CUSC Modification Proposal Form (for Charging Methodology Proposals) CMP250

nationalgrid

Connection and Use of System Code (CUSC)

Title of the CUSC Modification Proposal

Stabilising BSUoS with at least a twelve month notification period

Submission Date

19/08/15

Description of the Issue or Defect that the CUSC Modification Proposal seeks to address

Balancing Service Use of System (BSUoS) Charges are the means by which the System Operator (SO) recovers the costs associated with balancing the transmission system. BSUoS charges are levied on both generation and demand on a 50:50 split basis. The value of BSUoS varies in each half hour settlement period reflecting the different costs incurred by the SO in each period.

Generators seek to recover the cost of BSUoS from prices available in the wholesale market. In effect the cost of BSUoS is one component of a generator's Short Run Marginal Cost (SRMC). Unfortunately, the cost of BSUoS is only known ex-post once values are published by the SO, so a generator can only estimate the cost of BSUoS. This has not been particularly problematic in the past as the cost of BSUoS was relatively stable. However, with a fast evolving generation mix, specifically the rapid increase in intermittent renewable generation, the costs of balancing the system are increasing and becoming much more volatile between settlement periods. This impact will persist and intensify with the drive to meet government environmental targets.

The lack of certainty ahead of time and increasing volatility is making it increasingly difficult for generators to estimate the cost of BSUoS. This unpredictability leads to two clear problems:

1. If the generator underestimates the cost of BSUoS there is a risk that the generator could sell power at a loss.
2. If the generator overestimates the cost of BSUoS it could result in the generator pricing itself out of the wholesale market.

Ultimately, increased volatility and unpredictability ahead of time can result in increasing risk premiums being applied by generators to their power and ancillary service sales. Where this is uniformly applied, it will result in an increased cost to the consumer.

Suppliers (and some generators) commit to power sales seasons in advance to match the length of customer contracts. Suppliers need to estimate the cost of BSUoS over the length of the customer contract. Suppliers may add a risk premium to their estimate of BSUoS, as underestimating BSUoS could result in loss making contracts owing to current low profit margins prevalent in the market. However, overestimating BSUoS could make a supplier

uncompetitive in the retail market and thus damage its competitive position, reducing profitability. Again, where risk premiums are applied uniformly in the retail market, the cost will ultimately be borne by the end consumer.

The defect this modification seeks to address is that industry parties have no real certainty of their BSUoS costs when forward contracting their power. This is directly caused by the current BSUoS charging methodology that produces a highly volatile and unpredictable cost. This modification allows parties to know ahead of time what their BSUoS charge will be, and to reallocate this risk from those parties that are poorly placed to manage the risk, in particular smaller market participants, to a party that is better suited to deal with it thereby better facilitating Applicable CUSC Charging Objective (a). Consequently, the total risk premium, and therefore total cost of BSUoS recovered from end consumers, will decrease, thereby increasing competition throughout the industry and benefiting consumers through lower costs and increased certainty surrounding their energy bills.

Description of the CUSC Modification Proposal

The best way to reduce the risk premia applied by market participants is to eliminate BSUoS volatility and unpredictability. We initially propose this be achieved by fixing the value of BSUoS over the course of a season (April – September, October – March). The length of the fix (initially suggested as a season) and the profile of how this is set is open to discussion by the workgroup. A notification period of at least 12 months ahead of the charging season should be introduced. A Working Group should evaluate the optimum notification period. The within season risk of over and under recovery of BSUoS revenues will be borne by the SO. This risk could be outsourced to a party with a large credit portfolio to appropriately manage the risk (e.g. a financial institution). The proposal transfers the forecasting risk from suppliers and generators to the SO. We consider this to be appropriate as the risk will be better managed by a regulated business with a better credit rating and lower cost of capital to fund. Further, the SO are already well placed to handle this responsibility as they have the resources and experience surrounding BSUoS and will be able to calculate and communicate the over/under recoveries to the rest of the industry.

BSUoS under/over recoveries would be redistributed through a higher/lower charge respectively in a charging season 12 months, or the length of the notification period, after the initial under/over recovery. For example, an under recovery in summer of the 15/16 charging year could be reflected in a higher BSUoS charge winter of the 16/17 charging year. The exact under/over arrangements should be determined by the Working Group.

Further, the current half hourly settlement of BSUoS should still be published in the spirit of openness and transparency. The publication of the cost of half hourly periods would allow the industry to better predict future BSUoS costs and allows for better transparency as to what has transpired.

Impact on the CUSC

Changes to section 14.

Do you believe the CUSC Modification Proposal will have a material impact on Greenhouse Gas Emissions? Yes / No

No

Impact on Core Industry Documentation. Please tick the relevant boxes and provide any supporting information

BSC ☐

Grid Code ☐

STC ☐

Other ☒

BSIS

It is possible that Ofgem may review some of the parameters in the RIIO-T1 price control to ensure that the SO can efficiently finance them given the need to stabilise revenues collected by BSUoS at least 12 months ahead. This may result in a need to change the Transmission Licence (subject to consultation).

A specific BSUoS incentive scheme (which may include an incentive to minimise BSUoS over/under recovery) may be necessary. A possible impact on SO incentive scheme may also need to be considered.

Documentation relating to BSUoS forecasting will need to be updated – potentially supplementing the CMP208 solution.

Urgency Recommended: Yes / No

No

Justification for Urgency Recommendation

N/A

Self-Governance Recommended: Yes / No

No

Justification for Self-Governance Recommendation

N/A

Should this CUSC Modification Proposal be considered exempt from any ongoing Significant Code Reviews?

No

Impact on Computer Systems and Processes used by CUSC Parties:

There will be an impact on computer systems used by CUSC parties and possibly a large impact to the SO's computer systems.

Details of any Related Modification to Other Industry Codes

N/A

Justification for CUSC Modification Proposal with Reference to Applicable CUSC Objectives for Charging:

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.

☐ (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.

Objective (c) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).

Full justification:

Both suppliers and generators often sell power months or years ahead meaning a volatile and unpredictable BSUoS charge creates a financial risk which is ultimately passed onto the consumer. Fixing the BSUoS charge ahead of time and moving the risk onto a party that is more financially capable of dealing with it means suppliers and generators will be able to price their power more competitively, thereby better facilitating Applicable CUSC Objectives (charging) (a). Further, reducing the risk will facilitate market entry thereby further increasing competition.

Additional details

Details of Proposer: (Organisation Name)	Drax Power Limited
Capacity in which the CUSC Modification Proposal is being proposed: (i.e. CUSC Party, BSC Party or "National Consumer Council")	CUSC Party
Details of Proposer's Representative: Name: Organisation: Telephone Number: Email Address:	 Cem Suleyman Drax Power Limited 01757 612338 cem.suleyman@drax.com
Details of Representative's Alternate: Name: Organisation: Telephone Number: Email Address:	 Joseph Underwood Drax Power Limited 01757 612736 joseph.underwood@drax.com
Attachments (Yes/No): No. **If Yes, Title and No. of pages of each Attachment:**	

Contact Us

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

Phone: 01926 653606

For examples of recent CUSC Modifications Proposals that have been raised please visit the National Grid Website at http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/Current/

Submitting the Proposal

Once you have completed this form, please return to the Panel Secretary, either by email to jade.clarke@nationalgrid.com copied to cusc.team@nationalgrid.com, or by post to:

Jade Clarke
CUSC Modifications Panel Secretary, TNS
National Grid Electricity Transmission plc
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

If no more information is required, we will contact you with a Modification Proposal number and the date the Proposal will be considered by the Panel. If, in the opinion of the Panel Secretary, the form fails to provide the information required in the CUSC, the Proposal can be rejected. You will be informed of the rejection and the Panel will discuss the issue at the next meeting. The Panel can reverse the Panel Secretary's decision and if this happens the Panel Secretary will inform you.