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Date: 22 May 2020

Dear Trisha,

**Decision on CUSC Modification Panel's recommendation for CMP345 'Defer the additional Covid-19 BSUoS costs' to be treated as an Urgent CUSC Modification Proposal**

On 19 May 2020, SSE Generation (the 'Proposer') raised Connection and Use of System Code (CUSC) Modification Proposal CMP345. This proposal seeks to defer payment of increased summer BSUoS charges, associated with COVID-19, until the next charging year. The Proposer requested that CMP345 be treated as an Urgent CUSC Modification Proposal.

The CUSC Modifications Panel (the 'Panel') considered the Proposer's urgency request at its meeting on 20 May 2020. On the same day, the Panel wrote to inform us of its unanimous view that CMP345 should be treated as urgent because there could be a significant commercial impact on parties, consumers or other stakeholder(s) if the proposal is not treated as urgent.

We have considered both the Panel's and the Proposer's arguments. We have decided that CMP345 **should be progressed on an urgent basis**. We have set out our reasoning below.

## Background

Balancing Services Use of System (BSUoS) charges are the means by which National Grid Electricity System Operator (NGESO) recovers the costs associated with balancing the electricity transmission system. BSUoS charges are recovered from demand customers and generators based on the amount of energy imported or exported onto the network (£/MWh) within each half-hour period. The value varies in each half-hourly settlement period reflecting the different costs incurred by NGESO in each period.

NGESO issues monthly forecasts of BSUoS costs to give an indication of future BSUoS charges.<sup>1</sup> In May, it published an updated forecast showing an increase in balancing costs from May to August 2020, compared to previous forecasts.

## The proposal

The Proposer identified a significant increase in the BSUoS forecast during May to August 2020, versus 2019 costs, as an estimate of the increased system management costs

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<sup>1</sup> <https://data.nationalgrideso.com/balancing/bsuos-monthly-forecast?from=0#resources>

associated with COVID-19. The proposal states that these costs should be deferred until 2021/22, to be paid on an equal basis across all half-hour periods in 2021/22.

In its urgency request, the Proposer explained why it was requesting urgency, highlighting two of the three urgency criteria:

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

For criterion (a), the Proposer considers that the 'significant commercial impact' arises for both suppliers and generators as they could not have forecasted or expected such surges in BSUoS over such a sustained period. The proposal states that, under the status quo arrangements those parties who pay BSUoS for the most part will be unable to recover the amount concerned via retail tariff changes (for suppliers) or via wholesale price increases (for generators).

For criterion (b), the Proposer considers that the 'significant impact on the safety and security' of electricity arises, in particular for generators in GB, as they are faced with additional costs which they are unable to fully recover in the wholesale market given forward trading timescales. The Proposer adds that this could threaten the commercial viability of some of those generators who could cease operating, which could affect the security of the electricity system.

## **Panel discussion**

The Panel considered the request for urgency by reference to Ofgem's Guidance on Code Modification Urgency Criteria.<sup>2</sup> The Panel's unanimous view was that CMP345 does meet these criteria and should be treated as Urgent CUSC Modification Proposals.

The unanimous view of the Panel was that there could be a significant commercial impact on parties, consumers or other stakeholder(s) if CMP345 is not treated as urgent, citing unprecedented increase in BSUoS for suppliers and generators alike that has been caused by COVID-19.

The Panel recognised there may be alternative solutions to address the defect and agreed a timeline that sought to balance the need for speed and sufficient industry scrutiny.

## **Our views**

We have considered the proposal and the Panel's views on urgency. We have assessed the request against the urgency criteria set out in our published guidance<sup>3</sup>, and in particular, whether the proposal is linked to an imminent issue or a current issue that, if not urgently addressed, may cause a significant commercial impact on parties, consumers or other stakeholder(s). For the avoidance of doubt, our decision regarding this criterion has no bearing on our final decision on whether to accept industry's final proposal.

We have also considered this modification in the context of our enabling framework for regulatory flexibility during COVID-19, as set out in open letters issued recently to energy network<sup>4</sup> and retail energy supply<sup>5</sup> companies. In those letters, and other COVID-19 engagement with industry as a whole, we have encouraged parties to identify early, and appropriately mitigate, the impacts of COVID-19 to ensure consumers – especially the vulnerable – are protected from immediate harm, security of supply is maintained, and the health and safety of workers and consumers is maintained.

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

<sup>3</sup> <https://www.ofgem.gov.uk/ofgem-publications/61726/ofgem-guidance-code-modification-urgency-criteria.pdf>

<sup>4</sup> [https://www.ofgem.gov.uk/system/files/docs/2020/04/networks\\_letter\\_0.pdf](https://www.ofgem.gov.uk/system/files/docs/2020/04/networks_letter_0.pdf)

<sup>5</sup> [https://www.ofgem.gov.uk/system/files/docs/2020/04/supplier\\_letter.pdf](https://www.ofgem.gov.uk/system/files/docs/2020/04/supplier_letter.pdf)

We are satisfied that the progression of this modification proposal is related to “a current issue that if not urgently addressed may cause a significant commercial impact on parties, consumers, or other stakeholders(s)”, noting that the actual extent of that impact is still uncertain. We have therefore agreed that the modification should follow the urgent timetable as set out in the Panel’s letter.

We recognise that, if the modification is to go ahead under the structure in the original proposal, it must fit into the existing timing of June BSUOS invoicing. In light of this, we consider that the urgent timeline is reasonable.

In communications regarding the potential terms of reference for the workgroup we noted one suggestion that the workgroup “assess the impact of the change on consumers, suppliers, generators and ESO both during COVID and in the repayment period, taking account of whole market impacts (including wholesale market prices, credit effects and ancillary services income”. We also note that, whilst the increase in the forecast is significant, we do not necessarily agree that the entire forecast increase in BSUOS over historic levels is unprecedented, or unexpected, based on previously-published information and public statements from NGENSO.

We will evaluate this modification on a holistic basis, taking into account our understanding of the potential impact on consumers, as well as different categories of market participants. This will likely form an important part of our assessment of the modification against (i) the relevant Code Objectives and (ii) our Principal Objective of protecting the interests of existing and future energy consumers.

For the avoidance of doubt, in granting this request for urgency, we have made no assessment of the merits of the proposal and nothing in this letter in any way fetters our discretion in respect of this proposal.

Yours sincerely,

**Andrew Self**

**Deputy Director, Electricity Access and Charging**

Signed on behalf of the Authority and authorised for that purpose