

<b>CUSC Modification Proposal Form</b>	At what stage is this document in the process?
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# CMP308:

## Removal of BSUoS charges from Generation

01	Proposal Form
02	Workgroup Consultation
03	Workgroup Report
04	Code Administrator Consultation
05	Draft CUSC Modification Report
06	Final CUSC Modification Report

**Purpose of Modification:**

This proposal seeks to modify the CUSC to better align GB market arrangements with those prevalent within other EU member states. This will deliver more effective competition and trade across the EU and so deliver benefits to all end consumers.

It is proposed that liability to pay Balancing Services Use of System (BSUoS) charges, which are currently charged to all liable CUSC parties on a non-locational MWh basis, is removed from GB Generators. This will effectively better align the GB ‘generation cost stack’ with those in other EU markets where generators do not pay the equivalent of BSUoS charges, thus better facilitating competition between GB generators and generation in those markets which are not subject to such charges.

There should be no adverse effects for GB end consumers, subject to implementation taking account of existing contractual commitments. Aligning the GB market arrangements with our European trading partners and other interconnected countries better facilitates an efficient functioning internal market in electricity. To that end, GB consumers will benefit from more competitive arrangements delivered through a wider fully functioning competitive market in generation.

Whilst the EU Third Package arrangements recognise that different types of market organisation will exist within the wider internal market in electricity, they also acknowledge the need to reduce market distortions to deliver the full benefits of a competitive internal market in electricity.

This is critical in the context of growth in GB interconnection capacity which is set to significantly increase (4GW today, 8GW by 2021 and, with Ofgem’s approved pipeline, potentially up to 18GW by the early 2020s), which represents almost a third of peak GB demand.

	<p><b>The Proposer recommends that this modification should be:</b></p> <ul style="list-style-type: none"> <li>assessed by a Workgroup</li> </ul> <p>This modification was raised on 12 October 2018 and will be presented by the Proposer to the Panel on <i>dd month year (Code Administrator to provide date)</i>. The Panel will consider the Proposer’s recommendation and determine the appropriate route.</p>
	<p><b>High Impact:</b></p> <p>Our estimate is that GB generation was disadvantaged, compared to our European trading partners and other interconnected countries, by an extra cost of approximately £600m in 2017.</p> <p>GB interconnection growth is set to significantly increase from 4GW today to 8GW by 2021 and, with Ofgem’s approved pipeline, up to 18GW by the early 2020s.</p> <p>In the long run removal of a distortion in the wholesale market will ensure more effective competition which is in consumers’ interests: i.e. will ensure dispatch and investment in new generation is more efficient.</p>
	<p><b>Medium Impact:</b></p> <p>As a result of CMP202, the G:D split in terms of the total BSUoS payments made by generation versus those made by demand in 2017 was around 49:51 and is expected to be 47:53 by 2020.</p> <p>This reduces the cost increase for suppliers to a value that is roughly equal to the reduction in GB wholesale prices.</p> <p>With sufficient lead time for implementation, our modelling indicates that that the consumer impacts in the short-term are neutral.</p>
	<p><b>Low Impact:</b></p>

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<b>Timetable</b>		 <b>07814 792971</b>
<i>The Code Administrator will update the timetable after CUSC Panel.</i>		
<b>The Code Administrator recommends the following timetable: (</b>		
Initial consideration by Workgroup	dd month year	
Workgroup Consultation issued to the Industry	dd month year	
Modification concluded by Workgroup	dd month year	
Workgroup Report presented to Panel	dd month year	
Code Administration Consultation Report issued to the Industry	dd month year	
Draft Final Modification Report presented to Panel	dd month year	
Modification Panel decision	dd month year	
Final Modification Report issued the Authority	dd month year	
Decision implemented in CUSC	dd month year	

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

**Proposer Details**

<b>Details of Proposer:</b> (Organisation Name)	EDF Energy
Capacity in which the CUSC Modification Proposal is being proposed: (i.e. CUSC Party, BSC Party or "National Consumer Council")	CUSC Party
<b>Details of Proposer's Representative:</b> Name: Organisation: Telephone Number: Email Address:	Simon Vicary EDF Energy 07875 110961 simon.vicary@edfenergy.com
<b>Details of Representative's Alternate:</b> Name: Organisation: Telephone Number: Email Address:	Paul Mott EDF Energy  paul.mott@edfenergy.com
<b>Attachments (No):</b> n/a	
<b>If Yes, Title and No. of pages of each Attachment:</b>	

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

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

(Please specify)

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

## 1 Summary

### Defect

In our European trading partners and other interconnected countries, the equivalent charges for balancing activities are more commonly charged entirely on demand.

As a result, the wholesale prices offered by generators in interconnected countries will not reflect these costs in the same way as those offered by a GB generator. Our estimate is that GB generation was disadvantaged by the extra cost by approximately £600m in 2017.

### What

Better aligning the GB market arrangements and the charges faced by GB generation with those prevalent in other interconnected countries, where generation is typically not subject to such charges, would allow GB and continental generation to compete on a more equitable basis and would remove the potential for BSUoS to distort cross border trade.

Ofgem broadly supported a similar proposal (CMP201) in 2014 but considered the short-term consumer negative impact outweighed the longer-term benefits:

*“We consider that in principle, removing BSUoS from generators would have a small positive impact on competition. However, we are concerned that at this time the potential benefits this would bring would not be material enough to offset the potential costs to consumers from implementing the modification”* – from Ofgem’s CMP201 decision document, October 2014.

However, NGET’s calculations, on which Ofgem’s decision was based, were that CMP201 would be detrimental to consumers in the short term. This did not take into account the impact of CMP202 (Revised treatment of BSUoS charges for lead parties of Interconnector BM Units), so:

- CMP201 modelling (for status quo) assumed BSUoS was split 50:50 between demand and generation.
- As a result of CMP202 the G:D split for BSUoS charging in 2017 was around 49:51 and is expected to be 47:53 by 2020.
- This reduces the cost increase for suppliers to a value that is roughly equal to the reduction in GB wholesale prices.

### Why

The proposal supports the UK Industrial Strategy for building a nation fit for the future with investment in skills, industries and infrastructure.

The EU “Third Package” aims to deliver all consumers greater choice with more cross-border trade to achieve efficiency gains, competitive prices and security of supply. It recognises that different market structures will exist; however, it also acknowledges the

need for fair competition across the European Community so as to provide producers with the appropriate incentives for dispatching and investing in new generation.

Changing the GB arrangements as proposed thus facilitates the aims outlined in EU Directive 2009/72/EC concerning rules for the internal market in electricity.

With sufficient lead time for implementation, our modelling indicates that the consumer impacts in the short-term are neutral.

In the long run removal of a distortion in the wholesale market would ensure more effective competition which is in consumers' interests: i.e. it would ensure dispatch and investment in new generation is more efficient.

## How

It is proposed that Balancing Services Use of System (BSUoS) charges, which are currently charged to all liable CUSC parties on a non-locational £/MWh basis, are removed from GB Generators. This will effectively align this part of the cost base that lies behind the GB 'generation cost stack' with that of generators in other EU markets, thus facilitating more equitable competition with generation in other markets which are not subject to such charges.

## 2 Governance

### Justification for Normal Procedures

The modification has a material effect, which is beneficial, improving competition, and does not qualify for self-governance as it is not restricted to rectification of internal code inconsistencies, the correction of typographical errors in the CUSC, or merely adding detail to existing processes or code arrangements.

It is likely that the modification will be of interest to a range of CUSC parties and that they will wish to understand, scrutinise and discuss it at a workgroup.

### Requested Next Steps

This modification should be assessed by a Workgroup

## 3 Why Change?

Better aligning the GB market arrangements and the charges faced by GB generation with those prevalent in other interconnected countries, where generation is typically not subject to such charges, helps to address inconsistencies in the generation cost stack and removes the potential for BSUoS to distort cross border trade.

The growth in interconnector capacity that adds to the need for this modification is ongoing but does not comprise such an imminent event that formal urgency is requested. However, the benefits to competition, and the identified adverse effect of the status quo on generators as a class, are so great that we believe the mod deserves some priority amongst live modification proposals. This is important to allow it to be processed in parallel with the National Grid ESO review of BSUoS which has already started, as envisaged under Ofgem's review of access and forward-looking charges, as there could be interactions.

The proposed CUSC mod better facilitates code objectives (a) effective competition, (c) developments in transmission business, (d) EU compliance and (e) promoting efficiency. It is neutral on (b) cost reflectivity

## 4 Code Specific Matters

### Technical Skillsets

A good understanding of BSUoS and its existing recovery basis will help.

### Reference Documents

The workgroup will no doubt familiarise itself with the CMP201 Final Modification Report and the decision document, a citation from which is included in this modification proposal form.

## 5 Solution

This proposal seeks to modify the CUSC to align GB market arrangements with those prevalent within other EU member states. This will deliver more effective competition and trade across the EU and so deliver benefits to all end consumers.

It is proposed that Balancing Services Use of System (BSUoS) charges, which are currently charged to all liable CUSC parties on a non-locational MWh basis, are removed from GB Generators. This will effectively better align the GB 'generation cost stack' with those in other EU markets, thus facilitating more equitable competition with generation in those markets which are not subject to such charges.

## 6 Impacts & Other Considerations

In the FMR (Final Modification Report) for CMP201, a very similar proposal, National Grid indicated that there would be an impact on central IS systems to adjust revenue recovery to demand parties. They stated that this impact is likely to be relatively minor (less than £100k) and would not comprise a "critical path" item for implementation (assuming a minimum two year lead time for contractual reasons).

Also, in the CMP201 FMR no significant IS issues for Users were identified as part of the Workgroup consultation.

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

No

## Consumer Impacts

With sufficient lead time for implementation, our modelling indicates that the consumer impacts in the short-term are likely to be neutral.

In the long run removal of the identified distortion in the wholesale market would ensure more effective competition which is in consumers' interests: i.e. will ensure dispatch and investment in new generation is more efficient.

- Demand BSUoS will be less than double of current BSUoS £/MWh rates as interconnector flows to GB do not pay BSUoS (i.e. split of BSUoS between demand and generation is not currently 50:50), i.e. consumers neutral short term.
- Sufficient lead time of 2 years after a decision is made to ensure:
  - wholesale market adjusts to the removal of BSUoS from generation
  - time for consumers and suppliers to adjust for change.
- Benefit of avoiding the need to factor BSUoS risk into generation/wholesale market costs, instead being covered within more predictable demand volumes.

## 7 Relevant Objectives

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

Relevant Objective	Identified impact
(a) That compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity;	<p>Positive</p> <p>Better aligning the GB market arrangements and the charges faced by GB generation with those prevalent in other interconnected countries, where generation is typically not subject to such charges, allows GB and continental generation to compete on a more equitable basis and removes the potential for BSUoS to distort cross border trade.</p>
(b) That compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard licence condition C26 requirements of a connect and manage connection);	<p>None</p> <p>However, note a beneficial effect in cost allocation: total BSUoS charges will still recover the same underlying costs, but will do so in a way that does not distort competition, by better taking account of cost recovery practice in relation to these costs in the rest of Europe (where generators do not pay), thus ensuring that generation in GB has a comparable cost base in this respect, to that in the EU.</p>
(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;	<p>Positive</p> <p>The growth in interconnectors, which are licensed, is a strong driver of the need to update the arrangements. Interconnectors are treated as transmission for the purpose of the Third Package; an interconnector licence can thus be viewed as a form of transmission licence.</p>

<p>(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency. These are defined within the National Grid Electricity Transmission plc Licence under Standard Condition C10, paragraph 1 *; and</p>	<p>Positive.</p> <p>Whilst the EU Third Package arrangements recognise that different types of market organisation will exist within the wider internal market in electricity, they also acknowledge the need to reduce market distortions to deliver the full benefits of a competitive internal market in electricity.</p> <p>This change is critical in the context of GB interconnection growth which is set to significantly increase (4GW today, 8GW by 2021 and, with Ofgem’s approved pipeline, potentially up to 18GW by early 2020s) which represents almost a third of GB peak demand.</p>
<p>(e) Promoting efficiency in the implementation and administration of the CUSC arrangements.</p>	<p>Positive.</p> <p>This change will simplify the charging and billing arrangements, thus simplifying administration. In the short term there should be no adverse effects for GB end consumers, subject to implementation taking account of existing contractual commitments. In the longer term, aligning the GB market arrangements with our European trading partners and other interconnected countries, will better facilitate an efficient functioning internal market in electricity. GB consumers will then benefit from more competitive arrangements delivered through a wider fully-functioning competitive market in generation.</p>
<p>*Objective (d) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).</p>	

Additional commentary:

Better aligning the GB market arrangements and the charges faced by GB generation with those prevalent in other interconnected countries, where generation is typically not subject to such charges, would allow GB and continental generation to compete on a

more equitable basis and would remove the potential for BSUoS to distort cross border trade.

With sufficient lead time for implementation, our modelling indicates that the consumer impacts in the short-term would be neutral.

In the longer term, removal of a distortion in the wholesale market will ensure more effective competition which is in consumers' interests: i.e. it will ensure investment in new generation is more efficient.

## 8 Implementation

There should be sufficient lead time after a decision is made to ensure:

- wholesale market adjusts to the removal of BSUoS from generation
- time for the ESO, consumers and suppliers to adjust for change.

We consider that implementation 2 years after a decision is made, would be appropriate.

## 9 Legal Text

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 flows of energy of BSUoS-Liable BM Units in each half-hour Settlement Period, where BSUoS Liable BM Units are BM Units in offtaking Trading Units in that half-hour, excluding BM Units relating to Interconnectors. .

14.30.2 A customer’s charge is based on its proportion of BM Unit Metered Volume adjusted for transmission losses by the application of the relevant Transmission Losses Multiplier for its BSUoS Liable BM Unit in each Settlement Period relative to the total BM Unit Metered Volume adjusted for Transmission Losses for all BSUoS Liable BM Units for each Settlement Period ~~For all liable importing and exporting BM Units in delivering Trading Units in a Settlement Period:~~

$$BSUoS_{TOT_{ij}} = \frac{BSUoS_{TOT_{ij}} * Q_{MBSUoS_{ij}} * TLM_{ij}}{\{[\sum^+ (Q_{MBSUoS_{ij}} * TLM_{ij})] + [\sum^- (Q_{MBSUoS_{ij}} * TLM_{ij})]\}}$$

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

$$BSUoS_{TOT_{ij}} = \frac{-1 * BSUoS_{TOT_{ij}} * Q_{MBSUoS_{ij}} * TLM_{ij}}{\{[\sum^+ (Q_{MBSUoS_{ij}} * TLM_{ij})] + [\sum^- (Q_{MBSUoS_{ij}} * TLM_{ij})]\}}$$

Where:

- BSUoS<sub>TOT<sub>j</sub></sub> Total BSUoS Charge applicable for Settlement Period j
- Q<sub>MBSUoS<sub>ij</sub></sub> BM Unit Metered Volume (Q<sub>Mij</sub>)\*\* for BSUoS Liable BM Units
- TLM<sub>ij</sub> Transmission Loss Multiplier

∑<sup>-</sup> - 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 has** the meaning set out in the Balancing and Settlement Code (excluding all Interconnector BMUs and Trading Units)

### Text Commentary

The proposed changes to the Section 14 legal text are to remove the obligation for BM units in delivering Trading Units to pay BSUoS and adjust the formula to recover BSUoS only from offtaking Trading Units (excluding Interconnector BM Units).

## 10 Recommendations

### Proposer's Recommendation to Panel

Panel is asked to refer this proposal to a Workgroup for assessment.

As this issue has significant materiality, which is increasing and has significant benefits, the Panel is asked to grant this proposal some priority against other CUSC modification proposals. This is will allow it to be processed in parallel with the National Grid ESO's on-going review of BSUoS, as envisaged under Ofgem's review of access and forward-looking charges,