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Dear Trisha,

CMP350 'Changes to the BSUoS Covid Support Scheme' – decision on urgency

On 15 July 2020, British Gas (the 'Proposer') raised Connection and Use of System Code (CUSC) Modification Proposal CMP350.¹ This proposal seeks to make changes to the deferral of some BSUoS costs, which was introduced through CMP345.² The Proposer requested that CMP350 be treated as an Urgent CUSC Modification Proposal.

The CUSC Modifications Panel (the 'Panel') considered the Proposer's urgency request at meetings on 16 and 17 July 2020. The Panel agreed by majority (by 5 votes to 4) that CMP350 does not meet the Code Modification Urgency Criteria criteria and so CMP350 should not be treated as an Urgent CUSC Modification Proposal.

We have considered both the Panel's and the Proposer's arguments and have decided that CMP350 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

¹ <https://www.nationalgrideso.com/industry-information/codes/connection-and-use-system-code-cusc-old/modifications/changes-bsuos>

² <https://www.nationalgrideso.com/document/171941/download>

large 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 NGENSO in each period.

Reduced demand associated with COVID-19 has led to increases in the cost of balancing the electricity transmission system, and higher forecast costs over the rest of this summer. On 23 June 2020, we approved Workgroup Alternative CUSC Modification 2 of CMP345, which applied a cap of £15/MWh to supplier and generator BSUoS charges until 31 August 2020. The deferred charges from the application of this cap will be recovered in 2021/22, through an increase in BSUoS charges in all periods.

The proposal

The Proposer argues that the CMP345 solution fails to consider the impact of Covid on the frequency of generally high BSUoS rates across a broad range of BSUoS charge levels. They believe a cap of £5/MWh provides a necessary and more appropriate level of protection for market participants.

In its urgency request, the Proposer explained why it was requesting urgency, highlighting one of the three urgency criteria: (a) a significant commercial impact on parties, consumers or other stakeholders. The Proposer considers that the 'significant commercial impact' arises for both Suppliers and Generators as they could not have forecasted or expected the level of BSUoS charges that have occurred in summer 2020.

The proposal states that, under the status quo arrangements, those parties who pay BSUoS will, for the most part, be unable to recover the amount concerned via retail tariff changes (for Suppliers) or via wholesale price increases (for Generators) and that these parties face a significant commercial impact from this current issue. Whilst CMP345 offers protection against instances of exceptionally-high BSUoS charge periods, market participants remain exposed to a general uplift in BSUoS charges.

Panel discussion

The Panel considered the request for urgency by reference to Ofgem's Guidance on Code Modification Urgency Criteria.³ The Panel did not recommend urgency, by a vote of 5-4. The Panel Members who opposed urgency highlighted that there is overlap between the proposal and CMP345 and some believe that the associated commercial impacts have been mitigated by the CMP345 decision. The full arguments for and against urgent treatment are set out in the letter from the panel.⁴

³ https://www.ofgem.gov.uk/system/files/docs/2016/02/urgency_criteria.pdf

⁴ <https://www.nationalgrideso.com/document/173171/download>

Although the majority of Panel decided to not recommend urgency, they agreed an appropriate urgent timetable for CMP350. 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

In reaching our decision on the urgency of the Modification Proposal we have considered the Proposal and the Panel's views on urgency. We have also assessed the request against the urgency criteria set out in our published guidance.⁵

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)". We have therefore agreed that the modification should follow the urgent timetable set out in the Panel's letter.

We agree with a point raised at Panel, that CMP345 has gone some way towards mitigating the immediate commercial impact of exceptionally-high BSUoS charge periods. However we also accept that market participants remain exposed to a general uplift in BSUoS charges.

Given the common scope between the CMP350 proposal and CMP345, we would be interested in evidence to support a new assessment. We would also like to highlight some key aspects of our decision on CMP345, for the benefit of the workgroup:

- There is a limit to the amount of additional liquidity that can be provided by NGESO under current arrangements and we have a duty to have regard to financeability of the regulated companies; and
- We can only consider proposals that can be feasibly implemented in the time required for them to be effective, taking into account the systems and processes used for BSUoS charging. We expect the relevant parties to be transparent about challenges with implementing solutions under CMP350 and encourage an open dialogue with the workgroup so that proposers have the opportunity to adjust their approach if necessary.

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

⁵ <https://www.ofgem.gov.uk/ofgem-publications/61726/ofgem-guidance-code-modification-urgency-criteria.pdf>

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,

Eleanor Wood

Head of Electricity Network Charging

Duly authorised on behalf of the Authority