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for energy consumers

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Date: 06 February 2017

Dear Mr Toms,

***CMP275 'Transmission generator benefits in the provision of ancillary and balancing services' – decision on urgency***

On 18 January 2017, UK Power Reserve Ltd (the 'Proposer') raised a Connection and Use of System Code (CUSC) modification proposal CMP275. This proposal seeks to introduce a principle of financial exclusivity, under section 4.4 of the CUSC, to prevent Balancing Mechanism (BM) units from assessing multiple sources of duplicate and overlapping revenue from ancillary services on the same asset. The Proposer requested that CMP275 be treated as an Urgent CUSC Modification Proposal.

The CUSC Modifications Panel (the 'Panel') considered the Proposer's urgency request at its meeting on 27 January 2017. On 27 January 2017, the Panel wrote to inform us of its unanimous view that CMP275 should not be treated as urgent because the proposal did not relate to an imminent issue, would require careful consideration and was potentially more complex than envisaged by the Proposer.

We considered both the Panel's and the Proposer's arguments. On balance, we have decided that CMP275 **should not be progressed on an urgent basis**. We have set out our reasoning below.

**The proposal**

The Proposer argued that the current charging arrangements allow BM units to use multiple sources of duplicate and overlapping revenue from ancillary services on the same asset to cross-subsidise their tender strategies and undercut other BM and non BM units. The Proposer thinks that this leads to inefficient procurement of ancillary services, distortion in the market and added expense to the end consumer. CMP275 would introduce a netting process to prevent duplicate revenue being paid to providers. National Grid would introduce this as a component of future tender rounds on all eligible ancillary services.

The Proposer considers that CMP275 should be treated as an urgent modification because the current arrangements grant certain BM units with a competitive advantage in Short Term Operating Reserve (STOR) tender rounds, which will take place in May and August this year. It argues that, as a result, if the defect is not urgently addressed, it

would have a significant commercial impact upon National Grid, Industry parties and customers.<sup>1</sup>

### **Panel discussion**

The Panel considered the request for urgency by reference to Ofgem's Guidance on Code Modification Urgency Criteria.<sup>2</sup> The Panel's unanimous view is that CMP275 did not meet these criteria and should not be treated as an Urgent CUSC Modification Proposal.

The Panel concluded that the proposal refers to cyclical processes relating to revenue and charges which could in itself relate to all charging modifications and could not be considered a truly imminent issue. The Panel also agreed that CMP275 requires careful consideration by a Workgroup and is potentially more complex than envisaged by the Proposer. The Panel considered that full assessment of the proposal is therefore not achievable within urgent timescales.

### **Our views**

We have considered the proposal, the Panel's views and the Proposer's arguments for urgency.

We have assessed the request against the urgency criteria set out in our published guidance, in particular, whether the proposal is linked to an imminent issue or a current issue that, if not urgently addressed, may cause:

- a. a significant commercial impact on parties, consumers or other stakeholder(s); or
- b. a significant impact on the safety and security of the electricity and/or gas system.

The Panel's letter contained an urgent indicative timeline for progressing CMP275 which was not recommended. This suggested that the earliest implementation date for any changes would be July 2017, which would occur after the May STOR tender round the Proposer used as an imminent event to require urgency. We agree with the Panel's concerns on the complexity of the proposal and the careful consideration needed and have decided that CMP275 should not be granted urgent status.

We would emphasise that, as for all proposals, we expect a sufficient level of analysis and stakeholder engagement to be undertaken in order to demonstrate whether or not CMP275 better facilitates the Relevant Objectives and is consistent with our principal objective and statutory duties.

### **Next steps**

The Panel's letter contained a non-urgent indicative timetable for progressing CMP275. We agree with the timelines proposed as this should allow sufficient industry consultation and analysis to inform our decision.

Yours sincerely,

**Mark Copley**  
**Associate Partner, Energy Systems**  
Duly authorised on behalf of the Authority

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<sup>1</sup> The Proposer's reasoning is set out in the CMP275 Proposal form at <http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP275/>

<sup>2</sup> [https://www.ofgem.gov.uk/system/files/docs/2016/02/urgency\\_criteria.pdf](https://www.ofgem.gov.uk/system/files/docs/2016/02/urgency_criteria.pdf)