nationalgrid

Stage 04: Code Administrator Consultation

Connection and Use of System Code (CUSC)

CMP202 Revised treatment of BSUoS charges for lead parties of Interconnector BM Units

What stage is this document at?

01	Initial Written Assessment
02	Workgroup Consultation
03	Workgroup Report
04	**Code Administrator Consultation**
05	Draft CUSC Modification Report
06	Final CUSC Modification Report

This proposal seeks to modify the CUSC to remove BSUoS charges for Interconnector BM Units.

Published on: **8th May 201**
Length of Consultation: **15 Working Days**
Responses by: **29th May 2012**

The Workgroup concludes:
that CMP202 should be implemented as it better facilitates the Applicable CUSC Objectives

High Impact:
Interconnectors

Medium Impact:
Suppliers and Generators

Low Impact:
Other CUSC Parties

Contents

1 Summary 3
2 Why Change? 4
3 Solution 5
4 Summary of Workgroup Discussions 6
5 Impacts 16
6 Proposed Implementation 17
7 Views 18
8 Workgroup Consultation Responses 20
9 How to Respond 22
Annex 1 – CMP202 Workgroup Terms of Reference 23
Annex 2 - CMP202 Proposal Form 27
Annex 3 - Workgroup Attendance Register 31
Annex 4 – Workgroup Consultation Responses 32
Annex 5 – CMP202 Timeline 54
Annex 6 – Draft Legal Text 55
Annex 7 – BSUoS Impact Analysis on Interconnector Flows 58

About this document

The purpose of this document is to consult on CMP202 with CUSC Parties and other interested industry members. Representations received in response to this consultation document will be included in National Grid's CUSC Modification Report that will be furnished to the Authority for their determination.

Document Control

Version	Date	Author	Change Reference
1.0	8 May 2012	Code Administrator	Version to the Industry

Any Questions?

Contact:
Emma Clark

Code Administrator

emma.clark@uk.ngrid.com

01926 655223

Proposer:
Iain Pielage
National Grid

1 Summary

1.1 CMP202 seeks to remove BSUoS charges for Interconnector BM Units. This will remove potential barriers to cross border trade. It will also have the effect of further aligning GB arrangements with those prevalent in other EU member states and is consistent with EU objectives of facilitating cross-border access and developing a Europe-wide single market in electricity.

1.2 CMP202 was proposed by National Grid Electricity Transmission plc (NGET) and submitted to the CUSC Modifications Panel for their consideration on 8th December 2011. The Panel determined that the proposal should be considered by a Workgroup and that they should report back to the Panel within four months following a period of 15 business days for the Workgroup Consultation.

1.3 The Workgroup met on 10th January 2012 and the members accepted the Terms of Reference. A copy of the Terms of Reference is provided in Annex 1. The Workgroup considered the issues raised by the CUSC Modification Proposal and worked through the Terms of Reference.

1.4 The Workgroup Consultation closed on 8th March 2012 and 10 responses were received. These responses can be found in Annex 4. A final Workgroup meeting was held on 15th March 2012 and the 8 Workgroup members present voted by a majority of 7 to 1 that CMP202 better meets the Applicable CUSC Charging Objectives and so should be implemented.

1.5 This Code Administrator Consultation has been prepared in accordance with the Terms of the CUSC. An electronic copy can be found on the National Grid Website, www.nationalgrid.com/uk/Electricity/Codes/, along with the CUSC Modification Proposal Form.

National Grid's View

1.6 As Proposer, National Grid supports the implementation of CMP202on the basis that it better facilitates the Applicable CUSC Objectives in that it would promote more efficient trading across EU member states and that it properly reflects its duties in the development of National Grid's business by promoting a single internal market in electricity and facilitating greater cross-border trading.

Workgroup Conclusion

1.7 The Workgroup voted by majority to support the implementation of CMP202. Full details of the Workgroup vote are contained within Section 7 of this document.

CUSC Modifications Panel's View

1.8 At the meeting of the CUSC Modifications Panel on 27 April 2012, the Panel accepted the Workgroup Report and agreed that CMP202 should proceed to Code Administrator Consultation.

What is BSUoS?

National Grid recovers the costs of balancing the system through BSUoS charges. BSUoS charges are paid for by all CUSC Parties, including Lead Parties for flows on Interconnector BM Units. The Statement of the Use of System Charging Methodology, now included as part of CUSC Section14, includes a detailed methodology for the calculation of daily BSUoS charges and information on the timing of the charges. The Statement of the BSUoS Charging Methodology can be found at the following link: CUSC Section 14

2 Why Change?

2.1 Interconnectors are effectively treated within the EU Third Package as parts of a Member State's transmission system which both facilitates pan-European trade and provide national security of supply. In doing so, they support the European Union's objective of a ensuring a sustainable, secure supply of competitively priced energy for consumers and industry within the Community.

2.2 Within the GB regime the responsibility for the transmission system is divided between a number of licensed parties. Interconnector owners are licensed separately to both the main GB system operator functions and transmission asset owner roles. Interconnector Users have a direct commercial relationship with the Interconnector owner for access to and use of the interconnector, as well as a relationship with NGET for use of the GB transmission system. In October 2010 the Authority decided not to veto GB-ECM26, this removed Transmission Use of System Charges from Interconnector Owners.

2.3 The Transmission Licence allows NGET to recover revenue in respect of Balancing Services activity. National Grid does this through BSUoS charges. CUSC Parties liable for BSUoS are charged based on their energy taken from or supplied to the transmission system on a non locational MWh basis. Under the current GB arrangements, Interconnector Users are treated as if they are a Generator or Demand (depending on the contractual position in the BSC), and are charged BSUoS accordingly.

2.4 This has the effect of reducing the opportunity for trade across interconnectors and could therefore be considered inconsistent with the objectives of the European internal market. In particular, it creates a barrier to exports from the GB transmission system.

2.5 In this context, charging BSUoS to interconnectors leads to different treatment of trades that are internal to the GB market and those which are pan European. For example, a non-physical trader operating within the GB market does not pay BSUoS, however, a non physical trader operating between GB and other Member States is subject to BSUoS charges in the GB market. Efficient trading between GB and other Member States is therefore frustrated by the application of a BSUoS charge.

2.6 In summary, the current arrangements for BSUoS charging can therefore potentially lead to:

i) A restriction on interconnector flows, in particular on exports from GB and;

ii) A restriction to trade, in particular for non-physical parties.

3 Solution

3.1 CMP202 aims to address the issues raised in Section 2 by removing BSUoS charges for Interconnector BM Units. This will have the effect of further aligning GB arrangements with those in Europe, and so better promoting the objectives of the European Union through facilitating greater cross-border trading.

4 Summary of Workgroup Discussions

What is an Interconnector?

An Interconnector is a link between two countries transmission systems for the transfer of electricity. In terms of GB charging arrangements, the current Interconnectors covered by CMP202 are the England-France Interconnector (IFA), the Britain-Netherlands Interconnector (BritNed) and the Ireland-Scotland Interconnector (Moyle), but will include also all future Interconnectors.

Presentation of Proposal

4.1 The National Grid Representative presented CMP202 to the Workgroup at the first meeting and gave the background to why it was raised. The Workgroup then worked though the scope of work as listed in the Terms of Reference.

The effect of BSUoS on inter-market operation.

4.2 BSUoS is the daily charge aimed at recovering the cost of operating the transmission system. It consists of fixed elements covering SO internal costs and Balancing Service contracts plus the variable elements of daily Ancillary Services, energy balancing and constraint management costs.

4.3 In other European Member States, it is commonly the case that their equivalent of BSUoS is charged almost exclusively to demand; Interconnector Users being liable solely for their energy imbalances in each market.

4.4 In the GB market, all CUSC parties are liable for BSUoS based on their energy taken from, or supplied to the transmission system. This has the effect of raising the GB market price of electricity by generation's share of the BSUoS charge. GB generation would therefore appear more expensive than their equivalent European counterparts. This is explained further below.

4.5 Currently, Interconnector Users are also charged BSUoS in the same manner as other GB Users. The price of imports to GB is therefore raised in a similar way as GB generation; the end consumer sees the same costs in GB market irrespective of its source (Figure 1).

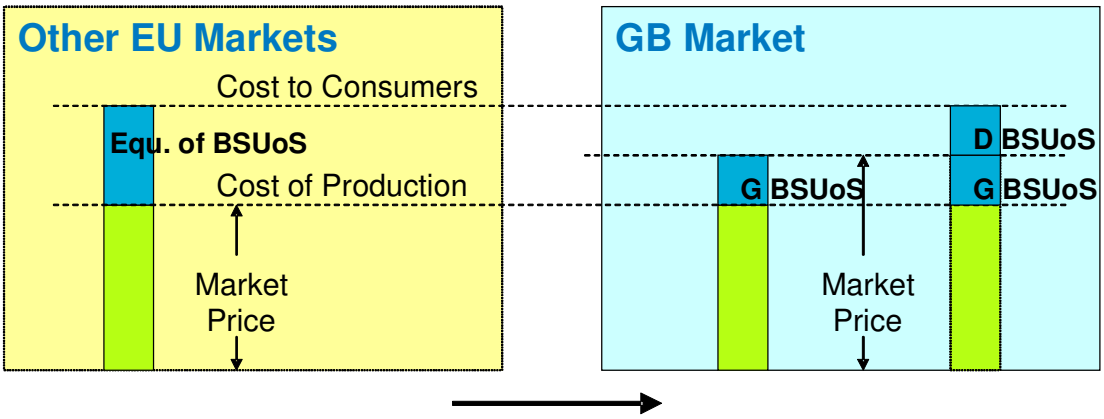


Figure 1: Current EU / GB BSUoS Arrangements – Imports

4.6 Under the current arrangements however, BSUoS charges create a potential barrier to GB exports. Generation BSUoS charges inherent in the GB market price, plus the demand BSUoS charges levied on the export, can potentially raise the GB price of exporting above that at which it would naturally flow if both markets were aligned (Figure 2).

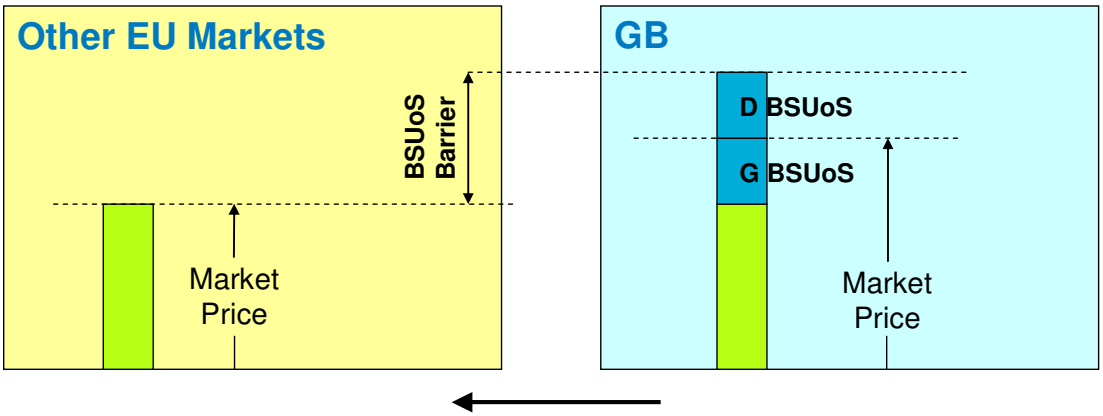


Figure 2: Impact of current BSUoS arrangements on GB exports.

4.7 Whilst removing BSUoS charges from Interconnectors Users would reduce the "BSUoS" barrier on exports, it does not totally remove it. The GB wholesale price would still retain the generation element of BSUoS and consequently may be artificially higher than that in EU Member States. As a result, there may still be occasions when exports to Europe are lost as a result of BSUoS charges on Generation (Figure 3).

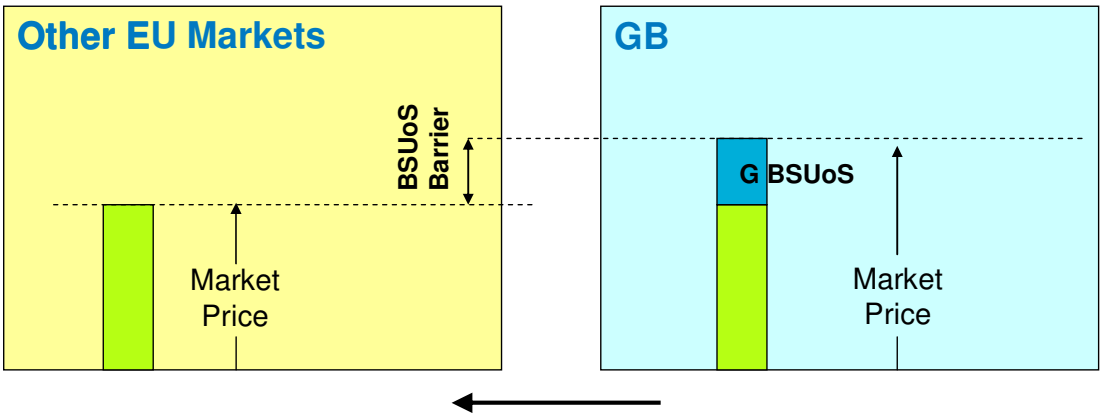


Figure 3: Impact of generator BSUoS "uplift" on GB exports

4.8 National Grid has raised a separate proposal CMP201 Removal of BSUoS Charges from Generation to address this wider competition issue.

Workgroup discussion on the issue raised

4.9 The Workgroup discussed potential negative consequences of the proposal. One Workgroup member expressed concern that there might be unidentified and unintended consequences of CMP202 in terms of long term contracts and trading across the Interconnector. The Workgroup considered what these consequences might be and how they may be dealt with. The Workgroup noted that there may be circumstances for possible windfall gains and/or losses but were not aware of, or able to identify any possible examples where this might occur. One of the responses to the Workgroup Consultation recognised a potential effect on the operational costs and imbalance risk for interconnector owners. Overall however, the group noted that there may be a potential increase in revenue and that the respondent supported the proposal despite this concern.

4.10 A consequence of the proposal identified by the Workgroup was that BSUoS charges would increase for remaining CUSC parties, all other factors remaining equal. However, it was also noted that the competitive benefits of

facilitating a wider market may reduce overall cost to end consumers, improve security of supply and facilitate wider trading opportunities for both generation and supply.

4.11 The Workgroup looked at historic BSUoS forecasts and outturn, Table 1 below. The forecast for prior years were based on previous BSUoS incentive scheme targets. National Grid advised that there was no explicit BSUoS forecast for 2011-12 as it is a two year scheme running to 2013 with a variable target calculated using a methodology and a number of factors based on actual data after the event, the target forecast will therefore change as the scheme progresses.

4.12 One Workgroup member questioned whether the SO Incentives Scheme needs to be taken into consideration in terms of the 2% increase. The 2% increase relates to recovering the same total charge from a smaller charging base i.e. generation and demand excluding Interconnector Users. It was noted that the total BSUoS charge would remain unchanged, and so it would not impact on SO Incentive payments.

4.13 The Workgroup agreed that the impact of the proposal on BSUoS price was stable across years and minor compared to the overall variability of BSUoS. By looking at historic interconnectors volumes and resulting BSUoS contributions National Grid presented an estimate of removing BSUoS from Interconnectors on other CUSC parties. This is shown below and suggests an impact which is consistently around 2.1%. Note this takes no account of potential benefits that may arise on wholesale prices as a result of more trading opportunities and thus the costs ultimately passed on to end consumers

		Outturn £m		Incentive Element £m	Interconnector Contribution ~£m	Forecast variance	Effect on BSUoS Price
Financial year	Forecast £m	SF	RF				
2007-08	530	685		0.2	14.2	29%	2.0%
2008-09	831	1001	1005	-16.6	22.7	21%	2.1%
2009-10	1007	795	790	14.5	16.9	-22%	2.0%
2010-11	921	708	705	12.1	15.3	-23%	2.0%
2011-12	variable	689		-1.3	15.7		2.2%

Notes: Data for 2011-12 up to 7-Jan-2012

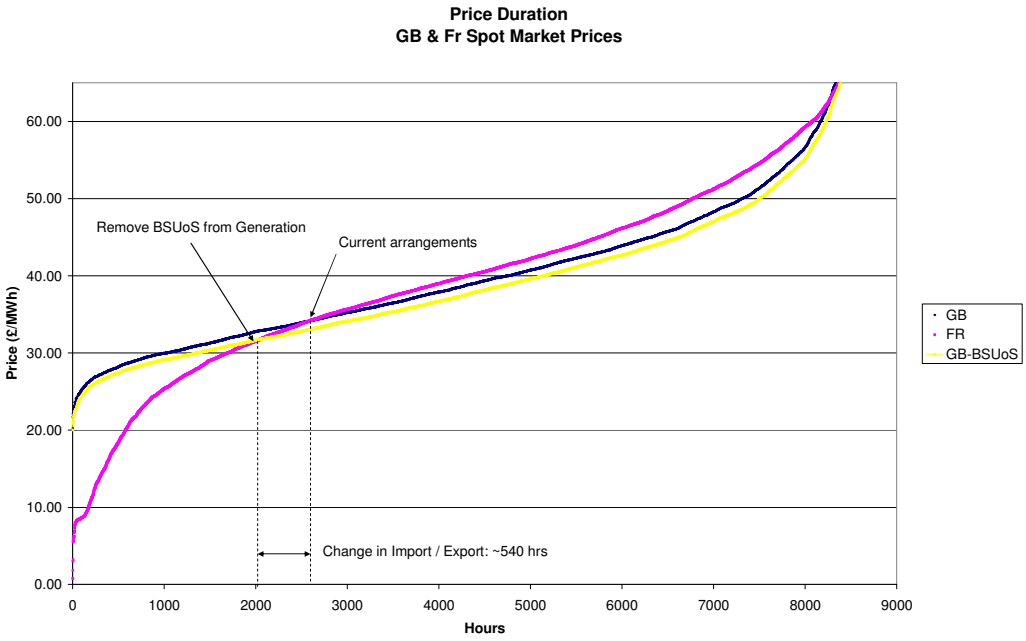
Table 1 Historic BSUoS figures

4.14 This table also shows the variance of forecast BSUoS against the outturn cost, and also the incentive element of BSUoS. This allows the forecast error to be compared against effect of removing the BSUoS for Interconnectors.

Trading opportunities

4.15 The Workgroup discussed Spot Price Duration[1] graph below. Using this as a proxy for the wholesale merit order this was presented to show the potential for increased opportunity for trading by comparing the market price with and without BSUoS. Where the market prices diverge this would result in either an import or export across the interconnector.

4.16 It was postulated by the Workgroup that this could provide an indication of the benefit that is derived from removing the charge on Interconnectors. One Workgroup member noted that the recent removal of TNUoS from interconnectors would have had the same effect.



4.17 The Workgroup acknowledged that removing BSUoS would change when flows on the interconnector would occur, however they were concerned that this only highlighted the change in one direction. National Grid agreed to review this and produce further analysis seeking to combine both import and export effects.

4.18 That analysis, based on historic price information, indicated that implementing this proposal should result in better utilisation of the interconnectors. Given that other factors, such as market liquidity, can affect trade across the interconnectors, the analysis concluded that BSUoS was a factor affecting approximately 20% of potentially beneficial trades in either direction. A fuller description of the analysis in provided in Annex 7.

[1] The wholesale prices from both the GB and France markets converted to a cost of production slope across a year

4.19 National Grid highlighted information presented by APX/ENDEX that suggested the potential restriction to flows. This is shown below in figure 4[2]:

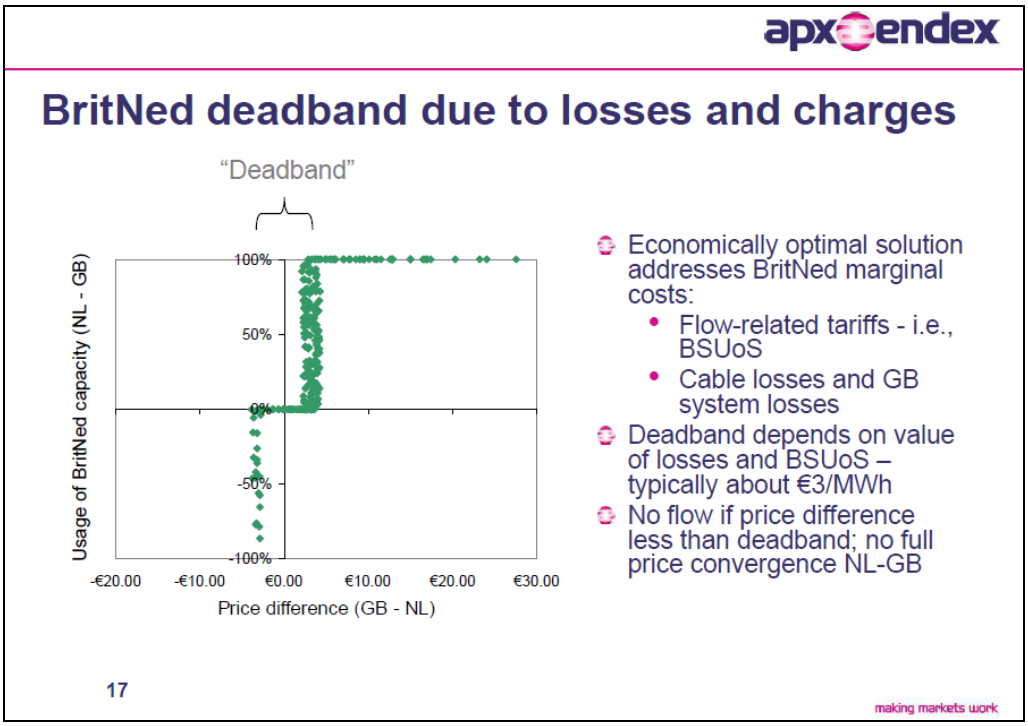


Figure 4 Impact of BSUoS and losses on interconnector trade

4.20 Export and import figures were discussed in terms of their potential impact on the GB market. Table 2 below shows Exports and Imports as a proportion of GB demand and estimates the impact on BSUoS on remaining participants arising from the removal of interconnectors from the charging base from which BSUoS is recovered.

FinYear	Total Demand TWh	Total Exports TWh	Total Imports TWh
FY2007-2008	348.5	4.3	9.6
FY2008-2009	340.5	2.6	11.6
FY2009-2010	333.3	7.0	6.4
FY2010-2011	331.2	5.1	8.3
FY2011-2012*	243.6	2.7	7.8

FinYear	Total Exports % Demand	Total Imports % Demand	Effect on BSUoS
FY2007-2008	1.2%	2.8%	2.0%
FY2008-2009	0.8%	3.4%	2.1%
FY2009-2010	2.1%	1.9%	2.0%
FY2010-2011	1.6%	2.5%	2.0%
FY2011-2012*	1.1%	3.2%	2.2%

Table 2 : Interconnector Flows (loss adjusted).
Data as of 16-Jan-12.

[2] From All Island Project website: Slides from Workshop on Emerging Electricity Target Models Presentation: Andrew Claxton -Business Services Director APX-ENDEX
http://www.allislandproject.org/GetAttachment.aspx?id=5d08e1ca-45a6-4e1a-b0ff-bbaafcdcb807

4.21 The impact on BSUoS was calculated by looking at the change in the charging base i.e. those liable for BSUoS charges. Under existing arrangements, the charging base consists of:

1) GB Generation (GB Demand *less* demand met by net interconnector imports, net imports being Total imports *less* Total exports);
2) GB Demand (less net export);
3) Interconnector Imports;
4) Interconnector Exports.

4.22 Under this proposal, Interconnector Import and Export volumes would be excluded; the new charging base being GB Generation and GB Demand only. The effect on BSUoS charges is then derived from the ratio of the original and new charging base

Consider the Impact on End Consumers

4.23 It was not immediately clear that there would be an impact on end Consumers. Some workgroup members thought that the reallocation of BSUoS charges to generation and suppliers would filter through into their prices and ultimately to end consumers. One Workgroup member thought the increase in price is significant; the rest of the Workgroup noted this point, but agreed that a potential increase is outweighed by the likely benefits. Members noted that other factors such as greater competition and access to other EU markets may also lead to lower prices. The proposer noted the issue had been raised as one of restricted competition.

4.24 For example, assume two markets, A and B. Both are open competitive markets (as opposed to closed systems) i.e. export and import between both markets is possible as long as trades are economic. If a reduction in supply or an increase in demand occurs in Market B, all else remaining equal, the price of the commodity in Market B should rise. Assuming that the supply and demand fundamentals remain constant in Market A we would expect to see the commodity from Market A to be exported to Market B. The price in Market B would be expected to fall while the price in Market A would be expected to rise as a result of facilitating trade.

4.25 Assuming there are no barriers to trade (tax, logistical etc.) the prices between both market should reach equilibrium i.e. the price will be equal in both markets. The ability of the markets to fully converge (reach a common equilibrium) would be dependant on the availability of interconnector capacity.

4.26 The same effect would occur if the initial supply and demand fluctuation occurred in Market A whereby supply increases or demand falls. Prices will react in the opposite direction if the initial supply and demand fluctuation conditions are reversed in Markets A and B i.e. supply falls or demand rises in Market A and supply increases or demand decreases in Market B.

4.27 The proposer suggested that restricting competition to reduce prices in an exporting zone would be inefficient in the long term and also inconsistent with the GB and EU objectives of facilitating effective competition and removing barriers to cross border trade.

Consider the Impact on Competition

4.28 The Workgroup generally agreed that there would be an impact and discussed the affected parties individually. Some members of the Workgroup felt that there would be a bigger impact on suppliers. However other members understood that it would be a symmetric impact as the increase in BSUoS on remaining CUSC parties would be equal for both generation and suppliers. It was suggested that the generation increase would be passed through to suppliers, doubling the impact on suppliers who may not be able to pass these costs on to end consumers.

4.29 The ability of generation to pass through these costs would be subject to contractual arrangements between generation and suppliers and where these had been hedged generation might not be able to pass through the costs. In the longer term, outside the hedged period, it could be expected that generation will pass these cost on to suppliers, who will in turn seek to pass them on to end consumers. Therefore suppliers were potentially more at risk assuming differing (shorter) contractual durations between generation & supplier compared with supplier & end consumer.

4.30 It was agreed that there may be more of an impact for smaller parties, particularly smaller suppliers, as they may be least able to manage the increase compared to larger parties. It was also suggested that there could be a beneficial impact for new entrance suppliers wishing to enter the market as they would not have to deal with the transition / implementation effect. It was suggested that a new entrant's commercial arrangements would include any impact from this proposal, thus avoiding any issues relating to absorbing or passing potential increase through in their prices. Not all Workgroup members agreed with this interpretation or that if it did exist that it was an appropriate benefit.

4.31 One Workgroup member noted that generators compete with interconnector imports to the GB market. The Workgroup noted that given GB generation is subject to BSUoS charges, they were potentially competing with continental generation that may not be subject to an equivalent charge. This raises the prospect of inefficient competitive outcomes. It was noted however, that by removing BSUoS from interconnector trades, this should also provide GB generation with greater opportunities for exports, although some market distortion would remain.

4.32 In relation to interconnectors, the Workgroup agreed that CMP202 should encourage more investment. Removing BSUoS should increase the opportunities for potentially beneficial trading and thus improve the business case form new investments.

4.33 With regard to non-physical traders, it was felt that the impact on competition would be beneficial as simpler market arrangements would encourage more businesses to consider trading between GB / European markets. It was also suggested that the actual volume of trades would increase as BSUoS effectively placed a 'wedge' where no trades would take place under implicit trading arrangements.

Examine the Impact of implementation on all relevant parties

4.34 The Workgroup first considered the impact of implementation on suppliers. One Workgroup member felt that it would be practical for CMP202 to be implemented around one of the main contract rounds which occur on 1st April and 1st October each year. However it was noted that prior notice to these dates would be beneficial allowing the costs to be more efficiently

contractually managed. One Workgroup member advised that they considered the 1st April 2013 was the earliest that CMP202 could be implemented.

4.35 However, after further discussion, the majority of the Workgroup agreed that given the relatively low materiality of the proposal when compared to the overall BSUoS variability, then CMP202 could be implemented in line with the standard timescales i.e. 10 days after approval.

4.36 The Workgroup noted that generators would face similar issues with regard to implementation as those recognised for suppliers.

4.37 With regard to interconnectors, it was highlighted that there may be an impact on their scheduling algorithms where these take a forecast of BSUoS costs into account.

4.38 The Workgroup considered if any changes would be required to computer systems which may impact timescales for implementation. The Workgroup noted that changes to forecasting may result in User system changes but that this is unlikely to be a major change. Changes required to the National Grid IS systems are currently being progressed and no issues are envisaged with regard to timescales or technical problems, however, these changes have not yet been completed.

4.39 One member of the Workgroup suggested that it would be useful for Ofgem to perhaps carry out a post-implementation review in order to demonstrate any effects or if there have been any changes in the flows and in the volumes. At the meeting on 15th March 2012, the group recommended that a post-implementation review should take place 18 months after implementation.

Consider Interaction with Trading Unit Operation

4.40 A Trading Unit can be one or more Balancing Mechanism (BM) Units. By default a Trading Unit is a single BM Unit, called a Sole Trading Unit. Being a Trading Unit allows all the BM Units to be treated the same for BSUoS charges.

4.41 It was noted in the Workgroup that BSUoS is charged for importing and exporting interconnector BM units and that under the current arrangements, they could form a Trading Unit and thus reduce their BSUoS exposure. Under CMP202 proposal, there would no longer be an incentive for Interconnector traders to form Trading Units. It was noted that there are no interconnector Trading Unit at present.

4.42 The Workgroup compiled a list of pros and cons against each party to show how each issue might be quantified:

Party	Pro	How to Quantify	Con / Issue	How to Quantify
Interconnector Owner / Trader	Greater opportunities for beneficial trade. Better case for more interconnector investment due to increased trade May encourage more interconnector trading parities Reduced incentive to form Trading Units, however no I/C users currently in Trading Unit.	Review of historic prices & dead-band		
Supplier	Potential for greater import of 'lower cost' power i.e. potential to lower supplier cost base		Small Increase in BSUoS. Minor impact on contracts Potential for greater export of GB power – GB suppliers have to compete increasingly with EU demand (increased competition could be considered a pro)	Interconnector contribution to BSUoS Retail Market Review data
Generator	Greater access to EU market/better able to compete with continental generators but potential for increased distortion in the GB market if CMP201 is not implemented alongside CMP202		Small Increase in BSUoS Minor impact on contracts: *Need for 3 months notice prior to Oct 2012?* Potentially subject to 'below cost' imports – 'inefficient' competition undercuts GB generation as a result of GB generation still being exposed to BSUoS	AS per supplier

Party	Pro	How to Quantify	Con / Issue	How to Quantify
End Consumers	Potential reduction in BSUoS due to reduction in cost of providing SO service (eg Reserve) over interconnector. More trade / greater competition across interconnector potentially leading to lower prices (although cross border trade is not optimised)	Consider if market interaction can be modelled.	Small increase in BSUoS Exports from GB may increase leading to high wholesale prices. Generators share of BSUoS reflected within GB market price may encourage imports	Examination of % time current day-ahead and spot market prices are within BSUoS dead-band.

Workgroup Alternative CUSC Modifications

4.43 No Workgroup Alternatives were raised for CMP202.

5 Impacts

Impact on the CUSC

5.1 CMP202 requires amendments to the following parts of the CUSC:

- Section 14 – Charging Methodologies, Part 2 – The Statement of the Use of System Charging Methodology, Section 2 – The Statement of the Balancing Services Use of System Charging Methodology.

5.2 The text required to give effect to the Proposal is contained in Annex 6 of this document.

Impact on Greenhouse Gas Emissions

5.3 Neither the proposer nor the Workgroup identified any material impact on Greenhouse Gas emissions.

Impact on Core Industry Documents

5.4 The Workgroup considered that parties generally considered that there was a linkage between BSUoS and the cashout arrangements in the BSC. This manifests itself when NGET takes an energy balancing action and recovers the net cost through BSUoS. The energy imbalance that led to the NGET action would result in a revenue in the Residual Cashflow Reallocation Cashflow (RCRC). RCRC is 'cashed out' to the lead parties of BMUs based on their metered volumes. This redistribution was understood to have the effect of reinforcing the incentive for an individual to balance. It was also noted that BSUoS covered many more costs beyond energy balancing and that currently it is generally a payment (i.e. RCRC is negative).

5.5 The Workgroup also noted that whilst BSUoS would be removed from Interconnectors under CMP202 they would still be exposed to RCRC. A number of members were concerned that this interaction was significant and therefore the RCRC exposure issue need to be addressed in parallel with CMP202. Other members of the Workgroup expressed the view that RCRC was a relatively small effect and a GB balancing signal issue and so therefore could be addressed separately.

5.6 The Workgroup also noted that Ofgem recently consulted on the BSC cashout arrangements. The majority of the Workgroup believed that any consequential changes as a result of CMP202 could be addressed through the Ofgem review.

5.7 At the post-consultation meeting on 15th March 2012, there was a strong feeling that RCRC and BSUoS are inter-linked and that there is an impact, but that it is not within the scope of CMP202 to address. The majority of the group agreed that CMP202 should continue and for the issue with RCRC to be considered separately.

Impact on other Industry Documents

5.8 Neither the proposer nor the Workgroup identified any impacts on other Industry Documents.

6 Proposed Implementation

6.1 The Workgroup concluded by majority that that CMP202 should be implemented 10 Working Days after an Authority Decision.

6.2 9 of the respondents to the Workgroup Consultation agreed with this approach.

6.3 National Grid is currently undertaking an impact assessment on changes required to its BSUoS charging systems as a consequence of this proposal. Our current view is that costs are likely to be under £50k with the required changes being ready for implementation during the late summer, 2012.

6.4 In accordance with 8.22.4 (b) of the CUSC, views are invited on this proposed implementation approach.

7 Views

Workgroup Conclusion

7.1 On 15th March 2012 the Workgroup voted by a majority of 7 to 1 that CMP202 better facilitates the Applicable CUSC Objectives than the baseline and so should be implemented.

7.2 For reference the CUSC Objectives for the Use of System Charging Methodology are:

(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;

(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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard condition C26 (Requirements of a connect and manage connection);

(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.

National Grid View

7.3 National Grid considers that CMP202 would better facilitate Applicable CUSC Objectives (a) in that it would promote more efficient trading across EU member states and remove any perverse incentive for limited or inefficient trades that arise from attempts to manage BSUoS exposure and (c) in that it properly reflects its duties in the development of National Grid's business by promoting a single internal market in electricity and facilitating greater cross-border trading.

Does CMP202 better facilitate the Applicable CUSC Objectives than the CUSC baseline?

Member	(a)	(b)	(c)
Garth Graham	Marginally yes as it promotes more efficient trading	Neutral	Yes
Michael Dodd	Yes it is better than the baseline	Neutral	Yes
Iain Pielage	Yes as it removes a perverse incentive to trade in the wrong direction	Neutral	Yes as it encourages cross-border trading
Helen Inwood	Yes it will improve	Neutral	Neutral

	competition with generators		
Paul Mott	Yes as it will remove the barrier to flow	Neutral	Yes as it facilitates cross-border trading
Sarah Owen	Neutral	Neutral	Neutral
Cem Suleyman	Neutral	Neutral	Yes
Rob Hill	Neutral	Neutral	Yes

Which option BEST facilitates achievement of the ACOs?

CUSC Baseline
CMP202

Member	BEST Option
Garth Graham	CMP202
Michael Dodd	CMP202
Iain Pielage	CMP202
Helen Inwood	CMP202
Paul Mott	CMP202
Sarah Owen	Baseline
Cem Suleyman	CMP202
Rob Hill	CMP202

7.4 The Workgroup also noted the new Relevant Objective that had come into force in November 2011 as part of the Statutory Instrument on The Electricity and Gas (Internal Markets) Regulations 2011. The Workgroup acknowledged that this Objective had been omitted from the Charging Objectives and therefore it was agreed that the Workgroup should consider this Objective as part of their vote. The new Applicable CUSC Objective is as follows:

"(c) compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency".

7.5 The Workgroup voted unanimously that CMP202 would meet a like-for-like Applicable CUSC Objective (c).

8 Workgroup Consultation Responses

8.1 10 responses were received to the Workgroup Consultation. These responses are contained with Annex 4 of this report. The following table provides an overview of the representations received:

Company	Initial Views	Views against ACOs	Implementation	Other Comments
BritNed	Supportive. Removal of BSUoS would reduce 'deadband' leading to increased imbalance liability.	Agree with Proposer's view.	Supportive of approach.	Supportive of Ofgem post-implementation review.
Drax	Agree with defect. Removing BSUoS would mean generators remain at competitive disadvantage compared to Europe due to 'G' element of charges. Solution in CMP201 will remedy the distortion.	Neutral on (a), yes on (c).	Supportive of approach. Would be beneficial to implement CMP202 and 201 simultaneously.	
EDF Trading	Agree with deliberations captured in report.	Yes on (a).	Support 10 day approach.	
EDF Energy	Supportive.	Marginal on (a), yes on (c).	Support 10 day approach. No need for special arrangements ie. phasing.	No alternative needed.
EON	Supportive.	Agree with Proposer's view.	Support 10 day approach.	
Scottish Power	Supportive as long as implemented in conjunction with CMP201.	Yes on (a) and neutral and (b) and (c).	Support 10 day approach.	Any windfall gains or losses will be short-lived and difficult to determine.
Centrica	Not supportive. Will lead to higher prices for end consumers and suppliers may be unable to pass on their increases. Also introduces a disconnect between industry players who are subject to RCRC and BSUoS charges.	Neutral on (a).	Concern that with 10 day implementation, suppliers cannot pass their increased costs onto consumers.	Increase in power costs for end users and increase in power exports to GB resulting in increase in GB power prices. Also Generators may not be able to pass

				on costs.
APX-ENDEX	Strongly support removal of BSUoS for Interconnectors – will result in increase in usage of day-ahead cross border capacity.	Agree with Proposer's wording in report.	Fully support approach.	
SSE	Support, as long as implemented in conjunction with CMP201. Without CMP201, GB trading parties will be at a disadvantage.	Neutral on (a) in line with 7.2 of the report (addressed by implementing CMP201). Neutral on (b). Marginal yes on (c) but would be addressed by CMP201.	Agree with 10 day approach.	
NPower	Supportive but concern that raising price for non-interconnector BM units.	Yes on (a).	Support 10 day approach.	

9 How to Respond

9.1 If you wish to respond to this Code Administrator Consultation, please use the response proforma which can be found under CMP202 at the following link:

http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/amendments/currentamendmentproposals/

9.2 Responses are invited to the following questions:

1. Do you believe that CMP202 better facilitates the Applicable CUSC Objectives as set out in paragraph 7.2?

2. Do you support the proposed implementation approach? (please see paragraph 6.3)

9.3 Views are invited upon the proposals outlined in this consultation, which should be received by 29 May 2012.

Your formal responses may be emailed to:

cusc.team@nationalgrid.com

9.4 If you wish to submit a confidential response please note the following:

Information provided in response to this consultation will be published on National Grid's website unless the response is clearly marked "Private & Confidential", we will contact you to establish the extent of the confidentiality. A response marked "Private and Confidential" will be disclosed to the Authority in full but, unless agreed otherwise, will not be shared with the CUSC Modifications Panel or the industry and may therefore not influence the debate to the same extent as a non confidential response.

Please note an automatic confidentiality disclaimer generated by your IT System will not in itself, mean that your response is treated as if it had been marked "Private and Confidential".

Annex 1 – CMP202 Workgroup Terms of Reference

TERMS OF REFERENCE FOR CMP 202 WORKGROUP

Responsibilities

The Workgroup is responsible for assisting the CUSC Modifications Panel in the evaluation of CUSC Modification Proposal CMP202 'Revised treatment of BSUoS charges for lead parties of Interconnector BM Units' tabled by National Grid at the CUSC Modifications Panel meeting on 16 December 2011.

The proposal must be evaluated to consider whether it better facilitates achievement of the Applicable CUSC Objectives. These can be summarised as follows:

Use of System Charging Methodology

(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;

(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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard condition C26 (Requirements of a connect and manage connection);

(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.

It should be noted that additional provisions apply where it is proposed to modify the CUSC Modification provisions, and generally reference should be made to the Transmission Licence for the full definition of the term.

Scope of work

The Workgroup must consider the issues raised by the Modification Proposal and consider if the proposal identified better facilitates achievement of the Applicable CUSC Objectives.

In addition to the overriding requirement of paragraph 4, the Workgroup shall consider and report on the following specific issues:

a) Review the illustrative legal text

b) Consider the impact on end consumers

c) Consider the impact on competition

d) Examine the impact of implementation on all relevant parties

e) Consider interaction with Trading Unit operation

f) The Workgroup is also requested by the Panel to consider if the mechanism for charging BSUoS to remaining parties continues to be beneficial and whether the CUSC Modifications Panel may wish to initiate further work outside the Workgroup on this subject.

The Workgroup is responsible for the formulation and evaluation of any Workgroup Alternative CUSC Modifications (WACMs) arising from Workgroup discussions which would, as compared with the Modification Proposal or the current version of the CUSC, better facilitate achieving the Applicable CUSC Objectives in relation to the issue or defect identified.

The Workgroup should become conversant with the definition of Workgroup Alternative CUSC Modification which appears in Section 11 (Interpretation and Definitions) of the CUSC. The definition entitles the Workgroup and/or an individual member of the Workgroup to put forward a WACM if the member(s) genuinely believes the WACM would better facilitate the achievement of the Applicable CUSC Objectives, as compared with the Modification Proposal or the current version of the CUSC. The extent of the support for the Modification Proposal or any WACM arising from the Workgroup's discussions should be clearly described in the final Workgroup Report to the CUSC Modifications Panel.

Workgroup members should be mindful of efficiency and propose the fewest number of WACMs possible.

All proposed WACMs should include the Proposer(s)'s details within the final Workgroup report, for the avoidance of doubt this includes WACMs which are proposed by the entire Workgroup or subset of members.

There is an obligation on the Workgroup to undertake a period of Consultation in accordance with CUSC 8.20. The Workgroup Consultation period shall be for a period of three weeks as determined by the Modifications Panel.

Following the Consultation period the Workgroup is required to consider all responses including any WG Consultation Alternative Requests. In undertaking an assessment of any WG Consultation Alternative Request, the Workgroup should consider whether it better facilitates the Applicable CUSC Objectives than the current version of the CUSC.

As appropriate, the Workgroup will be required to undertake any further analysis and update the original Modification Proposal and/or WACMs. All responses including any WG Consultation Alternative Requests shall be included within the final report including a summary of the Workgroup's deliberations and conclusions. The report should make it clear where and why the Workgroup chairman has exercised his right under the CUSC to progress a WG Consultation Alternative Request or a WACM against the majority views of Workgroup members. It should

also be explicitly stated where, under these circumstances, the Workgroup chairman is employed by the same organisation who submitted the WG Consultation Alternative Request.

The Workgroup is to submit its final report to the Modifications Panel Secretary on 19 April 2012 for circulation to Panel Members. The final report conclusions will be presented to the CUSC Modifications Panel meeting on 27 April 2012.

Membership

It is recommended that the Workgroup has the following members:

Role	Name	Representing
Chairman	Patrick Hynes	Code Administrator
National Grid Representative*	Iain Pielage	National Grid
Industry Representatives*	Paul Mott	EDF Energy
	Garth Graham	SSE
	James Anderson	Scottish Power
	Esther Sutton	EON
	Cem Suleyman	Drax
	Simon Lord	International Power
	Michael Dodd	ESBI
	Helen Inwood	NPower
	Rob Hill	Conoco Philips
	Sarah Owen	Centrica
Observer	David Kemp	ELEXON
Authority Representative	Matthew Grant	
Technical secretary	Emma Clark	Code Administrator

NB: A Workgroup must comprise at least 5 members (who may be Panel Members). The roles identified with an asterisk in the table above contribute toward the required quorum, determined in accordance with paragraph 14 below.

The chairman of the Workgroup and the Modifications Panel Chairman must agree a number that will be quorum for each Workgroup meeting. The agreed figure for CMP202 is that at least 5 Workgroup members must participate in a meeting for quorum to be met.

A vote is to take place by all eligible Workgroup members on the Modification Proposal and each WACM. The vote shall be decided by simple majority of those present at the meeting at which the vote takes place (whether in person or by teleconference). The Workgroup chairman shall not have a vote, casting or otherwise]. There may be up to three rounds of voting, as follows:

- Vote 1: whether each proposal better facilitates the Applicable CUSC Objectives;
- Vote 2: where one or more WACMs exist, whether each WACM better facilitates the Applicable CUSC Objectives than the original Modification Proposal*;*

- Vote 3: which option is considered to BEST facilitate achievement of the Applicable CUSC Objectives. For the avoidance of doubt, this vote should include the existing CUSC baseline as an option.

The results from the vote and the reasons for such voting shall be recorded in the Workgroup report in as much detail as practicable.

It is expected that Workgroup members would only abstain from voting under limited circumstances, for example where a member feels that a proposal has been insufficiently developed. Where a member has such concerns, they should raise these with the Workgroup chairman at the earliest possible opportunity and certainly before the Workgroup vote takes place. Where abstention occurs, the reason should be recorded in the Workgroup report.

Workgroup members or their appointed alternate are required to attend a minimum of 50% of the Workgroup meetings to be eligible to participate in the Workgroup vote.

The Technical Secretary shall keep an Attendance Record for the Workgroup meetings and circulate the Attendance Record with the Action Notes after each meeting. This will be attached to the final Workgroup report.

The Workgroup membership can be amended from time to time by the CUSC Modifications Panel.

Annex 2 - CMP202 Proposal Form

CUSC Modification Proposal Form (for Charging Methodology proposals)	**CMP202**

Title of the CUSC Modification Proposal: *(mandatory by proposer)*

Revised treatment of BSUoS charges for lead parties of Interconnector BM Units

Submission Date *(mandatory by Proposer)*

8th December 2011

Description of the CUSC Modification Proposal: (mandatory by proposer)

This proposal aims to further the European Commission's objectives of facilitating cross-border access and developing a Europe-wide single internal market in electricity.

Interconnectors are, in effect, treated within the EU Third Package as extensions to a Member State's transmission system which facilitate pan-European trade essential to supporting a single Europe-wide market in electricity. In the current GB arrangements, Interconnector flows are treated as if they were a Generator or Demand, which is inconsistent with arrangements across Europe.

The Transmission Licence allows NGET to recover revenue in respect of the Balancing Services Activity, including the operation of the transmission system, through Balancing Services Use of System (BSUoS) charges. Liable CUSC parties pay BSUoS charges, based on their energy taken from, or supplied to the transmission system on a non locational MWh basis. BSUoS charges are paid for by all CUSC parties, including Lead Parties for flows on Interconnectors BM Units. This has the effect of reducing the number of occasions where potentially beneficial trades could have taken place and therefore potentially conflicts with the EU objectives. In particular, it creates a barrier to exports from the GB transmission system across Interconnectors.

In addition, the application of BSUoS to cross-border flows creates a differential between those trades that facilitate competition within a national market and pan European trades that facilitate competition across a single European electricity market. A non physical trader operating within the GB market does not pay BSUoS. However, trades between GB and other Member States, which in the context of a single European market can also be considered as non-physical, are subject to BSUoS charges when they result in flows to / from GB. Efficient trading between GB and other Member States is therefore frustrated by the application of a BSUoS charge.

This proposal aims to address these issues by removing BSUoS charges for Interconnector BM Units, and, in doing so, further align GB arrangements with EU objectives and facilitates greater use of Interconnectors, and encourages further cross-border trading.

Description of Issue or Defect that the CUSC Modification Proposal seeks to Address: *(mandatory by proposer)*

The current arrangements for BSUoS charging can potentially lead to:

- A restriction on Interconnector flows, in particular on exports from GB
- A restriction to trade, in particular, for non physical parties

This is potentially inconsistent with the objectives of the EU Third package.

Impact on the CUSC: *(this should be given where possible)*

Revision to Section 14 – Charging Methodologies, Part 2 – The Statement of the Use of System Charging Methodology, Section 2 – The Statement of the Balancing Services Use of System Charging Methodology

Main Sections affected are 14.29 and 14.30

Do you believe the CUSC Modification Proposal will have a material impact on Greenhouse Gas Emissions? ~~Yes~~/No *(assessed in accordance with Authority Guidance – see guidance notes for website link)*

Impact on Core Industry Documentation. Please tick the relevant boxes and provide any supporting information: *(this should be given where possible)*

BSC ☒

Grid Code ☐

STC ☐

Other ☐

(please specify)

Wider implications on BSC cash-flows may need to be explored.

Urgency Recommended: ~~Yes~~ / No *(optional by Proposer)*

Justification for Urgency Recommendation *(mandatory by Proposer if recommending progression as an Urgent Modification Proposal)*

Self-Governance Recommended: ~~Yes~~ / No *(mandatory by Proposer)*

Justification for Self-Governance Recommendation *(mandatory by Proposer if recommending progression as Self-governance Modification Proposal)*

Should this CUSC Modification Proposal be considered exempt from any ongoing Significant Code Reviews? *(mandatory by Proposer in order to assist the Panel in deciding whether a Modification Proposal should undergo a SCR Suitability Assessment)*
Yes. As this proposal seeks to make revisions to the BSUoS Methodology only, it has no interaction with the ongoing TNUoS SCR.

Impact on Computer Systems and Processes used by CUSC Parties: *(this should be given where possible)*
Minor Impact on National Grid Electricity Transmission's BSUoS charging system.

Mainly depending on the consideration of BSC cash flow implications, on BSC and User systems.

Possibly also on how Interconnector volumes are notified and treated

Details of any Related Modifications to Other Industry Codes (including related CUSC Modification Proposals): *(where known)*

Justification for CUSC Modification Proposal with reference to Applicable CUSC Objectives:
(mandatory by proposer)

Please tick the relevant boxes and provide justification for each of the Charging Methodologies affected.

Use of System Charging Methodology

☒ (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;

☐ (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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard condition C26 (Requirements of a connect and manage connection);

☒ (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.

Full justification:

National Grid believes that this proposal better facilitates effective competition through promoting more efficient trading across EU Member States. It will also remove any perverse incentive for limited trade or inefficient trades that arise from attempts to manage BSUoS exposure.

In that an objective of EU legislation is to promote a single internal market in electricity and facilitate greater cross-border trading, National Grid believes that this proposal properly reflects its duties in the development of its transmission business.

Details of Proposer: (Organisation's Name)	National Grid Electricity Transmission Ltd.
Capacity in which the CUSC Modification Proposal is being proposed: (i.e. CUSC Party, BSC Party, "National Consumer Council" or Materially Affected Party)	CUSC Party
Details of Proposer's Representative: Name: Organisation: Telephone Number: Email Address:	Iain Pielage National Grid Electricity Transmission Ltd 01926 656360 Iain.Pielage@uk.ngrid.com
Details of Representative's Alternate: Name: Organisation: Telephone Number: Email Address:	Andy Wainwright National Grid Electricity Transmission Ltd 01926 655944 Andy.Wainwright@uk.ngrid.com
Attachments (~~Yes~~/No): **If Yes, Title and No. of pages of each Attachment:**	

Annex 3 - Workgroup Attendance Register

Name	Organisation	Role	Meeting 1	Meeting 2	Meeting 3
Patrick Hynes	National Grid	Chairman	Yes	Yes	Yes
Emma Clark	National Grid	Technical Secretary	Yes	Yes	Yes
Iain Pielage	National Grid	Workgroup Member	Yes	Yes	Yes
Heather Carter	National Grid	Observer	Yes	Yes	Yes
David Kemp	ELEXON	Observer	Yes	Yes	No
Matthew Grant	Ofgem	Authority Representative	Yes	Yes	Yes
Evridiki Kaliakatsou	Ofgem	Observer	No	Yes	Yes
James Anderson	Scottish Power	Workgroup Member	Yes	Yes	No
Sarah Owen	Centrica	Workgroup Member	Yes	Yes	Yes
Esther Sutton	E.ON UK	Workgroup Member	Yes	Yes	No
Cem Suleyman	Drax	Workgroup Member	Yes	Yes	Yes
Rob Hill	Conoco Philips	Workgroup Member	Yes	Yes	Yes
Paul Mott	EDF	Workgroup Member	Yes	Yes	Yes
Helen Inwood	NPower	Workgroup Member	Yes	Yes	Yes
Garth Graham	SSE	Workgroup Member	No	Yes	Yes
Michael Dodd	ESBI	Workgroup Member	No	Yes	Yes

Annex 4 – Workgroup Consultation Responses

CMP202 – Revised treatment of BSUoS charges for lead parties of Interconnector BM Units

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses by **8 March 2012** to cusc.team@uk.ngrid.com. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup report which is submitted to the CUSC Modifications Panel.

Respondent:	*Jethro van Hardeveld* *j.vanhardeveld@apxendex.com* *+31(0)20 305 5139*
Company Name:	*APX-ENDEX*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	Thank you for providing us with the opportunity to respond to the CUSC Workgroup Consultation on CMP 202. As you are aware, one of the priorities of the European Union is to create a genuine single market for electricity in Europe. It is an ambition which the Anglo-Dutch energy exchange APX-ENDEX very much supports. Market integration enhances diversity of supply, competitive dynamics, price resilience, social welfare and security of supply. The integration of day-ahead markets across Europe using the proven approach of market coupling is critical to delivering robust markets. Efficient intraday cross border trading is also essential for the transition to a low carbon energy sector by accommodating the increased intermittency created by the growing amount of wind energy produced in Great Britain. The current transmission charges for electricity applied in Great Britain threaten to hinder the

	efficient integration of the GB market with Continental Europe and Ireland. We believe that further alignment of Great Britain with progressing EU law and the goal of the creation of a single market for electricity in Europe is needed. The charge levied by the national Transmission System Operator (TSO) National Grid for the balancing of the British transmission system (the "BSUoS" charge) is also levied upon interconnector flows and therefore effectively acts as a cross border transmission charge (akin to a flow based tariff). The BSUoS charge effectively represents a barrier to efficient market integration, and the benefits that this will deliver. We therefore strongly support the removal of the BSUoS charge for interconnector owners. A historical simulation (re-run) of the APX UK Auction from data gathered between the 1st of April 2011 until the 8th of March 2012 supports this view. The analysis showed that the removal of the BSUoS charge from interconnectors resulted in an increase in the usage of day-ahead cross border capacity. Instances where there is zero flow on the interconnector reduced from 22,1 percent historically to 13,4 percent. Hours where there was congestion on the interconnector increased from 29,1 percent historically to 34,3 percent. The analysis furthermore showed that the removal of the BSUoS charge on interconnectors would lead to an increase of approximately 10 percent in traded volume on the UK day-ahead Auction market. APX-ENDEX is very much willing to further explain the outcome of the analysis with the working group members if desired.
Do you believe that the proposed original or any of the alternatives better facilitate the Applicable CUSC Objectives? Please include your reasoning.	We support the analysis and reasoning as worded in CMP202.
Do you support the proposed	APX-ENDEX fully supports the proposed

implementation approach? If not, please state why and provide an alternative suggestion where possible.	implementation approach of implementing CMP202 10 working days after an Authority Decision.
Do you have any other comments?	-
Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	APX-ENDEX does not want to raise a Workgroup Consultation Alternative Request.

CMP202 – Revised treatment of BSUoS charges for lead parties of Interconnector BM Units

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses by **8 March 2012** to cusc.team@uk.ngrid.com. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup report which is submitted to the CUSC Modifications Panel.

Respondent:	Richard Sidley T: +44 (0) 7748 180429 E: richard.sidley@britned.com
Company Name:	BritNed Development Limited
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues,**	We are in support of CMP202, though we note that the Workgroup has not yet provided its recommendation. We do have the following comments however: a) Regarding paragraph 4.36, in BritNed's case, BSUoS

suggestions or queries)	does not affect any scheduling algorithm as such, though BSUoS forecasts are used in the calculation of the flow tariffs for implicit auctions. The removal of BSUoS for interconnector users would therefore reduce the "deadband" shown in the diagram at paragraph 4.18. b) The reduced deadband should result in increased implicit nominations on the interconnector during periods where there would currently be no congestion. As implicit nominations are guaranteed by BritNed the reduced deadband will result in an increased imbalance liability in the event of an incident. Due to the expected larger nominations and at times where there is a change in the market direction, larger flow changes will be required. The result will be larger imbalances due to ramping limitations. It is also possible that the flow across interconnectors will change direction more often, as the market spread may switch back and forth between the import and export directions at low levels which are within the current deadband, but fall outside of the reduced deadband. This will increase the ramping costs, imbalance risk and firmness risk for interconnector owners due to larger implicit nominations and larger power swings. Analysis on the increased risk to BritNed of a reduced deadband is on-going c) We would be in favour of Ofgem carrying out a full post-implementation review, as suggested in paragraph 4.38 of the consultation document. In our view, such a review could start once CMP202 is implemented, and it should also consider the issue that we have identified in b) above through analysis of post trading data.
Do you believe that the proposed original or any of the alternatives better facilitate the Applicable CUSC Objectives? Please include your reasoning.	We agree with the proposer that Applicable CUSC Objectives (a) and (c) would be better facilitated by CMP202, for the reasons stated at paragraph 7.1 of the consultation document.
Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.	Yes.

Do you have any other comments?	No.
Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No.

Specific questions for CMP202

Q	Question	Response
1	**What, if any, do you believe may be the unintended consequences of CMP202 in terms of trading?**	None. However, as mentioned in our comment b) above, there is a potential effect on the operational costs and imbalance risk for interconnector owners.
2	**Are there any further pros and cons that should be highlighted in the assessment?**	None.

CMP202 – Revised treatment of BSUoS charges for lead parties of Interconnector BM Units

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses by **8 March 2012** to cusc.team@uk.ngrid.com. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup report which is submitted to the CUSC Modifications Panel.

Respondent:	*Sarah Owen 01753 431052 sarah.owen@centrica.co.uk*
Company Name:	*Centrica group*
Please express your views	We do not support the implementation of this proposal. We suggest that it will eventually lead to higher prices for end

regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	consumers on two counts, the first is that any increases for both generators and suppliers in their BSUoS costs will eventually be passed through to end consumers, additionally, if this proposal is implemented there is likely to be an increase in exports of power from GB through the interconnector, this will result in an increase to power prices for GB end consumers (as detailed within section 4.23 of the report). If this proposal is adopted (with the minimum delay between decision and implementation), suppliers may be unable to pass on the increases they incur in their BSUoS charges due to contractual arrangements they have in place with their customers, this is especially the case for fixed power prices, where margins may be small. The same could be true for generators depending on the detail of their contracts, and could adversely impact very marginal generation plant. Furthermore, this proposal introduces a disconnect between the industry players that are subject to RCRC and BSUoS charges, we suggest the proposal is flawed and should not be adopted in its current form. We do not agree that a future change to the charging or cash out arrangements should be left to be considered as part of Ofgem's cash out review. Any potential disconnect should be resolved as part of this modification proposal.
Do you believe that the proposed original or any of the alternatives better facilitate the Applicable CUSC Objectives? Please include your reasoning.	We suggest that this proposal is neutral to the Applicable CUSC Objective (a), as there is no evidence to suggest that export trades would increase more than import trades under this modification.
Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.	If this proposal is implemented 10 working days following a decision, we are concerned that Suppliers may not be in a position to pass these increased costs onto their customers. This is especially the case where a fixed power price has been offered, which is common practise for business customers where competition is high and margins may be very tight. These types of contracts commonly last for up to 2 years.
Do you have any other comments?	
Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	*If yes, please complete a Workgroup Consultation Alternative Request form, available on National Grid's website, and return to the above email address with your completed Workgroup Consultation response proforma.*

Specific questions for CMP202

Q	Question	Response
1	**What, if any, do you believe may be the unintended consequences of CMP202 in terms of trading?**	
2	**Are there any further pros and cons that should be highlighted in the assessment?**	Any Supplier who has offered a fixed priced power price to a customer will be unable to pass this cost increase on until the end of this contract. This could include a period of up to two years ahead. Additionally, we suggest that there is highly likely to be an increase in power costs for end users, this will be as a direct result of the increase to BSUoS costs for generators and suppliers as ultimately, any increase for generators and suppliers will flow down to end consumers. We challenge the Pro in the working group report (table 4.41) that suggests that BSUoS costs are likely to decrease for end consumers; it would have been beneficial for the reasoning behind this point to have been included in the report to aid comprehension. If this proposal is accepted, there is likely to be an increase in power exports for GB. This will result (according to the logic in the report (4.23)) in an increase in GB power prices. This is an opposing view to that detailed in the assessment. Additionally, generators may not be able to pass on increases to BSUoS costs under the terms of their contracts. This will squeeze margins and may adversely impact marginal plant. Notwithstanding the above comments and concerns, we do not support the implementation of this proposal, without seeking to address the resulting disconnect between parties subject to RCRC and BSUoS that would be created. The same group of users should be liable for both charges/payments. We suggest this disconnect should be fully considered and resolved as part of this proposal.

CMP202 – Revised treatment of BSUoS charges for lead parties of Interconnector BM Units

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses by **8 March 2012** to cusc.team@uk.ngrid.com. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup report which is submitted to the CUSC Modifications Panel.

Respondent:	*Cem Suleyman - cem.suleyman@draxpower.com*
Company Name:	*Drax Power Limited*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	We agree that efficient trading between GB and other EU Member States is frustrated by the current application of BSUoS charges. Under the current arrangements the application of BSUoS charges creates a barrier to the efficient export of GB power. This is primarily because BSUoS is charged in part to generators (and reflected in the wholesale power price) whereas this is not commonly the case in continental Europe (where BSUoS is charged almost exclusively to demand and thus BSUoS type costs are not included within the wholesale power price of these markets). In light of the evidence presented to date, we agree that it is commonly the case that equivalent BSUoS type costs in other EU Member States are almost exclusively charged to demand. However, whilst removing BSUoS charges from Interconnector Users would reduce BSUoS distortion for the efficient export of power, GB generators would still remain at competitive disadvantage when compared to their European counterparts. This is due to the 'G' element of BSUoS charges in the GB charging arrangements, which would still be recovered from GB generators' output prices. The equivalent of 'G BSUoS' is not included in the wholesale power price of continental European markets and thus some distortion will remain. Moreover, the potential exists following the implementation of CMP202 for 'higher cost' power to be imported into GB. This is because the price of imported power will no longer reflect the cost of BSUoS, whereas GB generators will still be required to recover BSUoS costs from the market. The

	imports in this case only appear to be 'cheaper' relative to GB power due to the differential application of BSUoS charges. We do not consider this facilitates efficient cross border trade. In fact such trades are inefficient and fail to maximise economic welfare (the fundamental rationale for the completion of the Single Market). For the reasons given above we agree strongly with the statement made in the consultation document that "given GB generation is subject to BSUoS charges, they will potentially compete with continental generation that may not be subject to an equivalent charge. This raises the prospect of inefficient outcomes". Moreover "that by removing BSUoS from interconnector trades, this should also provide GB generation with greater opportunities for exports, *although some market distortion would remain*" (emphasis added). To the credit of the proposer, the limitations of implementing the CMP202 solution in isolation have been recognised and the solution contained in CMP201 will remedy the distortion created by this proposal, thus maximising economic welfare. Implementing both CMP201 and CMP202 as a single package will completely eliminate BSUoS related import and export price distortion between competing generators. We note that some workgroup members stated that the modification would result in greater competition and access to other EU markets which could result in lower prices. We believe this benefit will only be fully realised (if at all) if CMP202 is implemented alongside CMP201 as a single package. We are of the view that CMP202 only provides, at best, a partial solution to the trade distortions noted above.
Do you believe that the proposed original or any of the alternatives better facilitate the Applicable CUSC Objectives? Please include your reasoning.	We agree that CMP202 probably better facilitates Applicable Objective (c). However, we believe that CMP202 should be considered as neither facilitating nor hindering Applicable Objective (a), i.e. the effect should be considered neutral. Whilst there would be scope for a potential increase in the quantity of economic exports to continental European markets, there is also scope to facilitate uneconomic imports to GB. As there is no evidence at present to suggest that the export effect of CMP202 would outweigh the import effect (or vice versa) CMP202 should be considered neutral against Objective (a). CMP202 will only better facilitate Objective (a) if it is implemented in conjunction with CMP201 as a single package, as this would completely remove both the import and export price distortion.

Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.	We agree with the majority of the Workgroup that CMP202 should be implemented in line with standard timescales, i.e. ten days after approval, and that implementation should take place as soon as possible. We consider there will also be administrative benefits (in terms of cost minimisation) associated with implementing both CMP201 and CMP202 simultaneously as a package. These benefits would accrue through a reduction in the National Grid man days required to implement both Modifications simultaneously compared to the man days required to implement both Modifications separately. There might also be some benefit in terms of minimising the complexity associated with implementing two separate changes at two different times in a relatively short period relative to making both changes at the same time.
Do you have any other comments?	No.
Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No.

Specific questions for CMP202

Q	Question	Response
1	**What, if any, do you believe may be the unintended consequences of CMP202 in terms of trading?**	We are not aware of any potential unintended consequences that might result from the implementation of CMP202.

Q	Question	Response
2	**Are there any further pros and cons that should be highlighted in the assessment?**	We believe that the main pros and cons have been identified. We particularly agree with the following pro and con: • There is "potential for increased distortion in the GB market if CMP201 is not implemented alongside CMP202". • The GB market could "potentially [be] subject to 'below cost' imports – 'inefficient' competition undercuts GB generation as a result of GB generation still being exposed to BSUoS.

CMP202 – Revised treatment of BSUoS charges for lead parties of Interconnector BM Units

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses by **8 March 2012** to cusc.team@uk.ngrid.com. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup report which is submitted to the CUSC Modifications Panel.

Respondent:	*Paul Mott*
Company Name:	*EDF Energy*
Please express your views regarding the Workgroup Consultation, including	The workgroup consultation is well-written and effectively summarises the issues, pros and cons. EDF Energy agrees with the workgroup that the mod is well-defined and that no alternative is needed, nor any special arrangements needed for the introduction of this change (e.g. phasing, is not needed).

rationale. **(Please include any issues, suggestions or queries)**	
Do you believe that the proposed original or any of the alternatives better facilitate the Applicable CUSC Objectives? Please include your reasoning.	EDF Energy does not consider that a consultation Alternative CUSC Modification is needed and are not putting one forward. EDF Energy considers that CMP202 would marginally better facilitate Applicable CUSC Objective (a) by promoting more efficient trading between EU member states, allowing interconnectors to be efficiently utilised across a narrower range of price spreads without the burden of BSUoS charges. EDF Energy considers that CMP202 would substantially better facilitate Applicable CUSC Objective (c) by promoting a single internal market in electricity and facilitating greater cross-border trading, whilst reflecting the British interpretation of the EU's "Third Package" by treating interconnectors as transmission (not, generation or demand as appropriate to direction of flow). Treating interconnectors as transmission means they must be exempt from BSUOS charges, just like the B6 boundary transmission circuits between Scotland and England, or any other transmission for that matter. CMP202 gives effect to this exemption from BSUOS. An equivalent charge to BSUOS is generally not charged to generators on the continent. By not charging it to interconnector flows, there should be a beneficial effect on competition across the EU, with reduced barriers to trade.
Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.	The consultation proposes that CMP202 should be implemented 10 Working Days after an Authority Decision. EDF Energy agrees in this instance that a rapid implementation is desirable as there are no special transitional issues in relation to this mod, which will have a marginal impact on BSUoS resulting in an increase of BSUoS for generation and demand by +2% (about 2 pence a MWh).
Do you have any other comments?	*No.*
Do you wish to raise a Workgroup	*No.*

Consultation Alternative Request for the Workgroup to consider?	

Specific questions for CMP202

Q	Question	Response
1	**What, if any, do you believe may be the unintended consequences of CMP202 in terms of trading?**	We do not anticipate such unintended consequences. We believe CMP202 to be beneficial for competition across the EU and may also support CMP201, a separate modification proposal which exempts generation from BSUoS, further aligning Britain with the general treatment of equivalent charges across the rest of the EU.
2	**Are there any further pros and cons that should be highlighted in the assessment?**	No, the considerations in the consultation document appear complete and thorough.

CMP202 – Revised treatment of BSUoS charges for lead parties of Interconnector BM Units

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses by **8 March 2012** to cusc.team@uk.ngrid.com. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup report which is submitted to the CUSC Modifications Panel.

Respondent:	*Sofia Eng, sofia.eng@edftrading.com, 020 7061 4363*
Company Name:	*EDF Trading*

Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	*The deliberations of the Workgroup are appropriate and capture the impacts of the issue at hand. In particular, the analysis of the effect CMP 202 would have on interconnector flows is worthwhile, as it illustrates the rationale for change.*
Do you believe that the proposed original or any of the alternatives better facilitate the Applicable CUSC Objectives? Please include your reasoning.	*Our view is that the proposal better facilitates competition in the wholesale market and therefore facilitates Objective A.* *Applying BSUoS charges to Interconnector BM Units hinders cross border trade and the creation of a single internal EU market. Current arrangements treat trades across the interconnectors differently from trades that are internal to the GB market. (As the consultation points out, a non physical trader who trades across the interconnector would be subject to BSUoS charges, whereas a non physical trader active only in GB would not.) Applying BSUoS charges to Interconnector BM Units further affects flows between GB and other Member States, given that the price of exports and imports will be affected by BSUoS charges. As a result there may be instances when flows to other Member States are not optimal.* *The consultation does not propose any alternative solutions and in line with this we also do not envisage any alternative solution.*
Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.	*We support the proposed implementation approach.*
Do you have any other comments?	*No.*
Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	*No.*

Specific questions for CMP202

Q	Question	Response
1	**What, if any, do you believe may be the unintended consequences of CMP202 in terms of trading?**	*We do not foresee any unintended consequences of removing BSUoS charges from Interconnector BM Units.*
2	**Are there any further pros and cons that should be highlighted in the assessment?**	*We believe that the assessment captures the pros and cons for affected parties.*

CMP202 – Revised treatment of BSUoS charges for lead parties of Interconnector BM Units

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses by **8 March 2012** to cusc.team@uk.ngrid.com. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup report which is submitted to the CUSC Modifications Panel.

Respondent:	*Esther Sutton* *esther.sutton@eon-uk.com*
Company Name:	*E.ON*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	*We support CMP202.*
Do you believe that the proposed original or any of the alternatives better facilitate the Applicable CUSC Objectives? Please include	*For reference, the Applicable CUSC Objectives for the Use of System Charging Methodology are:* *(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*

your reasoning.	*competition in the sale, distribution and purchase of electricity;* *(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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard condition C26 (Requirements of a connect and manage connection);* *(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.* *Yes, we agree that it supports Applicable Objectives a) and c) as identified by the Proposer and Workgroup.*
Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.	*Yes.*
Do you have any other comments?	*No.*
Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	*No.*

Specific questions for CMP202

Q	Question	Response
1	**What, if any, do you believe may be the unintended consequences of CMP202 in terms of trading?**	*At this time we do not foresee any particular consequences.*
2	**Are there any further pros and cons that should be highlighted in the assessment?**	*No.*

CMP202 – Revised treatment of BSUoS charges for lead parties of Interconnector BM Units

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses by **8 March 2012** to cusc.team@uk.ngrid.com. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup report which is submitted to the CUSC Modifications Panel.

Respondent:	*Helen Inwood*
Company Name:	*RWE npower*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	We do have concerns that this is raising BSUoS prices for non-inter-connector BM Units. This does have a small impact on BSUoS prices for both suppliers and generators (2%) that will not have been taken into account if contracts have been entered into for delivery of power in the period after the change is implemented. These generators and suppliers may then suffer some financial impact in the short term since the costs may be larger than they had forecasted. However, we recognise that this is a relatively straightforward change request which meets the objective of aligning the GB charging arrangements with those prevalent in other UK member states and is consistent with EU objectives. We support the change.
Do you believe that the proposed original or any of the alternatives better facilitate the Applicable CUSC Objectives? Please include your reasoning.	We believe this better facilitates CUSC Objective (a) *(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;*
Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.	Yes, we do support the implementation approach of 10 working days after the Authority decision.

Do you have any other comments?	No
Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No

Specific questions for CMP202

Q	Question	Response
1	**What, if any, do you believe may be the unintended consequences of CMP202 in terms of trading?**	None at this time
2	**Are there any further pros and cons that should be highlighted in the assessment?**	No

CMP202 – Revised treatment of BSUoS charges for lead parties of Interconnector BM Units

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses by **8 March 2012** to cusc.team@uk.ngrid.com. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup report which is submitted to the CUSC Modifications Panel.

Respondent:	*James Anderson, james.anderson@scottishpower.com; 0141 614 3006*
Company Name:	*ScottishPower Energy Management*
Please express your views	ScottishPower supports the removal of BSUoS from

regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	Interconnector BM Units as this will remove barriers to trade between the GB and European electricity markets and is consistent with the EU objectives of facilitating cross-border access and developing a single EU-wide market in electricity. However, it is important that CMP202 is implemented in conjunction with CMP201 (removal of BSUoS from Generator parties) otherwise electricity imports to GB (not subject to BSUoS) will have an unfair advantage over generation within GB (subject to BSUoS).
Do you believe that the proposed original or any of the alternatives better facilitate the Applicable CUSC Objectives? Please include your reasoning.	*For reference, the Applicable CUSC Objectives for the Use of System Charging Methodology are:* *(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;* *(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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard condition C26 (Requirements of a connect and manage connection);* *(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.* We believe that overall CMP202 better facilitates Objective (a) as it removes a current barrier to cross-border access and competition. However, it is important that CMP202 is implemented in conjunction with CMP201 (removal of BSUoS from Generator parties) otherwise electricity imports to GB (not subject to BSUoS) will have an unfair advantage over generation within GB which would not facilitate effective competition We are neutral as to whether CMP202 better achieves Objectives (b) and (c).
Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.	ScottishPower agrees that due to the low materiality of the impact of this proposal, implementation should be subject to the standard timescales i.e. 10 working days after approval by the Authority. There should not be any undue delay between the implementation of CMP202 and CMP201 to minimise any unfair competition from electricity imports as outlined above.
Do you have any other comments?	*No.*

Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	*No.*

Specific questions for CMP202

Q	Question	Response
1	**What, if any, do you believe may be the unintended consequences of CMP202 in terms of trading?**	We have not identified any adverse unintended consequences from the introduction of CMP202. Any windfall gains or losses from the introduction of CMP202 are likely to be short-lived and are difficult to determine as the exact volume of interconnector flows cannot be determined until the wholesale prices in both interconnected markets become apparent.
2	**Are there any further pros and cons that should be highlighted in the assessment?**	No.

CMP202 – Revised treatment of BSUoS charges for lead parties of Interconnector BM Units

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses by **8 March 2012** to cusc.team@uk.ngrid.com. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup report which is submitted to the CUSC Modifications Panel.

Respondent:	*Garth Graham (garth.graham@sse.com 01738 456000)*
Company Name:	*SSE*
Please express your views regarding the Workgroup Consultation, including	We have considered the deliberations of the Workgroup (as set out in the consultation document) and the Ofgem decision letter on "Use of System Charging Methodology

rationale. **(Please include any issues, suggestions or queries)**	Modification Proposal GB ECM-26: Review of interconnector charging arrangements". Whilst at the time that GB ECM-26 was being considered (in 2010) we had serious reservation about that change (primarily, but not exclusively, due to the flaws with the TNUoS regime) we can see that given developments since then and the work of the CMP202 Workgroup that there would be merit in this change going forward in order to align the GB arrangements with those in Europe. However, this support comes with a caveat, namely that it would be wrong to implement CMP202 without also implementing a solution to ensure a level playing field for GB trading parties; i.e. CMP201; otherwise those GB parties will be placed at a competitive disadvantage if CMP202 is implemented.
Do you believe that the proposed original or any of the alternatives better facilitate the Applicable CUSC Objectives? Please include your reasoning.	*For reference, the Applicable CUSC Objectives for the Use of System Charging Methodology are:* *(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;* We agree with the Workgroup member that CMP202 is neutral with respect to Objective (a) for the reasons set out in paragraph 7.2 (which would, in our view, be addressed by implementing CMP201). *(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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard condition C26 (Requirements of a connect and manage connection);* We consider CMP202 to be neutral under Objective (b). *(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.* We believe CMP202 does better facilitate Objective (c). However, the benefit is marginal pending the resolution of the equality of treatment for GB generators (which would, in our view, be addressed by implementing CMP201).

Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.	We concur with the implementation approach set out in Section 6 of the consultation document.
Do you have any other comments?	Nothing further at this time.
Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No.

Specific questions for CMP202

Q	Question	Response
1	**What, if any, do you believe may be the unintended consequences of CMP202 in terms of trading?**	We have not as yet identified any additional unintended consequences over and above those shown in the consultation document.
2	**Are there any further pros and cons that should be highlighted in the assessment?**	We have not as yet identified any additional pros or cons over and above those shown in the consultation document.

Annex 5 – CMP202 Timeline

16 December 2011	Panel to agree progression
10 January 2012	Workgroup meeting
2 February 2012	Second Workgroup meeting (if required)
6 February 2012	Issue draft Workgroup Consultation for Workgroup comment
13 February 2012	Deadline for comments on draft Workgroup Consultation
16 February 2012	Publish Workgroup consultation (for 3 weeks)
8 March 2012	Deadline for responses to Workgroup consultation
W/C 12 March 2012	Post-consultation Workgroup meeting
27 March 2012	Circulate draft Workgroup Report
5 April 2012	Deadline for comment on Workgroup report
19 April 2012	Submit final Workgroup report to Panel Secretary
27 April 2012	Present Workgroup report to CUSC Modifications Panel
8 May 2012	Issue Code Administrator Consultation
29 May 2012	Deadline for responses
21 June 2012	Publish draft final modification report with Panel Papers
29 June 2012	Panel Vote
11 July 2012	Send final report to Ofgem
15 August 2011	Indicative Authority decision date (based on 25 day KPI)

Annex 6 – Draft Legal Text

The following extracts of the text in blue is the proposed additional text for CMP202 and the text to be deleted as part of CMP202 is in red.

14.29.4 All CUSC Parties acting as Generators and Suppliers (for the avoidance of doubt excluding all BMUs and Trading Units associated with Interconnectors) are liable for Balancing Services Use of System charges based on their energy taken from or supplied to the National Grid system in each half-hour Settlement Period.

14.30.2 A customer's charge is based on their proportion of BM Unit Metered Volume for each Settlement Period relative to the total BM Unit Metered Volume for each Settlement Period, adjusted for transmission losses by the application of the relevant Transmission Losses Multiplier.

For all liable importing and exporting BM Units in delivering Trading Units in a Settlement Period:

$$BSUoSTOT_{ij} = \frac{BSUoSTOT_j * QM_{ij} * TLM_{ij}}{\left\{\left|\sum^{+}(QM_{ij} * TLM_{ij})\right| + \left|\sum^{-}(QM_{ij} * TLM_{ij})\right|\right\}}$$

$$BSUoSTOT_{ij} = \frac{BSUoSTOT_j * QM_{ij} * TLM_{ij}}{\left\{\left|\sum^{+}(QMBSUoS_{ij} * TLM_{ij})\right| + \left|\sum^{-}(QMBSUoS_{ij} * TLM_{ij})\right|\right\}}$$

Comment [P1]: Denominator changed to liable BM Units

For all liable importing and exporting BM Units in offtaking Trading Units in a Settlement Period:

$$BSUoSTOT_{ij} = \frac{-1 * BSUoSTOT_j * QM_{ij} * TLM_{ij}}{\left\{\left|\sum^{+}(QM_{ij} * TLM_{ij})\right| + \left|\sum^{-}(QM_{ij} * TLM_{ij})\right|\right\}}$$

$$BSUoSTOT_{ij} = \frac{-1 * BSUoSTOT_j * QM_{ij} * TLM_{ij}}{\left\{\left|\sum^{+}(QMBSUoS_{ij} * TLM_{ij})\right| + \left|\sum^{-}(QMBSUoS_{ij} * TLM_{ij})\right|\right\}}$$

Comment [P2]: Denominator changed to liable BM Units

Where:

$BSUoSTOT_j$	Total BSUoS Charge applicable for Settlement Period j
QM_{ij}	BM Unit Metered Volume **
$QMBSUoS_{ij}$	BSUoS Liable BM Unit Metered Volume
TLM_{ij}	Transmission Loss Multiplier **

$\sum^{+}$ - refers to the sum over all BM Units that are in delivering Trading Units in Settlement Period 'j'

$\sum^{-}$ - refers to the sum over all BM Units that are in offtaking Trading Units in Settlement Period 'j'

'delivering' and 'offtaking' in relation to Trading Units have the meaning set out in the Balancing and Settlement Code (excluding all Interconnector BMUs and Trading Units)

14.30.3 For the avoidance of doubt, BM Units that are registered in Trading Units will be charged on a net Trading Unit basis i.e. if a BM Unit is exporting to the system and is within a Trading Unit that is offtaking from the system then the BM Unit in essence would be paid the BSUoS charge. Conversely, if a BM Unit is importing from the system in a delivering Trading Unit then the BM Unit in essence would pay the BSUoS charge. ~~Note this includes the Interconnector BM Units that belong to the Interconnector Error Administrator~~

Interconnector BM Units

14.30.4 ~~The Lead Party of an Interconnector~~ BM Unit and Trading Units associated with Interconnectors, including those associated with the Interconnector Error Administrator, are not ~~will be~~ liable for BSUoS charges. ~~based on their proportion of the total BM Unit Metered Volume of each Settlement Period adjusted for Transmission Losses by the application of the relevant Transmission Losses Multiplier. Note this includes the Interconnector BM Units that belong to the Interconnector Error Administrator.~~

External BSUoS Charge for each Settlement Period ($BSUoSEXT_{jd}$)

14.30.6 The External BSUoS Charges for each Settlement Period ($BSUoSEXT_{jd}$) are calculated by taking each Settlement Period System Operator BM Cash Flow ($CSOBM_j$) and Balancing Service Variable Contract Cost ($BSCCV_j$) and allocating the daily elements on a MWh basis across each Settlement Period in a day.

$$BSUoSEXT_{jd} = CSOBM_{jd} + BSCCV_{jd} + [\ (IncpayEXT_d + BSCCA_d + ET_d - OM_d)$$
$$* \{\ \left|\sum^{+}(QMBSUoS_{ijd} * TLM_{ijd})\right| + \left|\sum^{-}(QMBSUoS_{ijd} * TLM_{ijd})\right|\ \} /$$
$$\sum_{j \in d} \{\ \left|\sum^{+}(QMBSUoS_{ijd} * TLM_{ijd})\right| + \left|\sum^{-}(QMBSUoS_{ijd} * TLM_{ijd})\right|\ \}\ ]$$

$$BSUoSEXT_{jd} = CSOBM_{jd} + BSCCV_{jd} + [\ (IncpayEXT_{d} + BSCCA_{d} + ET_{d} - OM_{d}) * \{\ \left|\sum^{+}(QMBSUoS_{ijd} * TLM_{ijd})\right| + \left|\sum^{-}(QMBSUoS_{ijd} * TLM_{ijd})\right|\ \} / \sum_{j \in d} \{\ \left|\sum^{+}(QMBSUoS_{ijd} * TLM_{ijd})\right| + \left|\sum^{-}(QMBSUoS_{ijd} * TLM_{ijd})\right|\ \}\ ]$$

Comment [P3]: The second element […] profiles the daily cost across half hours on a volume weighted basis. Interconnector volumes removed from the calculation: QM replaced with QMBSUoS

Internal BSUoS Charge for each Settlement Period (BSUoSINT$_{jd}$)

14.30.14 The Internal BSUoS Charges (BSUoSINT$_{jd}$) for each Settlement Period for a particular day are calculated by taking the incentivised and non-incentivised SO Internal Costs for each Settlement Day allocated on a MWh basis across each Settlement Period in a day.

$$BSUoSINT_{jd} = (CSOC_{d} + IncpayINT_{d} + NC_{d} + IAT_{d} + IONT_{d}) * \{\ \left|\sum^{+}(QMBSUoS_{ijd} * TLM_{ijd})\right| + \left|\sum^{-}(QMBSUoS_{ijd} * TLM_{ijd})\right|\ \} / \sum_{j \in d} \{\ \left|\sum^{+}(QMBSUoS_{ijd} * TLM_{ijd})\right| + \left|\sum^{-}(QMBSUoS_{ijd} * TLM_{ijd})\right|\ \}$$

Comment [P4]: This profiles the daily cost across half hours on a volume weighted basis. Interconnector volumes removed from the calculation: QM replaced with QMBSUoS

$$BSUoSINT_{jd} = (CSOC_{d} + IncpayINT_{d} + NC_{d} + IAT_{d} + IONT_{d}) * \{\ \left|\sum^{+}(QM_{ijd} * TLM_{ijd})\right| + \left|\sum^{-}(QM_{ijd} * TLM_{ijd})\right|\ \} / \sum_{j \in d} \{\ \left|\sum^{+}(QM_{ijd} * TLM_{ijd})\right| + \left|\sum^{-}(QM_{ijd} * TLM_{ijd})\right|\ \}$$

14.31.8 **Balancing Services Use of System Acronym Definitions**

BSUoS Liable BM Unit Metered Volume	QMBSUoS$_{ij}$	MWh	QM$_{ij}$ for all BM Units liable for BSUoS

Annex 7 – BSUoS Impact Analysis on Interconnector Flows

The analysis aims to quantify the impacts of interconnector BSUoS on trade with Europe. As BSUoS is a charge imposed on interconnector users, the premise is that it acts as a barrier to trade which has the potential to affect trade decisions. This analysis looks to calculate the percentage of time that the generators would export or sell their energy domestically based on spot prices and day-ahead prices under the current and proposed arrangements, taking into account the BSUoS charge and also the price of capacity.

Spot Market Price Analysis

Under the current arrangements

The assumption is that the price a generator can receive in the opposing country is reduced by the BSUoS charge and the price of capacity (C).

For example:

- A GB generator will export their power to France when the price in France is greater than GB (GB>Fr)
- However, as the GB generator has to pay the BSUoS charge for using the interconnector and a price for capacity (C), it will reduce the return that they can achieve in France (Fr-BSUoS-C)
- Therefore, a GB generator will only export to France when GB < (Fr-BSUoS-C), otherwise their decision would be to sell their energy domestically.

This principle works the same for a French generator.

A GB generator's decision

- If GB > (Fr-BSUoS-C), the GB generator will sell their power domestically
- If GB < (Fr-BSUoS-C), the GB generator will export their power to France

A French generator's decision

- If Fr > (GB-BSUoS-C), the Fr generator will sell their power domestically
- If Fr < (GB-BSUoS-C), the Fr generator will export their power to France

The results of the analysis are included in the table below:

	Export	Sell Domestically
GB Generator	35%	65%
Fr Generator	54%	46%

The total amount of hours in the year that the interconnector is in use is (total export)

- 35% + 54% = 89%

Under CMP 202

The price that the generator sees in the other country is no longer reduced by the BSUoS charge; however the generator still has to pay for the interconnector capacity.

A GB generator's decision

- If GB > (Fr-C), the GB generator will sell their power domestically
- If GB < (Fr-C), the GB generator will export their power to France

A French generator's decision

- If Fr > (GB-C), the FR generator will sell their power domestically
- If Fr < (GB-C), the FR generator will export their power to GB

The results of the analysis are included in the table below:

	Export	Sell Domestically
GB Generator	39%	61%
Fr Generator	59%	41%

The total amount of hours in the year that the interconnector is in use is:

- 39% + 59% = 98%

Based on spot prices, the interconnector would only be utilised 89% of the time under the current arrangements. However, when BSUoS is removed, the interconnector is in use 98% of the time, therefore BSUoS is a barrier to trade for 9% of the year. A full explanation is included in the summary of results.

Day-ahead Market Price Analysis

Under the current arrangements

The day-ahead prices are split into one baseload price and one peak price for the whole day. The analysis takes into consideration an average baseload spot price and capacity price and an average peak spot price and capacity price for each day. Note, there is only 250 days worth of data for 2010/11 as trading does not appear to occur over weekends.

A GB generator's decision

The price that the GB generator will see in the French market is:

- Fr Baseload Price - Average Baseload BSUoS - Average Baseload Capacity
- (Fr_{BL} - $BSUoS_{BL}$ - C_{BL})
- Fr Peak Price – Average Peak BSUoS – Average Peak Capacity
- (Fr_{PK} - $BSUoS_{PK}$ - C_{PK})

The GB generator will export to FR when:

- $GB_{BL} < Fr_{BL} - BSUoS_{BL} - C_{BL}$
- $GB_{PK} < Fr_{PK} - BSUoS_{PK} - C_{PK}$

A French generator's decision

The price that the Fr generator will see in the GB market is:

- GB Baseload Price - Average Baseload BSUoS - Average Baseload Capacity (GB_{BL} - $BSUoS_{BL}$ - C_{BL})
- GB Peak Price - Average Peak BSUoS - Average Peak Capacity
- (GB_{PK} - $BSUoS_{PK}$ - C_{PK})

The French generator will export to GB when:

- FR_{BL} < (GB_{BL} - $BSUoS_{BL}$ - C_{BL})
- FR_{PK} < (GB_{PK} - $BSUoS_{PK}$ - C_{PK})

The results of the analysis are included in the table below:

	Baseload Prices		Peak Prices	
	Days Exporting	Days Selling Domestically	Days Exporting	Days Selling Domestically
GB Generator	31%	69%	32%	68%
Fr Generator	36%	64%	37%	63%

The total amount of days in the year that the interconnector is in use:

Based on baseload prices:

- 31% + 36% = 67%

Based on peak prices:

- 32% + 37% = 69%

Under CMP 202

The price that the generator sees in the other country is no longer reduced by the BSUoS charge; however the generator still has to pay for the interconnector capacity.

A GB generator's decision

- GB_{BL} > (Fr_{BL}- C_{BL})
- GB_{PK} > (Fr_{PK}- C_{PK})

GB generator will sell energy domestically

- GB_{BL} < (Fr_{BL} - C_{BL})
- GB_{PK} < (Fr_{PK}- C_{PK})

GB generator will export their power to Fr

A French generator's decision

- FrBL > (GBBL- CBL)
- FrPK > (GBPK- CPK)

Fr generator will sell energy domestically

- FrBL < (GBBL- CBL)
- FrPK < (GBPK - CPK)

Fr generator will export their power to FR

The total amount of days in the year that the interconnector is in use:

	Baseload Prices		Peak Prices	
	Days Exporting	Days Selling Domestically	Days Exporting	Days Selling Domestically
GB Generator	42%	58%	44%	56%
Fr Generator	45%	55%	45%	55%

Based on baseload prices:

- 42% + 45% = 87%

Based on peak prices:

- 44% + 45% = 89%

Based on Day-ahead prices, under the current arrangements, the interconnector is in use c.a. 67% of the time. However, once BSUoS is removed from the interconnector, it is utilised c.a. 87%. Therefore, BSUoS, other factors aside, acts to discourage potentially beneficial trades c.a. 20% of the time.

Summary of Results

As the markets do not fully converge, there is always a price differential. Consequently, the interconnector should be in use 100% of the time. However, the price of capacity may restrict trade for a small percent of the time, which is why even under CMP 202, the analysis does not show the interconnector being utilised 100% of the time.

From this analysis, the percentage of time that BSUoS appears to act as a barrier to trade; 9% and 20%, represent times when both generators make the same decision, which is to sell their power domestically. This occurs when the BSUoS is greater than the price differential and therefore reverses the differential for one of the trading parties.

A simple numerical example can demonstrate this:

- GB Spot price £11.00/MWh,
- Fr Spot price £10.00/MWh,
- BSUoS £1.50/MWh
- Capacity £0.50/MWh

In this situation:

- GB generator would choose to sell domestically (GB>Fr-BSUoS-C)
- FR generator would also choose to sell domestically (Fr>GB-BSUoS-C)

Without BSUoS:

- GB generator would make the same decision and sell domestically (GB>Fr-C)
- FR generator would export to GB (GB>Fr-C)

The BSUoS charge has affected the trading decision and prevented the trade between the two markets. Therefore, the removal of BSUoS under the implementation of CMP 202 should mean that the interconnector is used for a greater percentage of the time and potentially more beneficial trades will take place between the markets.

Other supporting analysis

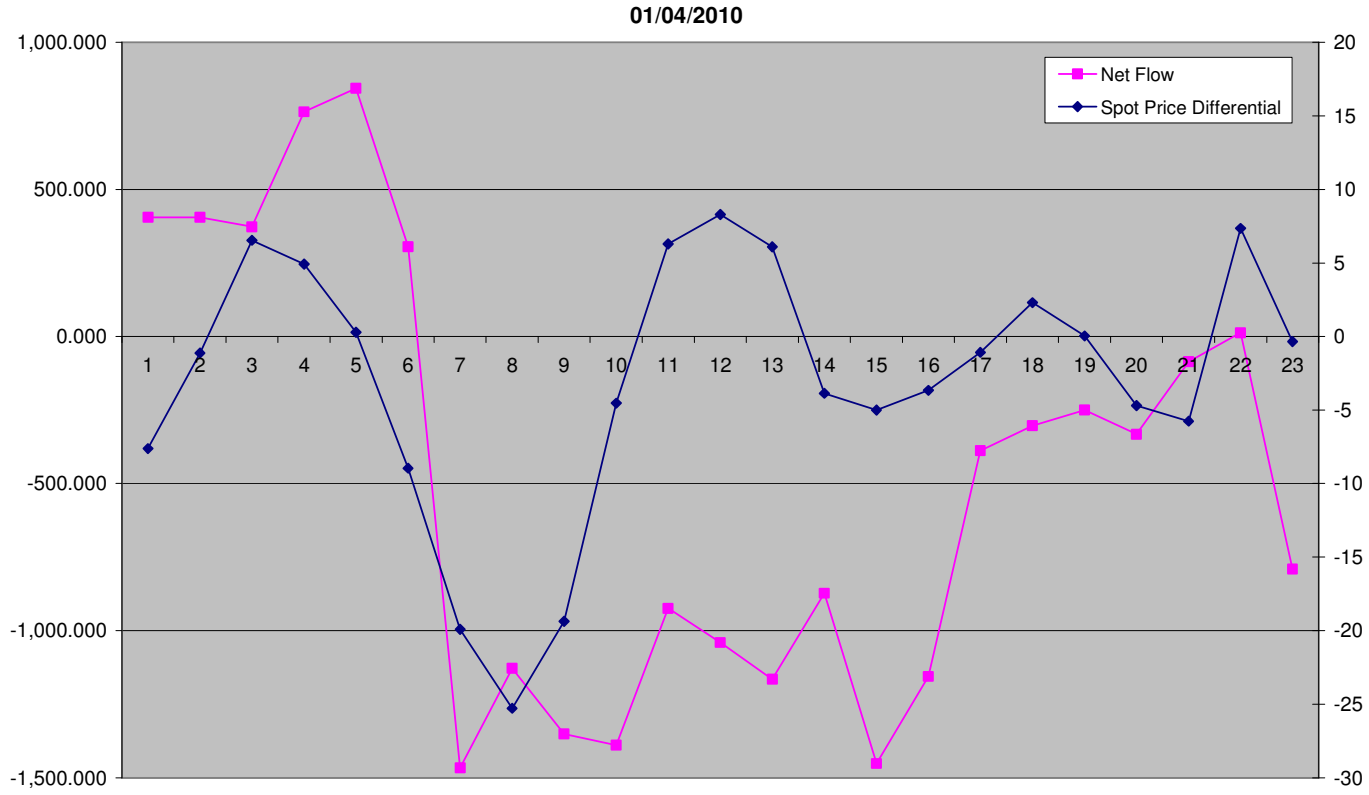
Other analysis was conducted that compared the actual flows on the GB-France (IFA) interconnector with the price differential for the year 2010-11. Based on this historical data, there were trades on the interconnector 99.87% of the time.

The analysis looked at the price differential and the net flow on the interconnector for each half hourly period to calculate the percentage of time that the flow on the interconnector was against the spot price differential.

For example:

- A positive spot price differential implies that GB > Fr
- A positive net flow implies that the flow is into GB (GB Import)
- Therefore a positive spot price differential should be matched with a positive net flow

The graph below shows the net flow and spot price differential for 1st April 2010. The net flow and the price differential should follow the same trend (i.e. both positive or both negative) to allow the trader to maximise the arbitrage opportunity. As demonstrated, there are times when the net flow is counter to the price differential, particularly periods 11-13 and 18.



The analysis concluded that for 32% of the time, the flow on the interconnector was in the direction against the spot price differential.

We understand however, that much of the current trading on the IFA link is performed day-ahead or earlier and thus other factors, such as liquidity in the markets, may have an effect on the potential benefits outlined in this analysis.