









CUSC Modification Proposal Form	At what stage is this document in the process?												
<h1 style="color: #00a651;">CMP299: Consequential changes to the CUSC to facilitate the 2018-2021 ESO Incentive Scheme</h1>	<table border="1"> <tr> <td style="text-align: center;">01</td> <td style="background-color: #00a651; color: white;">Proposal Form</td> </tr> <tr> <td style="text-align: center;">02</td> <td>Workgroup Consultation</td> </tr> <tr> <td style="text-align: center;">03</td> <td>Workgroup Report</td> </tr> <tr> <td style="text-align: center;">04</td> <td>Code Administrator Consultation</td> </tr> <tr> <td style="text-align: center;">05</td> <td>Draft CUSC Modification Report</td> </tr> <tr> <td style="text-align: center;">06</td> <td>Final CUSC Modification Report</td> </tr> </table>	01	Proposal Form	02	Workgroup Consultation	03	Workgroup Report	04	Code Administrator Consultation	05	Draft CUSC Modification Report	06	Final CUSC Modification Report
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**Purpose of Modification:** The aim of this modification is to update the CUSC (Section 14.30 onwards), in line with the new Electricity System Operator (ESO) Incentive Scheme which is detailed within National Grid’s Licence. Changes have been approved and when implemented, they will be effective from on the 1<sup>st</sup> April 2018.

	<p><b>The Proposer recommends that this modification should:</b></p> <ul style="list-style-type: none"> <li>Proceed to Consultation. This modification will reflect changes to NGET’s Licence that have already been made.</li> </ul> <p>This modification was raised <i>27 April 2018</i> and will be presented by the Proposer to the Panel on <i>27 April</i>). The Panel will consider the Proposer’s recommendation and determine the appropriate route.</p>
	<p><b>High Impact:</b> National Grid ESO and all BSUoS payers are impacted, as this is a fundamental change to how the incentive scheme payment is calculated which feeds into BSUoS charges.</p>
	<p><b>Medium Impact</b></p>
	<p><b>Low Impact</b> Other CUSC parties</p>

**Guidance on the use of this Template:** Please complete all sections unless specifically marked for the Code Administrator. Green italic text is provided as guidance and should be removed before submission. **Contact us:** The Code Administrator is available to help and support the drafting of any modifications, including guidance on completion of this template and the wider modification process. If you have any questions or need any advice on how to fill in this form please contact the Panel Secretary: e-mail: [heena.chauhan@nationalgrid.com](mailto:heena.chauhan@nationalgrid.com) or [cusc.team@nationalgrid.com](mailto:cusc.team@nationalgrid.com) ; phone: 01926654028

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Timetable			
<p><b>The Code administrator will present a timetable to CUSC Panel on April 27 2018 for their approval:</b></p>			
Initial consideration by Workgroup			dd month year
Workgroup Consultation issued to the Industry			dd month year
Modification concluded by Workgroup			dd month year
Workgroup Report presented to Panel			dd month year
Code Administration Consultation Report issued to the Industry			dd month year
Draft Final Modification Report presented to Panel			dd month year
Modification Panel decision			dd month year
Final Modification Report issued the Authority			dd month year
Decision implemented in CUSC			dd month year

**Proposer Details**

<b>Details of Proposer:</b> (Organisation Name)	National Grid
Capacity in which the CUSC Modification Proposal is being proposed: (i.e. CUSC Party, BSC Party or "National Consumer Council")	CUSC Party
<b>Details of Proposer's Representative:</b> Name: Organisation: Telephone Number: Email Address:	Urmi Mistry National Grid 07814 792971 <a href="mailto:Urmi.mistry@nationalgrid.com">Urmi.mistry@nationalgrid.com</a>
<b>Details of Representative's Alternate:</b> Name: Organisation: Telephone Number: Email Address:	Harriet Harmon National Grid 07970 458456 <a href="mailto:Harriet.harmon@nationalgrid.com">Harriet.harmon@nationalgrid.com</a>
<b>Attachments (Yes/No):</b> <b>If Yes, Title and No. of pages of each Attachment:</b>	

**Impact on Core Industry Documentation.**  
*Please mark the relevant boxes with an "x" and provide any supporting information*

<b>BSC</b>	<input type="checkbox"/>
<b>Grid Code</b>	<input type="checkbox"/>
<b>STC</b>	<input type="checkbox"/>
<b>Other</b>	<input type="checkbox"/>

(Please specify)

*This is an optional section. You should select any Codes or state Industry Documents which may be affected by this Proposal and, where possible, how they will be affected.*

## 1 Summary

### Defect

A new incentive framework for the Electricity System Operator (ESO), when implemented, will take effect from the 1st April 2018. This has been done in the form of changes to National Grid Electricity Transmission's (NGET) Licence through the addition of a new Special Condition 4M and other incidental changes. 4M details how the Incentive framework will be implemented and how the process of recovery of positive/negative incentive scheme payments will work going forward. This includes changes to the 'IncPayExt<sub>t</sub>' term used in the calculation of BSUoS (Balancing Services Use of System) charges, which is detailed in the CUSC (section 14.30). The incentive payment has also been capped at +/- £30million which is a move away from current arrangements. Therefore, the CUSC will need to be updated, where applicable, to reflect these consequential licence changes for this new regime. It represents a change to the external cost element (IncPayExt<sub>t</sub>) only so internal cost arrangements will remain the same. The Licence also removes certain conditions and elements that are referenced in the CUSC and so these will need to be updated to ensure consistency with NGET's Licence.

### What

Due to the rapidly evolving energy system, Ofgem believe the structure of the ESO needs to evolve with it. This leads to a legally separate ESO within National Grid plc. In doing this, a new regulatory and incentive framework is key to achieving the aims and goals of legal separation. This material change is detailed in their consultation '[The Electricity System Operator Regulatory and Incentives Framework from April 2018](#)' and has now been [approved](#) (will take effect from April 1<sup>st</sup> 2018). The proposal represented a fundamental change to how this framework is set up today as it moves from mechanistic incentives to more broader evaluative incentives.

The framework changes include (quoted from the above linked document, page 17):

- An updated set of roles and principles for the ESO.
- A requirement on the ESO to engage with its stakeholders to produce an annual Forward Plan and transparent performance metrics.
- New within-year reporting requirements.
- A new 'evaluative scorecard' financial incentive
- The introduction of a new ESO Performance Panel.

As a result of this new framework, the only element that requires amending is Section 14 of the CUSC. The method of recovering the external incentive payment will change fundamentally and there will be references in the CUSC that become redundant.

Currently in the CUSC, a formula for calculating the IncPayExt<sub>t</sub> term is detailed in section 14.30.7-14.30.8, in addition to the calculation of profiling factors (14.30.9 – 14.30.11). These will no longer be applicable as the IncPayExt<sub>t</sub> term will instead be determined by an evaluative approach as set out in the new Special Condition 4M of NGET Licence. Table 9.1 and paragraphs 14.30.12 – 14.30.13 demonstrate the cap

and floor of +/-£10m etc... which will be inconsistent with the new licence framework where the cap and floor will now be +/-£30m. Lastly, section 14.32 is a complete example of how BSUoS charges are calculated which will need to be reconsidered in light of the new incentive framework.

## Why

The move away from a mechanistic approach to a more evaluative approach means the external incentive payment will no longer be based on a set of formulas but will be a defined amount confirmed at the end of the current incentive year. Therefore, the process to calculate a value for this amount, detailed in the CUSC, is now redundant and will not reflect the new framework and Licence.

The initial incentive amount is defined by the ESO at the start of the incentive year. This will then be monitored, scrutinised and further refined through the Performance Panels and so the ESO will reconcile to these amounts. This will be recovered as per the current process but will be worked on with industry to look at whether this is the enduring solution for future years.

## How

The CUSC needs to be aligned with the new licence framework introduced by Ofgem. The current scheme is due to run from 2018 until 2021. 2018 is a trial year and so future changes to the licence may be needed after the trial year has ended. The CUSC needs to reflect the current approved scheme; therefore the following applicable areas from the new incentive scheme will need to be applied:

- Updates to 'IncPayExt<sub>t</sub>' term.
- Remove out of date references and terms from section 14.30 onwards.

The intention of the Proposer is that these changes will future proof section 14 to ensure that regular changes are not needed at each point that the licence is updated.

As the external incentive amount will only be finalised in the financial year following the start of the current incentive year, the topic of reconciliation needs to be addressed. Existing guidance from Ofgem is that this should be recovered from parties in the same way it is now. However, we have responded to Ofgem's Licence consultation suggesting changes to the Licence that could be made to increase certainty and predictability for Users. Ofgem confirmed within their [Licence consultation decision letter](#) that a change to the Licence at this stage would not be appropriate, however they are happy for the ESO to engage with customers and stakeholders on this topic and work with Ofgem to consider further changes to facilitate this change for future incentive years.

Therefore, for this modification we propose to leave the methodology as it currently stands regarding reconciliation (collect a forecasted external incentive amount from this years' SF run and any differences will be recovered from the RF run).

## 2 Governance

### Justification for [Normal, Urgent, Self-Governance or Fast Track Self-Governance] Procedures

This modification should proceed straight to Code Administrator Consultation as we do not foresee any alternatives being raised. This should not be self-governance as it requires a decision by The Authority.

### Requested Next Steps

This modification should:

- Proceed to Consultation

The new scheme was approved and when implemented will take effect from the 1<sup>st</sup> April 2018, therefore the CUSC needs to be updated in line with this date to ensure both documents are up to date and consistent.

## 3 Why Change?

Previously, incentives have been governed by the BSIS scheme which was a cost based incentive scheme and could be easily applied to the CUSC and charges. This is because it was an easily definable mechanism. The move away from this mechanistic approach to a more evaluative approach means the external incentive payment will no longer be based on a set of formulas but will be a defined amount confirmed at the end of the current incentive year. Therefore, the process to calculate a value for this amount, detailed in the CUSC, is now redundant and will not reflect the new framework and Licence.

The initial incentive amount is defined by the ESO at the start of the incentive year. This will then be monitored, scrutinised and further refined through the Performance Panels and so the ESO will reconcile to these amounts. This will be recovered as per the current process but will be worked on with industry to look at whether this is the enduring solution for future years. If this change is not made NGET's Licence and the CUSC will be inconsistent.

## 4 Code Specific Matters

### Technical Skillsets

Understanding of the System Operator Licence and the new Incentive and Regulatory framework confirmed by Ofgem would be beneficial. Also, an understanding of the CUSC and how BSUoS charges are calculated would be useful.

### Reference Documents

<https://www.ofgem.gov.uk/publications-and-updates/electricity-system-operator-regulatory-and-incentive-framework-april-2018>

[https://www.ofgem.gov.uk/system/files/docs/2018/03/decision\\_to\\_modify\\_ngets\\_licence\\_to\\_introduce\\_new\\_eso\\_reporting\\_and\\_inc.pdf](https://www.ofgem.gov.uk/system/files/docs/2018/03/decision_to_modify_ngets_licence_to_introduce_new_eso_reporting_and_inc.pdf)

## 5 Solution

Please refer to attachment 1.

## 6 Impacts & Other Considerations

**Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?**

No.

### Consumer Impacts

Ofgem's intent is to drive efficiencies within the ESO which will lead to reduced costs for consumers overall.

## 7 Relevant Objectives

Impact of the modification on the Applicable CUSC Objectives (Charging):

Relevant Objective	Identified impact
(a) That compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity;	None
(b) That compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard licence condition C26 requirements of a connect and manage connection);	Positive
(c) That, so far as is consistent with sub-paragraphs (a) and (b), the use of system charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses;	Positive
(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission	None

and/or the Agency. These are defined within the National Grid Electricity Transmission plc Licence under Standard Condition C10, paragraph 1 *; and	
(e) Promoting efficiency in the implementation and administration of the CUSC arrangements.	Positive
*Objective (d) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).	

This change positively impacts charging objective (b) and (c) by properly accounting for changes in costs of the licensees business and properly takes account of developments in the licensees business. This new framework will impact incentive scheme payments for the ESO and so impact their business costs and how they operate. It will also have a positive impact on objective (e) as it removes complexity for Section 14 of the CUSC.

## 8 Implementation

The CUSC needs to reflect the Licence changes as soon as possible as the framework has been approved and once implemented will be effective from on the 1<sup>st</sup> April 2018.

## 9 Legal Text

Please see attachment 1.

### Text Commentary

The IncPayExt<sub>t</sub> term has been updated and out of date references removed from the CUSC. .

## 10 Recommendations

### Proposer’s Recommendation to Panel

Panel is asked to:

- Issue this modification straight to Consultation.