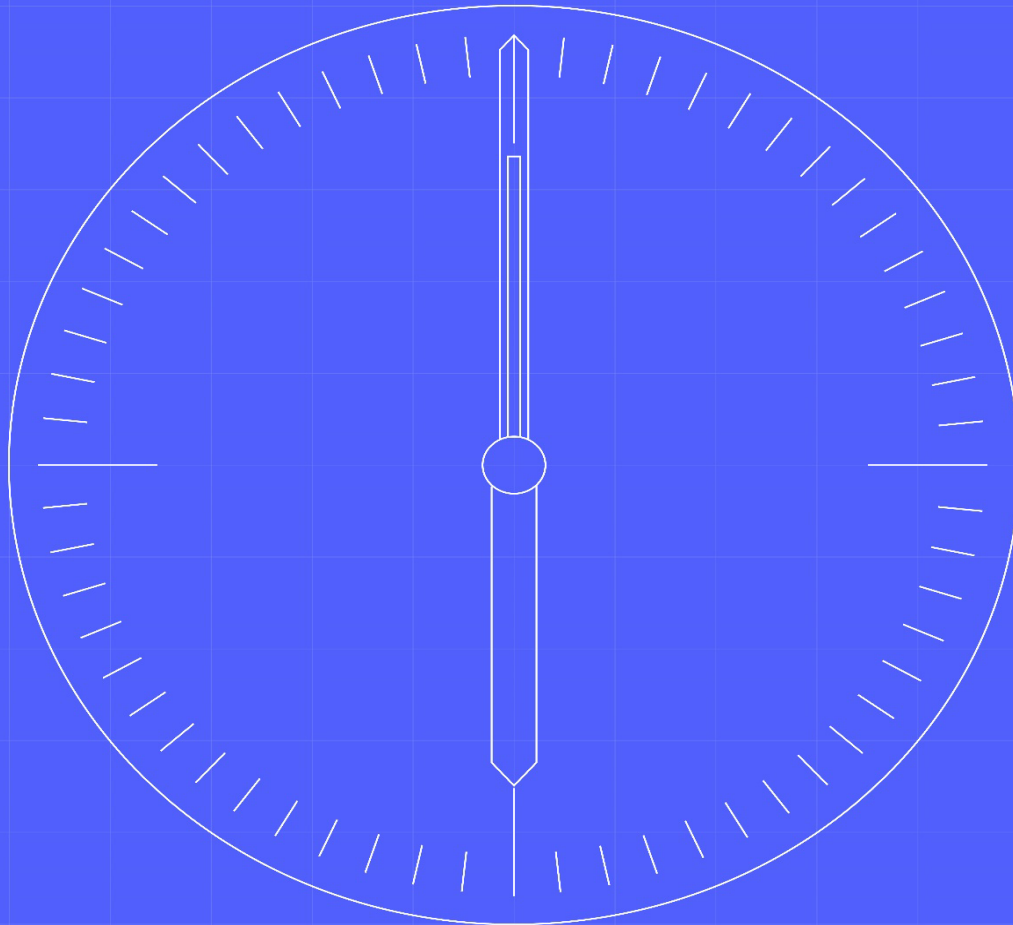


Ofgem PPIR: Cost Analysis Guidance



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Background and context

In April 2021, Ofgem published its decision that MHHS should be introduced based on the Target Operating Model recommended by the Design Working Group. Alongside this, Ofgem published a Final Impact Assessment (Final IA). The Final IA estimated quantified net benefits to GB energy consumers of £1.6bn to £4.5bn over the period 2021-45. The Final IA also noted that implementing MHHS (including third party access to HH consumption data) should deliver significant additional benefits that could not be quantified in advance arising from increased competition, innovation and consumer choice. As part of the Final IA, Ofgem sought to estimate the costs of implementing and operating under the new MHHS arrangements. Our central cost estimate was £541.3m over the period 2021-2045.

As you know, since 2022 the Cross-Code Advisory Group, in conjunction with Programme participants, has been developing the detailed suite of modifications to the BSC, the REC and the DCUSA that will be necessary to introduce the new MHHS arrangements. Later this year, Ofgem expects to use its Significant Code Review (SCR) powers to raise proposals to modify the BSC, REC and DCUSA. As part of that process, it will be necessary - as with any other important code change - to assess the impact of these code modification proposals. To reduce the burden on those responding later this year (in what are likely to be relatively short timescales directed by Ofgem), we have asked the Programme to seek information now from Programme participants on the costs of implementing and operating under the new MHHS arrangements. We are assured by the Programme that the legal text is sufficiently stable to undertake this exercise.

Questions to be answered by Programme participants

1. What will be the total Programme implementation costs for MHHS for you as an MHHS participant? Where possible, please apportion this total cost to the costs that will be incurred by each Code (i.e. BSC, REC & DCUSA) to aid Ofgem's SCR analysis by Code.
2. What will be the total operational costs from go-live to 2045? Where possible, please apportion this total cost to the costs that will be incurred by each Code (i.e. BSC, REC & DCUSA) where possible to aid Ofgem's SCR analysis by Code.

Guidance on answering these questions

The information about costs in our Final IA in 2021 originated in a Request for Information (RFI) that we issued/published in 2019. To assist you in answering the above questions, and to ensure comparability as far as possible between the information we received then (and in subsequent bilateral conversations with stakeholders before publication) and the information that you send now to the Programme, Ofgem provides the following guidance to each Programme participant.

1. We are seeking information about the costs you have incurred to transition to the new MHHS arrangements and about the drivers of those costs. Please provide costs for each financial year starting with 2021-2022. This is so that costs can be adjusted for inflation to calculate a present value figure.
2. We are, separately, seeking information about the estimated costs (and cost savings) of operating under the new MHHS arrangements. Please indicate the level of uncertainty around these estimates in percentage terms.
3. Where possible, please break down these costs into their component categories (such as IT costs, operational costs, data aggregation, managing imbalances, customer messaging costs). If it not possible to do this, please provide an aggregated figure indicating all categories of costs that are covered.
4. For suppliers, please provide information for supplier functions separately from any in-house supplier agent functions you undertake.
5. Do NOT include any costs associated with designing and developing MHHS-enabled market offers.
6. Do NOT include past or future costs associated with the smart metering roll-out or past costs associated with the Switching Programme, even where they relate to settlement.
7. Do NOT include costs related to the design and development of the Data Integration Platform (DIP), since these are in the first instance central Programme Management costs and will be accounted for in MHHS Programme's own cost assessment.

8. Do include the costs of designing and developing interfaces with the DIP.
9. Where possible, please break down costs according to whether they are core MHHS design costs or whether they are consequential upon delivery of the core MHHS design.
10. Where possible, please break down costs according to the code that is driving them (ie, separate figures for the BSC, the REC and the DCUSA). However, where it is not possible to apportion costs to particular codes, it is acceptable to provide an aggregated cost figure.
11. Please AVOID double-counting of costs.

Next steps

As noted above, responses to this PPIR will inform Ofgem's assessment of the full suite of code modification changes being developed to deliver MHHS in line with Ofgem's policy decisions of April 2021 on MHHS and December 2021 on an Event Driven Architecture (ie, the DIP). The information we receive via this PPIR may also provide Ofgem with lessons to learn in the production of impact assessments in the future. We therefore strongly encourage all Programme participants to engage constructively with this PPIR.