nationalgrid

Stage 03: Workgroup Report

Connection and Use of System Code (CUSC)

CMP267

'Defer the recovery of BSUoS costs, after they have exceeded £30m, arising from any Income Adjusting Events raised in a given charging year, over the subsequent two charging years'

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

CMP267 aims to defer any unforeseen increases in BSUoS cost arising from an Income Adjusting Event (IAE) by two years when those unforeseen costs exceeds £30m in a charging year.

This document contains the discussion of the Workgroup which formed in August 2016 to develop and assess the proposal.

Published on: **4 October 2016**

The Workgroup concludes:
The Workgroup had differing views on the best option with one member voting against the proposal and the WACM, one member voted for the WACM but voted for the original against the baseline; all other workgroup members voted in favour of the original proposal.

High Impact:
All parties paying BSUoS

Content

Any Questions?

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About this document

This document is a Workgroup Report which details the final conclusions of the CMP267 Workgroup and also contains the responses received to their Consultation. An electronic version of this document and all other CMP267 related documentation can be found on the National Grid website via the following link: http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP267/

Document Control

Version	Date	Author	Change Reference
1.0	19 August 2016	Code Administrator	Workgroup Consultation to Industry
0.2	27 September 2016	Code Administrator	Workgroup Report for Workgroup comment
0.3	4 October 2016	Workgroup	Final Workgroup Report to CUSC Panel

1 Summary

1.1 This document describes the Original CMP267 CUSC Modification Proposal (the Proposal), summarises the deliberations of the Workgroup and sets out the options for potential Workgroup Alternative CUSC Modifications (WACMs). Prior to confirming any alternative proposals the Workgroup are seeking views on the options they have identified, what is the best solution to the defect and also any other further options that respondents may propose.

1.2 CMP267 was proposed by EDF Energy and was submitted to the CUSC Modifications Panel (Panel) for its consideration on 19 July 2016. A copy of this Proposal is provided within Annex 1. The Panel voted by a majority view that CMP267 should be treated as urgent because the proposal seeks to address an imminent (date-related) issue that could have a significant commercial impact on market participants. The Authority provided confirmation on the 1 August 2016 that CMP267 should be progressed on an urgent basis. This is provided in Annex 2.

1.3 The Panel decided to send the Proposal to a Workgroup to be developed and assessed against the CUSC Applicable Objectives. The Workgroup is required to consult on the Proposal during this period to gain views from the wider industry (this Workgroup Consultation). Following this Consultation, the Workgroup will consider any responses; vote on the best solution to the defect and report back to the Panel at the special CUSC Panel meeting in October 2016.

1.4 CMP267 aims to defer any unforeseen increases in BSUoS cost arising from an IAE by two years when those unforeseen costs exceeds £30m in a charging year. This Workgroup Consultation has been prepared in accordance with the terms of the CUSC. An electronic copy can be found on the National Grid Website, http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP267/ along with the Modification Proposal Form.

2 Background

2.1 Currently, all costs incurred by the System Operator (SO) in balancing the system are recovered via BSUoS charges in the regulatory year in which costs are incurred. This is explained in further detail in paragraph 3.58.

2.2 Under the Balancing Services Incentive Scheme (BSIS), a target cost for balancing the system is calculated. This is then compared to actual costs incurred by the System Operator. The difference between these 2 costs is then subject to a 30:70 'sharing factor' – meaning that any profit or loss made by the SO is shared with consumers with the SO taking 30% of any profit or loss, and consumers taking 70%. In addition there is a cap and floor mechanism such that the System Operator's maximum profit and loss is limited – the current value is +/- £30m.

2.3 An Income Adjusting event is when the System Operator is able to apply for the target cost to be revised so that unforeseen costs (or profits) beyond the reasonable control of the SO do not impact the BSIS incentive scheme. Income adjusting events under Balancing Services Activity are defined in National Grid's special licence condition 4C. An IAE is therefore not about whether costs incurred can be recovered, but rather how these costs will be factored into the BSIS incentive scheme.

2.4 The Proposer explained that the purpose of the CMP267 proposal is to look at how unforeseen price shocks impacting BSUoS can be best managed. The submission of an IAE, although looking specifically at impact on the SO incentive scheme, acts as a signal that a particular price shock was not foreseen by the System Operator, and so the CMP267 proposal therefore seeks to examine how costs submitted as an IAE can be managed. In May 2016 an IAE was notified by National Grid to consider recently awarded Black Start contracts, to a maximum value of £113m. Across chargeable volume of 521.9TWh[1] this would equate to an annualised cost of £0.22/MWh to industry participants for the 2016 – 2017 BSIS year and could lead to recovery of these charges through the 2016 - 2017 BSUoS charges.

2.5 Historically any black start contracts have been a relatively small component of Balancing Services costs at £20-£40m/year for ~16-18 plants. The recovery of up to £113m for two plants is an unprecedented amount and if the IAE is approved, may have a significant commercial impact on market participants, and ultimately customers.

2.6 The Proposer considers that the potential for such a material short notice impact on BSUoS charges to occur in these circumstances represents a defect to the CUSC and has raised CMP267 to address the defect.

2.7 Ofgem is due to make its determination of the IAE by the 24 August 2016.

2.8 The proposal is referenced in Annex 1 and seeks to defer unforeseen increase in BSUoS costs arising from an IAE by two years. This proposal will only apply to IAE's which, in their total in any given charging year, have a combined effect on "raw BSUoS" of over £30m.

2.9 The Proposer considers that most market participants will be able to manage unforeseen price shocks in a charging year with a combined effect on BSUoS of under £30m (i.e. the same amount as the floor on National Grid's incentive scheme) in the year it is incurred.

[1] Using the March 2016 MBSS report for the 2015/16 period

2.10 It is the view of the Proposer that this Modification will enable market participants to spread out the unexpected cost over this threshold over a two year period and reduce the financial exposure some customers and industry parties (discussed in section 3.43 onwards of this report) may encounter if this Modification is not approved. A clear mechanism for deferral of cost recovery in these specific circumstances would provide a better forward view of BSUoS, thereby improving predictability.

2.11 The Proposer considers that its proposal is better than the current baseline and with respect to the applicable CUSC Objectives:

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:

2.12 This Modification will mitigate the impacts of the unprecedented and unforeseen BSUoS charges on market participants. By allowing the costs to be known in advance and be recovered over a two year period, the proposal facilitates effective competition in the generation and supply of electricity, by removing the uncertainty that comes from short-notice, unforecastable, changes in BSUoS of materiality above this threshold. These short-notice, unforecastable, changes create risks that are hard for any participant to finance efficiently, adding to consumer costs; they may also have more adverse impacts on some categories of participant than others.

2.13 Since the Modification will apply to future IAEs as well as the current potential IAE, it provides clarity going forward if a similar event occurs again and it provides the clarity that market participants need.

2.14 For Objectives b – d the proposer believes that the proposal is neutral against applicable charging objectives.

3 Workgroup Discussions

3.1 This section provides information regarding what the Workgroup have discussed in relation to this proposal. The points discussed concerned a number of different areas as presented below.

Forecasting for an IAE

3.2 The Workgroup discussed how, as an industry, it could have been expected to forecast the magnitude of these additional costs that are included in the current IAE.

3.3 The Workgroup agreed that the purpose of the Workgroup was not to investigate why the costs have been incurred, but to focus on the mechanism for cost recovery through BSUoS as an IAE can, by its definition, happen at any time. The defect as raised has been triggered by the event of the black start contracts but it could be other actions that prompt an IAE.

3.4 The National Grid representative noted to the Workgroup that with or without an IAE the recovery of extra costs will take place and that under current licence / codes should be recovered in the year in which they are incurred. The Proposer confirmed that this Modification was acting as stabilisation Modification to minimise the impact on market participants by reducing volatility, increasing predictability, stabilising BSUoS charges and providing industry time to pass these costs on in future years.

3.5 The Workgroup requested historic materiality information on IAEs and it was confirmed that in the period since 2011 there had been four submitted IAEs[2], submitted during the 2011-2013 BSIS incentive scheme period. Table 1 details these.

Table 1

Event	Cost impact	Potential Impact on incentive scheme	Final allowed impact on incentive scheme
Tx losses	£107.9m	£27.0m	£0
FMJL replacement	£28.9m	£7.2m	£2.2m
Closure of Alcan	£38.3m	£9.6m	£0
Moyle outage	£29.2m	£7.3m	£5.1m
		Total - £51.1m	

2 https://www.ofgem.gov.uk/sites/default/files/docs/2013/09/electricity_system_operator_incentives_2011-13_income_adjusting_events_determination_0.pdf

3.6 The National Grid representative noted that the cap and floor and sharing factors of the 2011-2013 incentive scheme were different, namely a +/- £50m cap and floor (across the whole 11-13 scheme) and a 25% sharing factor.

3.7 For the events above, the majority of costs across the 4 IAEs had *not* been permitted to be treated as IAEs. This meant that the SO had to absorb the disallowed cost impact into its incentive scheme. Ahead of the IAEs being submitted, after application of the current sharing factor the SO had made a £56m loss (which would have been capped at £50m). Had all the costs that had been submitted as IAEs been 'allowed', this would have moved the SO to a position of a £4.9m loss instead (£56m – £51.1m). However only a small part of the costs submitted were allowed to be treated as IAEs, as detailed in the final column, meaning that the final position of the SO for the 2011-2013 period was a loss of £48.7m.

3.8 With regard to the 16/17 black start costs it was also confirmed that under the current baseline CUSC the SO could be recovering these costs now through BSUoS, but deferred including them into BSUoS costs until further engagement had taken place with stakeholders on the appropriate time to pass through these costs.

3.9 The Proposer confirmed that this Modification was narrow in scope and only covered instances of an IAE and would be 'triggered' when the IAE was >£30m per Charging Year.

3.10 One Workgroup member noted that under the Fuel Security Code, emergency costs could potentially be recovered via BSUoS. Upon further investigation, the Workgroup noted that the cost recovery mechanism in such a circumstance is subject to the Authority's discretion – but that this would not preclude such emergency costs being recovered via BSUoS.

3.11 It was further discussed that in the event of a valid Fuel Security claim that was recovered via BSUoS whether this Modification would capture this if it breached the £30m threshold (or when aggregated with other IAEs breached £30m). As the original proposal for this Modification specifies that an IAE should take place before costs are deferred, it was clarified that any unexpected industry costs recovered through BSUoS, such as a fuel security event, would *only* have costs recovered as per the CMP267 proposal if an IAE was raised.

Triggering event – IAE notification or an IAE that has been determined

3.12 The Workgroup discussed what should be the trigger for the deferral of cost recovery proposed by CMP267 – when the IAE has been raised by the SO or when the IAE has been approved by the Authority.

3.13 There was also further discussion on whether this should or should not be linked to a Charging Year (Apr through to March) so as to capture instances when an event had happened in e.g. January but had not received Authority determination until May.

3.14 A Workgroup member noted that once IAE has been raised this gives clarity to industry that there is a BSUoS price impact that was potentially unanticipated.

3.15 A Workgroup member asked for clarity of what was meant by raised / notified. The Workgroup concluded that this would be when the System

Operator first requests an IAE from the Authority. The National Grid representative was asked to confirm how quickly this is made public. She noted that under special condition 4C.20 of National Grid's licence that 'the Authority will make public, excluding any confidential information, any notice of an income adjusting event following its receipt'. Therefore the Authority will publish the notice soon after receipt of an IAE request. (For example, when considering the Black Start costs that have been raised as an IAE this year, a letter was sent from the SO to the Authority on 24th May 2016, and the Authority published a public consultation on 8th June 2016).

3.16 The Workgroup also asked for confirmation on what was meant by 'approved'. The Workgroup confirmed that this would be when the Authority decided whether (all / some of / none) of the costs being submitted could be treated as an IAE. Again, in the case of the Black Start costs in question this decision is due from the Authority on 24th August 2016.

3.17 The National Grid representative noted that if the decision to defer costs was dependent on Authority *approval* of an IAE rather than when an IAE is *submitted* this could lead to a greater BSUoS price shock if part or none of the IAE costs are upheld:

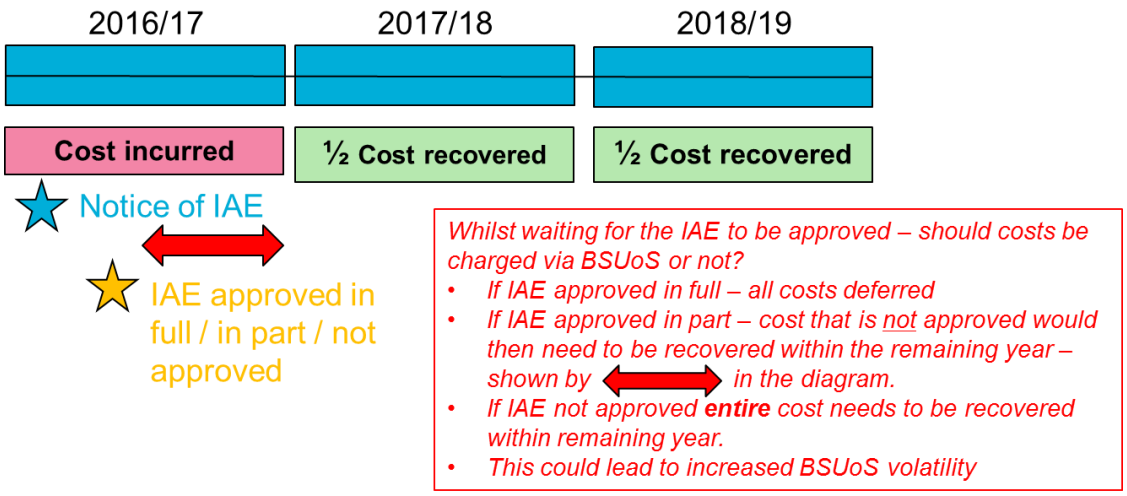


Figure 1: Potential impact of an IAE not being approved (in full)

3.18 The National Grid representative confirmed that under the current baseline version of the CUSC any recovery of balancing costs should normally begin as soon as costs have been incurred using the SF run, even though the Authority has not approved the costs as an IAE. This is because an IAE is not about cost recovery but rather the impact on the BSIS incentive scheme. The Proposer highlighted that this Modification is seeking to address these unexpected big spikes in BSUoS.

3.19 The National Grid representative also noted that even if the trigger for deferred recovery as per the CMP267 proposal was the raising of an IAE rather than a decision on the IAE, there could still be circumstances where, for example, the SO begins to recover costs and then an IAE is raised later. This could lead to complexity – should recovered costs be returned to Users, and then recovered 2 years later?

3.20 Following these discussions, the Proposer confirmed that the intention of the Modification was not just to capture instances where the Authority had upheld the IAE but also when it hadn't or had not fully upheld the IAE**. It was confirmed therefore that the 'trigger' for deferral of cost recovery would be when an IAE was *raised* by the SO and submitted to the Authority**. The amount *notified* as an unexpected cost in the request for an

IAE made by the SO would be the amount deferred for the purposes of cost recovery (minus the threshold amount discussed in section 3.30 onwards). The rationale for this was that it allows for the longer timeframe over 2 years to recover these costs via BSUoS, and minimises the likelihood of scenarios such as that illustrated in figure 1. As detailed previously, even if an IAE is not approved, the costs will still have to be recovered by National Grid via BSUoS – as an IAE is about the impact of these costs on the BSIS incentive scheme, not whether the costs can be recovered or not. Furthermore, at the point of submission of an IAE, the industry will know the scale of what is to be recovered via a deferral and under this Modification can begin to factor how to pass through these costs to customers.

Approach to cost recovery over the two years

3.21 The Workgroup discussed the different options to how costs could be allocated and recovered over the two years.

3.22 The first approach that was discussed was one that spread the deferred costs evenly over the two charging years following submission of the IAE (50% recovery in year t+1 and 50% recovery in year t+2).

3.23 The Workgroup also discussed whether there should be weighting applied so that more costs were recovered at the end of year 2 to allow for transparency and allow to recover from customers where can pass through these charges. The National Grid representative also asked whether the recovery could take place over 1 year i.e. the year following the submission of the IAE.

3.24 It was the view of the Proposer by deferring the payment over two years this will allow most Suppliers to recover the costs from a wider customer base over a longer duration which means impact to consumer bills will be limited. If a shorter recovery period was in place this could have a moderate to high impact on many Suppliers. Since some Suppliers will be able to absorb these costs better than others, a longer recovery period should create the least amount of distortion in Supplier competitiveness.

3.25 A Workgroup member noted that Ofgem have in the past, through work such as the DCUSA DCP178 Modification and the 2012 volatility consultation[3], recognised the need for Suppliers to have a longer notice period (be it tariffs, allowed revenues etc) in order to reflect the charges into consumer tariffs:

3.26 Ofgem, in October 2012 issued a consultation[4] following issues raised by stakeholders regarding current price control reviews around network charging volatility arising from the price control settlement. The consultation outlined five options to help mitigate volatility by improving the predictability of revenue adjustments and/or improving the stability of allowed revenues. The following changes were considered and a number

[3] https://www.ofgem.gov.uk/ofgem-publications/50572/cvdecision.pdf

[4] https://www.ofgem.gov.uk/ofgem-publications/50572/cvdecision.pdf

[4] https://www.ofgem.gov.uk/sites/default/files/docs/2015/02/dcp178d.pdf

of major improvements implemented to provide more transparency and predictability of costs:

Table 2

1	Improved information	Reduces overall risk Limited additional cost	Implement change
2	Intra-year charge changes	Improved balance of risk Simplifies arrangements	Implement change
3	Lagging incentive rewards/penalties	Improved balance of risk Framework not materially weakened	Implement change
4	Lagging uncertainty mechanisms	Improved balance of risk for some mechanisms May weaken signals to investors	Implement change: dependent on type of mechanism
5	A cap and collar allowed revenues	Does not improve balance of risk Adds complexity	Not implementing

3.27 Furthermore in February 2015 Ofgem approved the implementation of DCUSA Modification DCP178[5] which extended the time frame for Distribution Network Operators (DNOs) to publish final distribution use of system (DUoS) charges for the forthcoming year (1 April – 31 March) from 40 days before it starts to a 15-month notice period (Independent distribution network operators (IDNOs) required to give 14 months' notice of charges). The rationale for this change was that by only having a 40 day window it did not give Suppliers sufficient notice and that they would have to price the uncertainty about charges into the risk premium in contracts.

3.28 The Proposer confirmed that the original proposal is suggesting a 2 year cost recovery period for costs deferred under CMP267, with 50% of deferred costs recovered in the year after an IAE is raised (year t+1) and 50% of deferred costs recovered in the following charging year (year t+2).

3.29 Some examples of different scenarios (costs and timings of IAE submissions and decisions) and how these would be recovered are included at section 3.42 for clarity.

[5] https://www.ofgem.gov.uk/sites/default/files/docs/2015/02/dcp178d.pdf

Rationale for £30m being the activation point for triggering the delay to charging

3.30 The Workgroup discussed what should be the threshold value of an unexpected price shock (submitted as an IAE) used to activate a deferral in cost recovery as proposed by CMP267.

3.31 The Proposer had set the threshold at £30m. This was deemed an appropriate risk that industry participants were comfortable with. The current profit cap on the BSIS is set at £30m and this is a risk that participants are currently exposed to.

3.32 It was questioned whether this threshold value was too low based on the total BSUoS costs. Currently BSUoS costs are just under £1bn so £30m represents a circa. 3% increase in costs. However the Workgroup noted that if a £30m price shock was recovered over less than a charging year for whatever reason, the BSUoS price impact could be bigger than 3%.

3.33 Another Workgroup member noted that from a Generator perspective the amount should be considered as a proportion of the achieved spread rather than as a proportion of BSUoS. A Workgroup member noted that spark (gas) and dark (coal) spreads tend not to recover fixed costs but reflect short run marginal cost and therefore reflect expected BSUoS costs. Whilst not a direct impact on profitability, due to the lack of consideration of fixed costs, it is a good proxy for the money being made with Generators usually having a level of spread that they are willing to generate at and below which they are not.

3.34 In November 2015, before black start and SBR costs were known, Winter baseload 16/17 (i.e. this Winter) was trading at about £42 MWh which corresponds to a clean spark / dark spread of approx. £4.50/MWh and £8.60/MWh respectively given fuel costs at the time. Therefore a £113M cost impact over the Winter period, £56.5m of which would be borne by Generators, equates to about a 7% and 3% impact on gas / coal profitability respectively.

3.35 Whilst some risk will be factored into prices to reflect BSUoS and other volatility Generators will include a BSUoS risk premium in their prices, it is unlikely to cover a 10% increase in BSUoS costs (the impact of the £113m black start costs). In contrast, a £30m increase in BSUoS costs over the winter period is approximately a 2% and 1% impact on profitability - which the Workgroup member felt to be a more reasonable impact to manage. She also noted that where many gas / coal Generators have been losing money, any further increase in costs is an increase in losses rather than a decrease in profitability. In addition, overnight spreads can (often) be negative, and an increase in BSUoS costs over this time period falls on a smaller volume of often inflexible or must run generation – causing increased impact on profit margins / increased losses.

Table 4 details what the impacts on BSUoS costs could be at different threshold values, illustrating that a £30m addition to BSUoS costs equates to approximately £0.06/MWh on BSUoS prices based on annualised historic chargeable volumes:

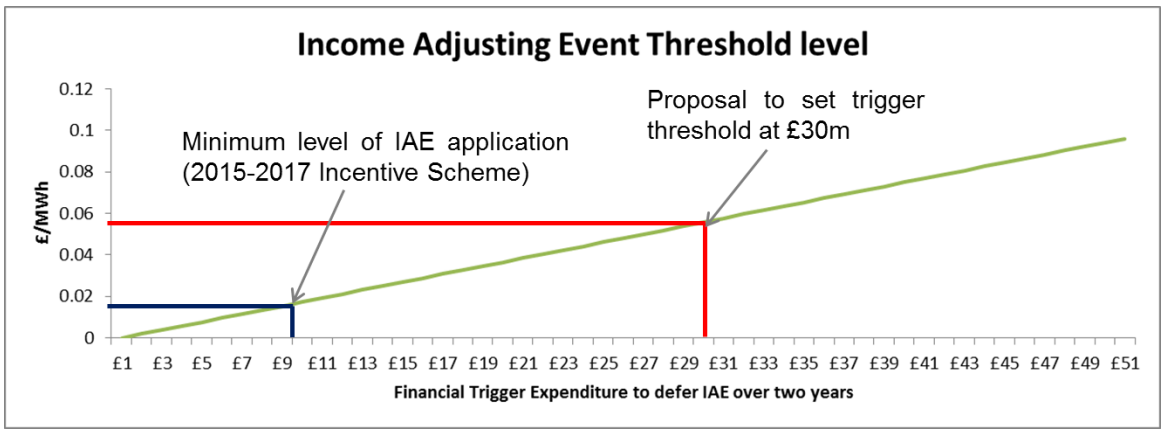


Figure 2

3.36 The Workgroup also discussed whether it should be a set monetary number that should act as the threshold limit or whether there should be a % factor that is used. The view of the Workgroup is that whilst a % factor could be used but this may be unduly complicated as the purpose of the Modification was about stabilising BSUoS costs *only in the context* of an IAE event and as such a set nominal value would be better than a variable % value for forecasting and adding risk-premia.

3.37 The Workgroup also discussed whether the value of £30m should be linked to RPI. It was agreed that whilst linking to RPI may on the surface appear to be reasonable, the application may be complex as it would have to take into account when the IAE happened and when then RPI should be applied. The view of the Workgroup was that the Modification was looking to provide stability and simplicity and that by industry being made aware that any IAE over £30m would be subject to cost recovery over two years a set static number would suffice.

3.38 Furthermore the Workgroup discussed whether this value (£30m) should be added directly into the CUSC or whether it could be referenced in another document to allow for publishing and consultation on amending the value rather than raising a new Modification (if CMP267 was approved). The view of the Workgroup was that it should be 'hard coded' into the CUSC to allow for formal industry consultation should a change to the £30m be required.

3.39 The Workgroup agreed that this would be a question to include in the consultation.

Single instance of >£30m vs. cumulative instances >£30m in a single charging year

3.40 The Workgroup discussed whether this Modification should cover only instances where a single IAE has exceeded the proposal threshold of £30m or whether it should take into account the scenario where there are, for example, several instances of £10m IAEs, which cumulatively can cause the same material impact.

3.41 The Workgroup concluded that defect was not about stopping the monies from being recovered but rather it was about ensuring that there was a sufficient timeframe for market participants to pay these additional costs (that would be included in BSUoS invoices) and that would allow participants time to recover these costs from their customers.

3.42 Therefore the Proposer confirmed that one or more IAEs in one charging year that have a cumulative impact on BSUoS of >£30m would trigger the

deferral of charging as per the CMP267 proposal. The Proposer gave some examples to clarify:

Application and Determination in the same charging year

	Income Adjusting Event applied for by National Grid and determination made by Ofgem in Year t (2016/17)
IAE1	£50m
IAE2	£20m
Total	£70m
Threshold	£30m
Recovery	= £70m - £30m = £40m

	Costs recovered Year t+1 (2017/18)	Costs recovered Year t+2 (2018/19)
Collection	£20m	£20m
Total	£40m (+ financing costs)	

Application and Determination in a different charging year

	Income Adjusting Event applied for by National Grid in Year t (2016/17) and determination made by Ofgem in Year t+1 (2017/18)
IAE1	£50m
IAE2	£20m
Total	£70m
Threshold	£30m
Recovery	= £70m - £30m = £40m

	Costs recovered Year t+2 (2018/19)	Costs recovered Year t+3 (2019/20)
Collection	£20m	£20m
Total	£40m (+ financing costs)	

Application and Determination in the same charging year and below trigger threshold

	Income Adjusting Event applied for by National Grid and determination made by Ofgem in Year t (2016/17)
IAE1	£10m
IAE2	£20m
Total	£30m
Threshold	£30m
Recovery	= £30m - £30m = £0m

	Costs recovered Year t+1 (2017/18)	Costs recovered Year t+2 (2018/19)
Collection	£0m	£0m
Total	£0m	

Application and Determination in the same charging year and below trigger threshold

	Income Adjusting Event applied for by National Grid in Year t (2016/17) and determination made by Ofgem in Year t+1 (2017/18)
IAE1	£10m
IAE2	£20m
Total	£30m
Threshold	£30m
Recovery	= £30m - £30m = £0m

	Costs recovered Year t+2 (2018/19)	Costs recovered Year t+3 (2019/20)
Collection	£0m	£0m
Total	£0m	

Figure 3

Implications on industry parties

3.43 The Workgroup were provided with information on how BSUoS is treated in contracts with customers from another Workgroup member.

3.44 **Pass through of BSUoS**. Customers on pass through BSUoS contracts (often, but not restricted to larger customers) bear the risk around BSUoS charging volatility and any subsequent unforeseen events which could cause an ex-post adjustment to BSUoS. If CMP267 is approved, all pass through customers will still be liable for the increased BSUoS charge that is deferred into later years. However, this cost will be spread over a longer period and is therefore more manageable as a result.

3.45 **Non-pass through of BSUoS.** Many customers agree 'fixed price' or 'non-pass through' contracts where the BSUoS charge component is incorporated into the overall rates that the customer sees on their invoice. Customers typically will sign a 1, 2 or 3 year contract with their Suppliers. It is only at the point of contract renewal that the supplier can incorporate these additional charges into customer contracts. If CMP267 is not approved most non-pass through customers will generally not pick up the increased BSUoS charge since it is charged to Suppliers over a shorter period. It is only those customers who are in the process of negotiating a contract with their supplier during that short period of time (or whose contracts can be re-opened) that will pick up the additional costs since the supplier be able to reflect it in the new contract. If however CMP267 is approved, the additional costs are spread over a longer period. More contract renewals with customers will take place during this longer period, resulting in at least partial reflection of the charges into customer contracts.

3.46 Some Suppliers protect themselves from unexpected price shocks by incorporating clauses with their Terms and Conditions on non-pass through contracts. The specific T&C's are readily available on Suppliers websites. Customers can be exposed to the impact of IAE if the Supplier choses to pass some of this cost through to them.

3.47 It was the view of the Workgroup member that by spreading the length of time across which the additional costs are recovered through charges, means it is more cost reflective for customers since it allows Suppliers to price it into non-pass through contracts as they come up for renewal. Without the approval of CMP267, customers on pass through contracts and Suppliers bear most of the cost around this. Most consumers on non-pass through contracts will not see the charge unless their contracts are up for renewal or allows the charge to be passed through under the contract. This is unfair to different types of customer groups. Approval of CMP267 therefore promotes a fairer treatment / improved cost reflectivity across customer types.

3.48 A Workgroup member provided information to illustrate the possible impacts on non-pass through customers of when, in principle, the relevant amounts will be reflected in their bills following their contract renewal.

CMP267 original proposal: recovery of balance above £30M over two years

Table 3

When customer renews their contract	2016/17	2017/18	2018/19
November 2016- 31st March 2017	Share of £30M	Share of £41.5M[6]	Share of £41.5M
1st April 2017- 31st March 2018	---	Share of £41.5M	Share of £41.5M
1st April 2018- 31st March 2019	---	---	Share of £41.5M
1st April 2019- 31st March 2020	---	---	---

The status quo position (no change from baseline CUSC)

When customer renews their contract	2016/17	2017/18	2018/19
November 2016- 31st March 2017	Share of £113M	---	---
1st April 2017- 31st March 2018	---	---	---
1st April 2018- 31st March 2019	---	---	---
1st April 2019- 31st March 2020	---	---	---

Recovery of balance above £30m over one year

When customer renews their contract	2016/17	2017/18	2018/19
November 2016- 31st March 2017	Share of £30M	Share of £83M[7]	---
1st April 2017- 31st March 2018	---	Share of £83M	---
1st April 2018- 31st March 2019	---	---	---
1st April 2019- 31st March 2020	---	---	---

[6] Excludes financing costs

[7] Excludes financing costs

3.49 **Impacts on Generators:** One workgroup member also raised the impact on Generators and that any Generator that had already sold power for the relevant season would take a direct hit to its profitability. Whilst it is likely that all Generators include a risk premium to cover BSUoS volatility, additional BSUoS costs (10% of total budget) of this size are generally not expected and can drive a small profit to a loss very easily for Generators, particularly in the current environment of very low to negative spreads. This can only increase costs to consumers as Generators are forced to add increasing risk premia to cover such volatility and could impact the merit order. Furthermore, increasing volatility of BSUoS is likely to reduce market liquidity as Generators are less inclined to sell power long periods ahead.

3.50 **Impacts on Suppliers:** If CMP267 is not implemented, Suppliers are less able to pass through these additional costs through to consumers and therefore must pay more of the costs themselves. Implementation of CMP267 means that, although Suppliers will still be impacted to an extent, costs are more accurately reflected into more customer tariffs.

Implications if CMP250 is approved and implemented

The Workgroup also discussed what the impact would be if CMP250[8] is approved and implemented.

3.51 CMP250 is seeking to eliminate BSUoS volatility and unpredictability by proposing to fix the value of BSUoS over the course of a season, with a notice period for fixing this value being at least 6 to 12 months ahead of the charging season.

3.52 The National Grid representative confirmed that if CMP250 was approved and implemented the price shock of any IAEs would potentially go into the fixed price period (depending on the exact final solution put forward for a fixed price period and notice period). The Proposer confirmed that had CMP250 already been approved and implemented that this proposal would have been less likely to be raised.

3.53 Based on the current timetable CMP250 is due to go to the Authority for decision 9th December 2016, with CMP267 timetabled to be presented to the Authority on 19th October 2016. However any decision on potential licence changes are likely to be later than this (see section 3.61 onwards).

3.54 The Workgroup discussed when the first fixed tariff may be and whether it would be before or after April 2017. It was noted that under CMP250 the timeframe would be one year but CMP267 is seeking to expand payment to two years.

3.55 It was noted that the defect can only be assessed on the current baseline version of the CUSC but acknowledged the interaction this Modification may have with CMP250.

3.56 In the scenario where the Authority grants approval for CMP267 ahead of approval for CMP250 the Workgroup discussed that it would appear reasonable to raise a housekeeping Modification if necessary to back out

[8] CMP250 http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP250/

the changes arising from CMP267 (which could be redundant if CMP250 goes live).

Which reconciliation run to recover costs against – SF or RF

3.57 It was confirmed to the Workgroup that under normal circumstances BSUoS costs are recovered using the SF[9] mechanism 16 days after the settlement period in which they are incurred, but that a reconciliation of these charges is performed using the RF[10] mechanism 14 months later to allow for any amendments to e.g. volume allocation etc. (see the CUSC section 14.31.1 to 14.31.3). The adjustment to BSUoS charges to take account of how SO incurred costs are performing against the target costs in the incentive mechanism takes place daily so as to avoid large 'jumps' in BSUoS (see CUSC section 14.30.7). The recovery of balancing costs, the SF and RF mechanisms and how incentive payments are detailed in the licence (special condition 4C) and the CUSC 14.30.

3.58 In the case of costs associated with an IAE, the normal procedure is therefore to start collecting the full costs immediately, and then once an IAE decision is received the impact on incentive payments that are collected via BSUoS would be reconciled via RF as necessary. The Workgroup discussed whether under CMP267 Proposal the deferred costs should be collected via the SF or RF mechanism. The Workgroup noted that the RF mechanism would be allocating costs to the previous charging year and therefore could cause problems for e.g. Suppliers in then trying to recover monies from previous customers.

3.59 Therefore it was agreed that the deferred recovery should take place via the SF mechanism of the 2 later charging years e.g. if an IAE >£30m is raised in 16/17 then 50% of the costs >£30m would be recovered via the SF mechanism in 17/18, and the remaining 50% of the costs >£30m would be recovered in the 18/19 SF mechanism.

Transmission License changes and changes to the CUSC charging methodology

3.60 The National Grid representative discussed the impacts this Modification may have on the Transmission Licence. The Workgroup discussed the timeframe for any license changes and what the constraints could be on this Modification if changes could not be incorporated into a current charging year.

3.61 It was confirmed that there is no 'fast track' licence change process, and hence for any licence changes there would be a significant lead time with a 28 day consultation period followed by a minimum of 56 days for 'stand still' from the Authority.

3.62 The Workgroup discussed when this activity could take place and it was noted that whilst preliminary work could be started to identify the potential licence changes needed, as per advice received for other Modifications such as GC0086, it would not be possible to start any official consultation on licence changes until the Final Modification Report (FMR) has been provided to the Authority. Therefore this is an additional time frame to be added before CMP267 could be fully implemented.

3.63 CUSC changes: The National Grid representative confirmed that he did not believe any changes needed to be made to section 3 of the CUSC,

[9] SF – Initial Settlement run

[10] RF – Final Reconciliation run

therefore there should not be a need to raise an additional 'non-charging' Modification to the CUSC to implement CMP267.

Financing costs

3.64 The Workgroup noted that within the terms of reference they were required to consider the implications of deferring the recovery of National Grid's BSUoS income. Under the current method of recovering BSUoS costs there is no mechanism to recoup BSUoS under (or over) recoveries arising from a deliberate deferral of cost recovery. Rather, the vast majority of BSUoS costs are recovered within 16 days via the SF mechanism and hence there is currently not a large cash flow risk associated with BSUoS.

3.65 The Workgroup agreed that the deferral of BSUoS recovery would lead to additional cash flow costs for National Grid, mirroring discussions around financing cash flow in other industry Modifications such as CMP244, CMP250 and CMP251.

3.66 The exact cost of managing this new cash flow risk will be highly dependent on a number of factors, for example the exact mechanism used to finance the cash flow and the potential of an increasingly separate SO (as the SO itself has next to no assets and hence is likely to have higher cash flow costs than National Grid group).

3.67 As a starting point for evaluating the potential cash flow costs of deferring BSUoS recovery, a Workgroup member suggested that National Grid's regulatory Weighted Average Cost of Capital (WACC) should be used to enable industry respondents to understand the potential costs and benefits of this Modification. Regulatory WACC is National Grid's 'vanilla' WACC[1] plus an adjustment for inflation. In 16/17 *vanilla* WACC (no inflationary adjustment) was 4.23%.

3.68 The National Grid representative noted that the decision around permitted financing costs for deferred BSUoS recovery would go into National Grid's licence text rather than the CUSC and hence would be negotiated bilaterally between National Grid and the Authority rather than via the CUSC Workgroup (again mirroring the approach discussed for CMP244). Therefore any figure quoted in this report can only be taking as a highly indicative cost ahead of these discussions.

Further Workgroup Discussions

3.69 Following the consultation, the Workgroup met to review the responses received and to consider any further analysis necessary.

3.70 The Workgroup noted that in general respondents supported the proposal, with 8 of the 9 responses in favour of CMP267. Those in favour of the proposal noted better facilitation of CUSC Objective (a) effective competition, specifically:

- Increased transparency and predictability of costs for market participants.

- By delaying the recovery of costs, suppliers can more accurately reflect changes into a wider number of non-pass through customer contracts

[1] See for example the National Grid TO tab at https://www.ofgem.gov.uk/publications-and-updates/riio-t1-directions-annual-iteration-process-november-2015-electricity-transmission

- Reduction in the need for suppliers to add risk premia for large, unforeseen events.

3.69 The response against the proposal noted spreading costs over future years is not consistent with the economically efficient recovery of costs in the periods in which they occur.

3.70 Of those in favour of the proposal there was general support for the deferral of costs over 2 years, the £30m threshold value, and that this should be a figure inserted into the CUSC for clarity and simplicity. However one party noted that this could still leave a substantial price risk if the IAE decision was made late in the charging year. This respondent therefore submitted a potential Workgroup Alternative for consideration by the Workgroup that would address this issue (see below).

3.71 With regards to risk premia and how these might be applied to cover an IAE event, consultation responses noted that by their nature IAEs are unforeseen, therefore it is difficult for suppliers / generators to forecast such events and build in specific risk premia. However in the longer term the increasing frequency and material impact of IAE submissions (£204.3m in 2011-13 BSIS scheme period, and £113m in 2016-17) is likely to result in an increase in the size of the risk premia applied to cover such events.

3.72 Respondents also noted that there could be different impacts on BSUoS pass through customers (who would see an immediate increase in BSUoS price) and those on non-pass through terms. For the latter, Suppliers with a portfolio weighted towards non pass through customers could be adversely affected and unable to pass through the price shock. A further respondent noted that price shocks in BSUoS can have a greater impact on must run generation – despite the fact they may not be contributing to system issues.

3.73 For a full breakdown of consultation responses please see annex 6.

Impact on objective a) facilitating competition

3.74 The Workgroup further discussed the impact of CMP267 on charging objective a, that of facilitating competition. In addition to the responses received to the consultation noting impacts in this area (listed above), the Proposer noted the following:

3.75 When an IAE does occur, historically it has been £100m per annum. In the 2011-2013 scheme it exceeded £200m over two years. As these occurrences are infrequent it encourages suppliers to mitigate any price shocks (which tend to be relatively large) with increases to their forecast.

3.76 Competition and attitude towards risk would mean that not everyone would pass through the full risk of this cost but even if just 20% of this cost was added into future costs, i.e. £0.04/MWh, then customers could conceivably have paid £20m in BSUoS cost for each of 2014/15 and 2015/16 when an IAE was not raised, £40m in total. Even if 20% of the market were on pass-through terms for BSUoS costs, the overall collection from suppliers would still be a considerable amount at around £32m.

3.77 Clearly sending an appropriate signal would reduce the risk required for supplier to take these types of measures or indeed reduce complicated Terms and Conditions which make choices for customers more difficult.

3.78 Another Workgroup member noted the impact from a Generator perspective:

3.79 If charges are applied over future years, the generation volume will be different than over the year that the costs were incurred, but will also be made up of different generators. New generators may be operating that were not there previously and older generators may have closed. Furthermore, the fuel mix of generators will be different – dictated by commodity prices, carbon taxes (whether coal or gas is the marginal fuel) as well as the weather – specifically wind and sun levels. There is therefore a balance between the price shock in the original year versus being able to forecast a lower and certain cost over future years. On balance, the £30M outlined in the proposed modification strikes the right balance. Generators know that the cost is coming and all can forecast it into their prices and hence competition is not distorted.

3.80 The Workgroup also noted that there was a precedent for spreading costs over future years / future customer bases in the way that the TNUoS 'k' mechanism works.

Potential Workgroup Alternative

3.81 The potential workgroup alternative was put forward by the nPower representative, this is further detailed in section 4.

Further clarification of the Original

3.82 The National Grid representative added that it would be helpful for the proposer to clarify how the original proposal would work in 2 further scenarios. These were:

- How CMP267 would propose treating cost deferral if an IAE was only submitted after all costs associated with the IAE had been recovered from parties (for example, when an IAE has been submitted after the

charging year in which costs were incurred, as was the case for the 4 IAEs submitted under the 2011-13 incentive scheme)

- How cost recovery would work when an IAE is only granted in part, or not at all – and hence there would be an interaction with the BSIS incentive scheme.

Submission of an IAE after costs have been recovered

3.83 The Workgroup discussed possible options for a scenario in which an IAE was submitted after all costs associated with the IAE had been recovered from parties. The Workgroup discussed the possibility of unwinding cost recovery via the RF run, and then recovering deferred costs later as per the CMP267 proposal.

3.84 However by using different scenarios the Workgroup concluded that under some timings unwinding of cost recovery via the RF run would not be possible.

3.85 The Proposer therefore confirmed that where an IAE is submitted after all costs associated with an IAE had been recovered from parties, there would be no unwinding of previous cost recovery and no deferred recovery i.e. CMP267 would not apply.

Partial or non-granting of an IAE – interaction with the BSIS incentive scheme

3.86 The National Grid representative noted that when an IAE is only granted in part, or not at all, the impact on the BSIS incentive scheme in the year the IAE was decided upon would need to be considered.

3.87 This is because where an IAE is granted in full, it is removed from the incentivised cost calculation. Therefore the full impact of the price shock goes into BSUoS charges and there is no interaction with the BSIS scheme:

	Base case example	**Price event of £120m IAE granted for £120m**
Target cost under BSIS	£1000m	£1000m
NG spends (incentivised cost – IBCt)	£1000m	£1120m - £120m = £1000m
Under / over spend	£0m	£0m
30% sharing factor	£0m	£0m
NG incurs incentive payment or loss of	£0m	£0m
Added to / removed from BSUoS charges (compared to where target cost = actual cost)	£0m	£120m Under 267 this is deferred, minus £30m if this had already been recovered in year (e.g. if there were no other ongoing IAEs).

3.88 However when an IAE is only granted in part, or not at all then the price shock is fully or partly reflected into incentivised costs, and the SO could see a reduction in incentive income.

	Base case example	**Price event of £120m IAE granted for £50m: 'takes off' £50m of the price event from IBCt**
Target cost (incentivised costs - target)	£1000m	£1000m
NG spends (incentivised cost – IBCt)	£1000m	£1120m - £50m = £1070m
Under / over spend	£0m	-£70m
30% sharing factor	£0m	-£21m
NG incurs incentive payment or loss of	£0m	-£21m
Added to / removed from BSUoS charges (compared to where target cost = actual cost)	£0m	£99m added

3.89 This reduction in income would need to be removed from the monies that would be deferred under CMP267, otherwise there would be double counting in monies recovered from customers. In the example above if the full amount of £120m was simply added to BSUoS charges at a later date, and no appropriate change made to BSUoS charges in the year of the IAE then the SO would not have taken a reduction in income of £21m via the incentive scheme.

3.90 The Workgroup discussed how this would need to be accounted for in CMP267 and it was agreed that the legal text would reflect this.

3.91 The National Grid representative suggested that the impact on BSUoS charges in the year of the decision would need to reflect the impact of the incentive mechanism, whilst the full amount of the IAE would be deferred. This would make it easier for customers to have a forward view of costs. Thus for the example above:

	Base case example	**IAE granted for £50m: 'takes off' £50m of the price event from IBCt**
Target cost (incentivised costs - target)	£1000m	£1000m
NG spends (incentivised cost – IBCt)	£1000m	£1120m - £50m = £1070m
Under / over spend	£0m	-£70m
30% sharing factor	£0m	-£21m
NG incurs incentive payment or loss of	£0m	-£21m
Added to / removed from BSUoS charges (compared to where target cost = actual cost)	£0m	**£21m removed** from BSUoS charges **£30m added** to BSUoS charges to recover initial £30m. **Total impact on BSUoS: +£9m added** **£90m** deferred as per CMP267 process.

Changes to the transmission licence and system changes

3.92 The Workgroup discussed potential licence changes necessary to facilitate CMP267. The most important of these would be the creation of a 'k' type mechanism (as exists for TNUoS, detailed in special condition 3A of the licence) for BSUoS. This would allow costs to be recovered in a different year to that in which they were incurred.

3.93 The Workgroup identified that changes would likely to be necessary to:

- Special condition 4C.1 (Calculation of external costs)
- Special condition 4C.11 (Incentive payments on external costs)
- And possibly special condition 4C.2 (Adjustment for errors)

3.94 In addition the National Grid representative noted that a new section would likely need to be written (potentially to be inserted after part E of Special condition 4C) – to define how cost deferral would work and also to clarify how and what financing costs would be added to deferred cost recovery.

3.95 The National Grid representative also noted that she had received some initial work on the system changes that would be necessary to facilitate CMP267. These were noted to be relatively complex, and constituting a system change similar to that required under project Transmit as the entire BSUoS billing cycle and reporting would be affected. A highly indicative cost of **£750,000** had been quoted for this work, but this is heavily caveated until further R&D is carried out.

3.96 The Ofgem representative sent the following information to the workgroup to document the process when licence changes would be required for a modification to be enacted.

3.97 "As far as possible, the Final Modification Report should clearly indicate which licence conditions the workgroup consider may need to change, including the workgroup's view on how they may need to be changed, and why the change is necessary to implement the proposed Code Modification.

3.98 As it would for any proposed Code Modification, Ofgem would consider whether the proposal fits with the existing licence framework. Ofgem would consider the most appropriate approach on a case by case basis but note that, in general, it may be appropriate for it to consider what (if any) licence changes may be needed at the later stages of the modification process, when the final form of the modification proposal is presented in the FMR.

3.99 Depending on the circumstances, it is likely that licence changes would have to be approved the Authority before the modification could be approved. Following an Authority decision to amend the licence a 56 day 'stand still' must elapse before the licence changes take effect. Before making a decision to amend the licence Ofgem must consult for at least 28 days on any proposed changes."

3.100 This was noted by the Workgroup prior to the vote on options taking place.

Recovery of 2016/17 Black Start costs and points noted by the Proposer

3.101 Since the workgroup consultation was issued National Grid published, on 23rd September 2016, a letter setting out that costs associated with the Black Start contracts awarded to Drax and Fiddlers Ferry (worth up to £113m) in 16/17 would begin to be recovered through BSUoS charges from 1st October 2016. For reference, the letter can be found here: http://www2.nationalgrid.com/UK/Industry information/System charges/Electricity transmission/News/Recovery of 2016/17 Black Start Costs/

3.102 The decision stated that National Grid would begin recovering half of the costs through BSUoS charges from 1 October 2016 through to 31 March 2017. The remaining half of the costs (for the period 1 April 2016 to 30 September 2016) will be recovered through a reconciliation process 14 months after this period, i.e. starting from 1 June 2017 – using the RF run.

3.103 The proposer noted that this decision contradicted the information National Grid had given previously which sought to engage with the industry on an appropriate time to pass through costs associated to the additional Black Start contracts.

3.104 The proposer wanted to note that if costs from IAEs begin to be recovered prior to approval by Ofgem on proposal CMP267 then no retrospective adjustments are necessary however future cost recovery in BSUoS are suspended and deferred as set out in the Original proposal from the date at which the decision by Ofgem is made.

4 Workgroup Alternatives

4.1 A Workgroup Alternative was put forward by the npower representative. This was voted by majority to be kept as a Workgroup Alternative.

4.2 The aim for the proposed Workgroup Alternative is to cap the amount of recovery costs to a maximum of £.2.5million per calendar month. To ensure that regardless of when in the charging year the IAE occurs, this will not mean that a hefty price shock is realised to the industry. The recovery of costs would therefore be spread across two to three charging years. Key points of the proposed alternative are noted below:

- Any newly approved IAE will be limited in its cost recovery to a cap of £2.5m per calendar month within the first charging year, starting from the month after the date of decision, or the first 2 charging years where there is less than 6 months remaining in the first charging year.

- Any residual amount of the IAE above this cap will be recovered equally in the second and third charging years, or wholly in the third charging year where less than 6 months remain in the first (and thus the second is being capped to recovery of £30m).

- The £2.5m monthly cap applies to all newly approved IAEs (defined as an IAE where the £2.5m monthly cap applies) and so the cap will be applied to these IAEs in order of decision date.

- Costs will be applied on a forward looking basis (that is to say applied to the settlement day after the date of this decision, to SF settlement run)

- Costs will be applied to the daily BSUoS costs, with the daily rate capped by the minimum of either the monthly cap divided by the number of days in that month or the remaining amount of the IAE to be recovered, where recovery is taking place in any month in which the cap applies for that IAE.

4.3 The Workgroup agreed that they would produce a number of tables to illustrate how cost deferral as per the original proposal, and under the potential Workgroup alternative would work under different scenarios to ensure the proposal was clearly understood by all parties.

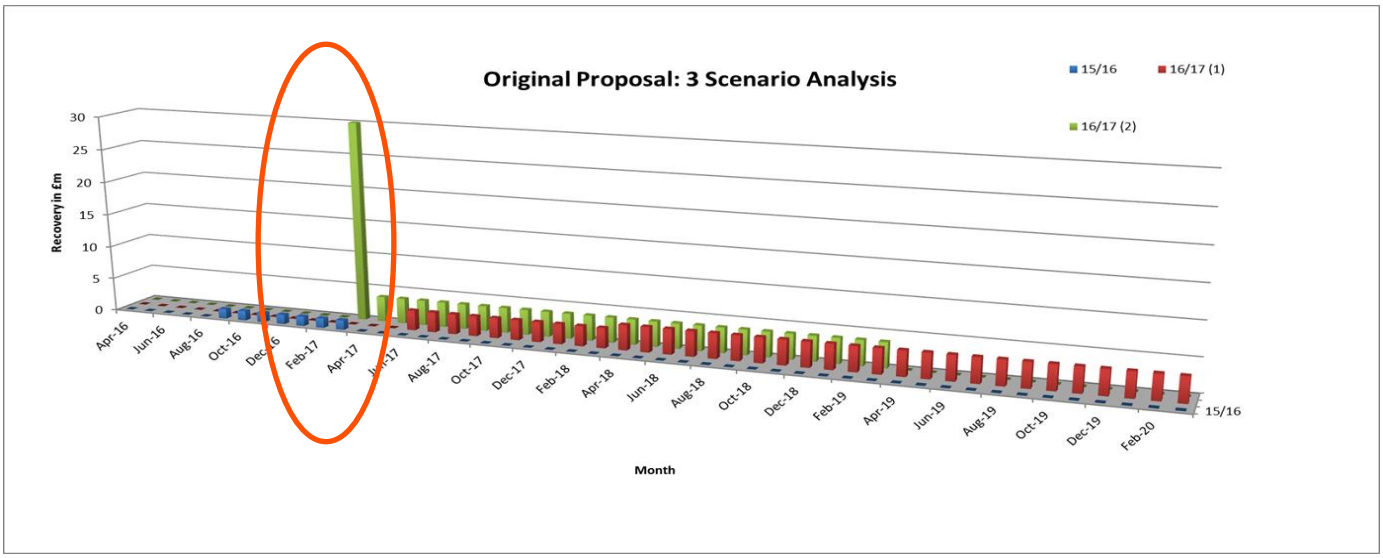
4.4 The following tables were presented to the workgroup to ensure clarity and detailed discussion was had on the alternative proposal.

4.5 These graphs and tables document the further detail provided on the IAE Original Scenario Analysis:

Charging Year	NGC Raise IAE	Ofgem Decision Date		IAE Amount £m	BSIS Start	Months in Yr1	2016/17	2017/18	2018/19	2019/20
Original							2016	2017	2018	2019
2015/16	May-16	Aug-16	Original	£10m	Sep-16	7	£10.0m	£0.0m	£0.0m	£0.0m
2016/17	Feb-17	May-17	Original	£120m	Jun-17	10	£0.0m	£30.0m	£45.0m	£45.0m
2016/17	Jan-17	Feb-17	Original	£120m	Mar-17	1	£30.0m	£45.0m	£45.0m	£0.0m
2 IAEs in samer year										
	May-16	Aug-16	Original	£120m			£30.0m	£45.0m	£45.0m	
	Nov-16	Jan-17	Original	£50m			£0.0m	£25.0m	£25.0m	
2 IAEs in different year										
	May-16	Aug-16	Original	£120m			£30.0m	£45.0m	£45.0m	
	Feb-17	May-17	Original	£50m				£30.0m	£10.0m	£10.0m

This table shows how the original change proposal would recover £120m (alongside other amounts) across multiple charging years.

Table shows a scenario where if an Ofgem decision to approve an IAE for £120m were received in Feb-17 it would result in £30m being pushed into a single month (Mar-17)



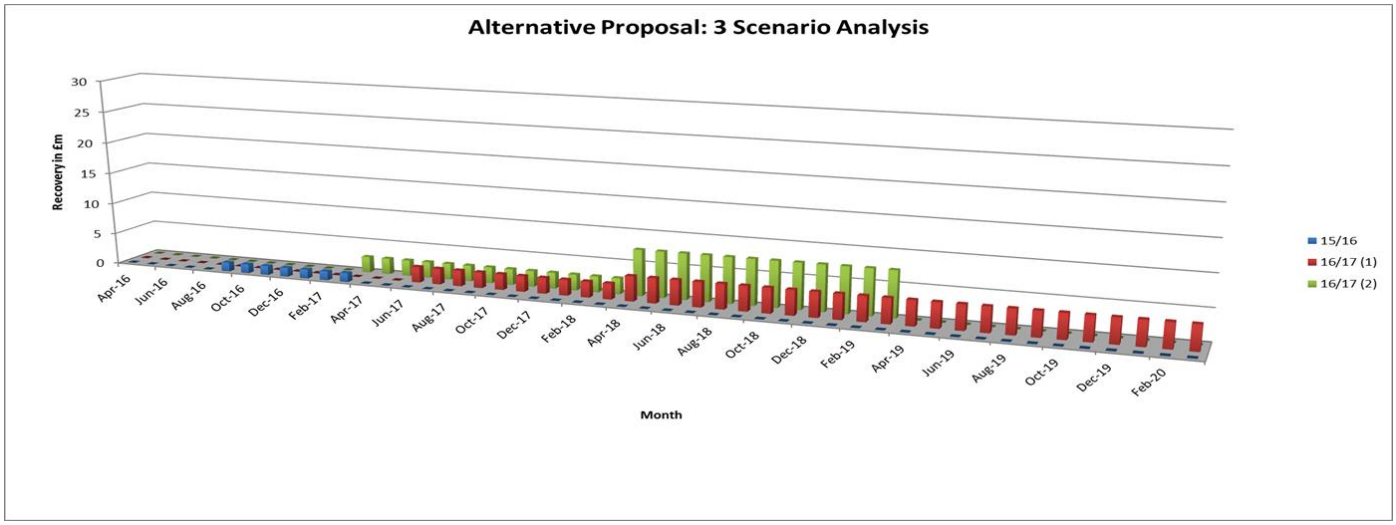
Graph illustrates the previous point of depending upon when the IAE is approved it could result in £30m spike occurring in a single month.

These graphs and tables document the further detail provided on the IAE Alternative Scenario

Charging Year	NGC Raise IAE	Ofgem Decision Date		IAE Amount £m	BSIS Start	Months in Yr1	2016/17	2017/18	2018/19	2019/20
Proposed Alternative										
Examples of single IAEs										
2015/16	May-16	Aug-16	Alternative	£10m	Sep-16	7	£10.0m	£0.0m	£0.0m	£0.0m
2016/17	Feb-17	May-17	Alternative	£120m	Jun-17	10	£0.0m	£25.0m	£47.5m	£47.5m
2016/17	Jan-17	Feb-17	Alternative	£120m	Mar-17	1	£2.5m	£30.0m	£87.5m	£0.0m
2 IAEs in same year										
	May-16	Aug-16	Alternative	£120m	Sep-16	7	£17.5m	£51.3m	£51.3m	£0.0m
	Nov-16	Jan-17	Alternative	£50m	Feb-17	2	£0.0m	£30.0m	£20.0m	£0.0m
2 IAEs in different year										
	May-16	Aug-16	Alternative	£120m	Sep-16	7	£17.5m	£51.3m	£51.3m	£0.0m
	Feb-17	May-17	Alternative	£50m	Jun-17	10	£0.0m	£25.0m	£12.5m	£12.5m
New Example										
2 IAEs in different year										
	42505	42658	Alternative	£120m	Nov-16	5	£12.5m	£30.0m	£77.5m	£0.0m
	42781	42870	Alternative	£50m	Jun-17	10	£0.0m	£0.0m	£25.0m	£25.0m

This table shows how the alternative change proposal would recover £120m (alongside other amounts) across multiple charging years.

Table shows the same scenario where if an Ofgem decision to approve an IAE for £120m were received in Feb-17. This time it would result in £2.5m being pushed into a single month (Mar-17) as the alternative looks to take account of the number of months remaining within a charging year in conjunction with when Ofgem approval is received



The graph illustrates how the alternative provides a smoother distribution of cost recovery which removes the possibility of any monthly spikes occurring.

5 Impact and Assessment

Impact on the CUSC

5.1 The Workgroup considered what changes to the CUSC may be necessary to implement CMP 267. It is likely that changes to the following paragraphs of Section 14 of the CUSC will be required:

CUSC – The Statement of the Balancing Services Use of System Charging Methodology	
14.29	Principles
14.30	Calculation of the Daily Balancing Services Use of System charge
14.31	Settlement of BSUoS
14.32	Examples of Balancing Services Use of System (BSUoS) Daily Charge Calculations

Impact on Greenhouse Gas Emissions

5.2 None identified.

Impact on Core Industry Documents

5.3 It is likely that changes to the transmission licence will be necessary, namely National Grid's special condition 4C.

Impact on other Industry Documents

5.4 None identified.

6 Proposed Implementation and Transition

6.1 It is proposed to make changes to the charging methodology (Section 14) of the CUSC within 1 working day after the Authority determination on license changes, so that the new charging regime would take effect immediately.

6.2 The National Grid representative noted that for the specific case of the IAE that has been raised in relation to Black Start costs for 16/17 there could be some interactions between the timings of the CMP267 process and the timings of cost recovery. The IAE relating to black start costs was raised in May 2016, ahead of the CMP267 proposal being raised. The current baseline of the CUSC notes that these costs can be recovered in the 16/17 charging year. The CMP267 proposal is not due to receive a decision from the Authority until early November, and the additional timescales necessary for any licence change decision could mean that final implementation of any modification decision does not take place until up to 3 months later than this. However, under the current licence and code the System Operator could begin recovering the black start costs at any point in the 16/17 charging year. Indeed, National Grid published a letter on 23rd September 2016 detailing how it would start to recover these costs, and further detail can be found in paragraphs 3.101 onwards.

6.3 There is a possible scenario in which the SO begins to recover these costs in 16/17, and that the CMP267 proposal (and necessary licence changes) are approved much later in the charging year e.g. January. However if the SO was to wait to recover the monies, and then the Modification was not approved (but this was only confirmed at some point between early November and January) then there could be a very short period of time in which to recover a large amount of cost via BSUoS.

6.4 In light of the published letter from National Grid (see paragraphs 3.101 onwards) the Proposer therefore confirmed that in the case of the 16/17 black start costs, where these have already been recovered prior to approval by Ofgem on proposal CMP267 then no retrospective adjustments would be necessary. However if CMP267 was approved, then future cost recovery in BSUoS would be suspended and deferred as set out in the Original proposal, from the date at which the decision by Ofgem is made.

6.5 The National Grid representative also noted that there is a possibility of system changes to accommodate CMP267. Further detail is provided in paragraph 3.95.

7 Workgroup Consultation Responses

7.1 The Workgroup Consultation closed on 15th September 2016 and received nine responses. A high level summary of responses to four of the questions can be found below; the full responses are included within Annex 6. There were a number of additional tailored questions added to the workgroup consultation which form part of the full responses in annex 6.

Responses were received from; SSE, SmartestEnergy, nPower, Uniper UK, on behalf of the E.ON Group, VPI Immingham, Haven Power, EDF Energy, ScottishPower Energy Management Limited, Opus Energy Ltd

Do you believe that the CMP267 Original Proposal better facilitates the Applicable CUSC Objectives?	**Do you support the proposed implementation approach? Or are there any further implementation implications that need to be considered?**	**Do you have any other comments?**	**i) What would you consider the impact of a BSUoS price shock to be on pass through and non-pass through customers?** **ii) Can you provide any information about the commercial impact of a BSUoS price shock on your business / on other industry participants?**
There were eight responses in support. Those supporting noted: better facilitation of CUSC Objective (a) effective competition increased transparency and predictability of costs for market participants. By delaying the recovery of costs, suppliers can more accurately	There were eight responses in support. Those supporting noted: nPower - Risk that the £30m cap still gives rise to a substantial risk, if the decision is made late in the charging	**SSE** – update the various figures within the consultation **SmartestEnergy** - Spreading costs never has and never will be economically efficient. Having been seemingly	General comments: Pass through customers could take a greater hit without CMP267/ see immediate impact. Similarly smaller Suppliers / those with a mostly fixed term non pass through customer

reflect into a wider number of non-pass through customer contracts changes reduces the need for suppliers to add risk premia for large, unforeseen events. Some noted neutral to objectives b) – d). The party against noted: Spreading costs over future years is not consistent with the economically efficient recovery of costs in the periods in which they occur.	year. Our WACM attempts to overcome this issue. In addition, the SF run results in known costs at an early date for both market participants and customers, thereby removing cost shocks from prior periods. Our alternative also addresses this second issue. VPI Immingham - Yes, we support the proposed implementation approach. However, we also recognise the risks associated with the existing black start IAE, timeframes for approval of the modification and recovery of these monies. Clarity should be given to the market as soon as possible to ensure all parties are working from the same information and therefore competition is facilitated.	uncompetitive in the market for having had a higher BSUoS cost forecast than other parties in the market – provisioning for exactly the amount of cost that this change proposal seeks to defer – it is unacceptable that one of our competitors should attempt to mitigate their own poor commercial decision making with industry change. **VPI Immingham** - Should be implemented regardless of the approach adopted for the recovery of the IAE black start costs **EDF Energy** - IAE's in nature are relatively uncommon, however the magnitude of adjustments can be significant.	base will be worst hit. Implication is that deferring costs helps spread them across customers more equitably. Customers with contracts which pass through BSUoS costs are unlikely to have any means of hedging or offsetting increased costs and are likely, in turn, to attempt to pass these costs through to their customers through increased prices for goods and services. Contracts may allow for re-openers but this is not desirable for customer or supplier e.g. re-billing issues, reputational impact. In later years customers may have left / a Supplier's portfolio shrunk – more difficult to pass on deferred costs. The existence of price shocks will make it more difficult and costly for suppliers to provide fixed price contracts – e.g. increased future risk premia. Price shocks can have a greater impact on must run generation, despite the fact they may not be contributing to system issues.

8 Views

8.1 The Workgroup believe that their Terms of Reference has been fully considered. One Workgroup Alternative CUSC Modifications was raised; this is outlined within this document. At their meeting on 19th September 2016, the Workgroup voted, six of the eight members stated that the original proposal and WACM better facilitated the applicable CUSC objectives, six voted for the Original proposal, one voted for the WACM and one voted for the baseline.

For reference, the CUSC Objectives are;

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.

(d) in addition, the objective, in so far as consistent with sub-paragraphs (a) above, of facilitating competition in the carrying out of works for connection to the national electricity transmission system.

Workgroup Vote

8.2 Details of the vote are as follows;

Vote 1: Whether the proposal better facilitates the Applicable CUSC Objectives;

Original Proposal

Workgroup member	Applicable CUSC Objective				Overall
	a	b	c	d	
Juliette Richards	No	Neutral	Neutral (if financing costs received)	Neutral	No
Garth Graham	Yes	Neutral	Neutral	Neutral	Yes
Binoy Dharsi	Yes	Neutral	Neutral	Neutral	Yes
Mary Teuton	Yes	Neutral	Neutral	Neutral	Yes
Colette Baldwin	Yes	Neutral	Neutral	Neutral	Yes
Paul Jones / Esther Sutton	Yes	Neutral	Neutral	Neutral	Yes
Robert Longden	Yes	Neutral	Neutral	Neutral	Yes
Helen Inwood / George Douthwaite	Yes	Yes	Neutral	Neutral	Yes

WACM1

Vote 2: Whether the WACM better facilitates the Applicable CUSC Objectives than the Original Modification Proposal;

Workgroup member	Applicable CUSC Objective				Overall
	a	b	c	d	
Juliette Richards	No	No	Neutral (if financing costs received)	Neutral	No
Garth Graham	No	Neutral	Neutral	Neutral	No
Binoy Dharsi	No	Neutral	Neutral	Neutral	No
Mary Teuton	No	Neutral	Neutral	Neutral	No
Colette Baldwin	No	Neutral	Neutral	Neutral	No
Paul Jones / Esther Sutton	No	Neutral	Neutral	Neutral	No
Robert Longden	No	Neutral	Neutral	Neutral	No
Helen Inwood / George Douthwaite	Yes	Yes	Neutral	Neutral	Yes

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

Workgroup member	BEST Option
Juliette Richards	Baseline
Garth Graham	Original
Binoy Dharsi	Original
Mary Teuton	Original
Colette Baldwin	Original
Paul Jones / Esther Sutton	Original
Robert Longden	Original
Helen Inwood / George Douthwaite	WACM

8.3 **The Workgroup were asked to provide commentary on why they voted as above. Commentary received is as below;**

Mary Teuton stated: Both the original and the alternative better facilitate the CUSC objective (a) namely competition, as there is better visibility of and predictability of the costs, thereby allowing both generators and suppliers to better factor them into their forecast. This should also negate the need for large risk premia in relation to BSUoS costs and hence not distort the merit order for generators as generators are competing on an even footing. Given that many generators are hedged for the forthcoming Winter, additional unexpected costs are a direct hit to profitability and therefore can impact future prices and hence competitiveness.

On balance, I think that the original proposal better delivers against the CUSC objectives (although either are considerably better) due to the increased complexity of the alternative.

Juliette Richards stated: The National Grid representative explained that National Grid understood and acknowledged the defect the CMP267 proposal was trying to address, but noted that there are significant practical issues in linking cost recovery to an IAE (which is not about cost recovery but rather impact on the SO incentive scheme). These included;

- the fact that IAEs can be submitted after all costs have been recovered, therefore limiting the scope of the proposal and also
- interaction with the incentive scheme – both practical issues and in terms of how easily customers would get a forward view of BSUoS.

These issues meant that, in the view of the National Grid representative, it would not be straightforward for industry participants to easily calculate deferred costs and this could add to complexity, therefore having a negative effect against the charging objective of facilitating competition. The National Grid representative also noted that CMP250 would be

going forwards for Ofgem decision towards the end of the year and would be able to take a more considered view of these issues, particularly the interaction with the BSIS scheme. Moreover this proposal could have greater potential benefit as the fixed price would address all causes of BSUoS price volatility during the fixed price period, not just those associated with IAEs.

Furthermore, the impact on objective c would only be neutral if the SO is held whole and receives appropriate financing costs on any cost recovery taking place later than the year in which costs were incurred.

George Douthwaite noted: The WACM provides a better forward view of costs than either the Original or the baseline.

Binoy Dharsi noted: The Original is preferable to the WACM as the WACM could lead to more costs falling on later years and hence a 'back loading' of cost recovery.

Robert Longden and Garth Graham noted: a preference for the Original rather than the WACm due to greater complexity under the WACM.

In addition George Douthwaite and Robert Longden stated: The votes on CMP267 were not taking into consideration CMP250 as it is unknown how the workgroup will develop and what will be decided.

Annex 1 – CMP267 CUSC Modification Proposal Form

CUSC Modification Proposal Form (for Charging Methodology Proposals) CMP267

nationalgrid

Connection and Use of System Code (CUSC)

Title of the CUSC Modification Proposal

Defer the recovery of BSUoS costs, after they have exceeded £30m, arising from any Income Adjusting Events raised in a given charging year, over the subsequent two charging years.

Submission Date

18 July 2016

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

National Grid notified Ofgem of an Income Adjusting Event (IAE) in relation to the 2016-2017 System Operator Incentive Scheme. Approval of the IAE would lead to the recovery of up to £113m, through 2016-2017 BSUoS charges.

Historically, Black Start contracts have been a relatively small component of Balancing Services costs at £20-£40m/year for ~16-18 plants. The recovery of up to £113m for two plants is an unprecedented amount and if the IAE is approved, will have a significant commercial impact on market participants, and ultimately customers. We believe this material short notice impact on BSUoS charges is a defect to the CUSC.

If this Proposal is not implemented, National Grid is likely to seek to recover up to £113m through 2016-2017 charges from market participants. The proposal mandates recovery of the IAE costs, instead, over the two subsequent charging years i.e. 2017-2018 and 2018-2019, which would minimise the impact on industry parties by reducing volatility, increasing predictability and stabilising BSUoS charges.

Description of the CUSC Modification Proposal

Under the Balancing Services Incentive Scheme (BSIS) National Grid is able to apply for the SO Incentives to be revised so as to allow them to recover costs which were beyond their reasonable control and were caused by an unforeseen event i.e. an IAE.

This proposal seeks to defer unforeseen increase in BSUoS costs arising from an IAE by two years. This proposal only applies to IAE's which, in their total in any given charging year, have a combined effect on "raw BSUoS" of over £30m. We believe most market participants will be able to manage IAEs in a charging year wih a combined effect on BSUoS of under £30m (i.e. the same amount as the floor on National Grid's incentive scheme which reflects its maximum commercial exposure under the scheme) in the year it is incurred. This proposal enables

market participants to spread out the unexpected cost over a two year period.

Shocks like the £113m Black Start contracts will increase market participant risk premia which in turn will increase prices for consumers. By deferring the payment over two years, this will allow most suppliers to recover the costs from a wider customer base over a longer duration which means impact to consumer bills will be limited. A shorter recovery period will still have a moderate to high impact on many suppliers. Since some suppliers will be able to absorb these costs better than others, a longer recovery period should create the least amount of distortion in supplier competitiveness.

Our proposal is relevant in an environment where identifying and quantifying the necessary balancing services in advance is proving to be difficult and where balancing costs are expected to increase significantly. It will provide greater certainty to suppliers and generators and support predictability of network charges which will result in consumers' benefits in the medium to long term.

Impact on the CUSC

This is an optional section. Please indicate the sections and clauses of the CUSC which would be affected by the modification or the general area in the CUSC if specific impacts are not yet known.

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

Include your view as to whether this Proposal has a quantifiable impact on greenhouse gas emissions. If yes, please state what you believe that the impact will be.

You can find guidance on the treatment of carbon costs and evaluation of the greenhouse gas emissions on the Ofgem's website:
http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=196&refer=Licensing/IndCodes/Governance

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

BSC ☐

Grid Code ☐

STC ☐

Other ✓ *We believe a Transmission licence change may be needed.*
(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.

Urgency Recommended: Yes

This is an optional section. You should state whether you believe this Proposal should be treated as Urgent.

Justification for Urgency Recommendation

Historically, Black Start contracts have been a relatively small component of Balancing Services costs at £20-£40m/year for ~16-18 plants. £113m for two plants is an unprecedented amount and if the IAE is approved, ***will have a significant commercial impact on market participants, and ultimately customers*** *who may experience higher risk premia as a result of the IAE. Currently BSUoS costs are just under £1bn so this additional costs represents a 10% increase in costs. However, as we are already mid-way through the year effectively if recovered within year this increase costs for parties by a factor of 20%.*

We have been engaging with National Grid to better understand how they intend to recover the additional costs (if approved by Ofgem) and also the merits of other options to address the issue / defect. We are raising our proposal now so that the industry can consider our proposal in parallel with any other proposals National Grid might put forward in the near future.

Since ***Ofgem has to determine on the level of cost pass-through by 24 August 2016*** *(i.e. 3 months from the date of National Grid's notification), we would like our CUSC modification to be considered as an Urgent modification.* ***It is time sensitive to Ofgem's determination of the IAE****.*

Self-Governance Recommended: No

This is an optional section. You should state whether you believe this Proposal should be treated as Self-Governance.

Justification for Self-Governance Recommendation

If you have answered yes above, please describe why this Modification should be treated as Self-Governance.

A Modification Proposal may be considered Self-governance where it is unlikely to have a material effect on:

- *Existing or future electricity customers;*
- *Competition in generation or supply;*
- *The operation of the transmission system;*
- *Security of Supply;*
- *Governance of the CUSC*
- *And it is unlikely to discriminate against different classes of CUSC Parties.*

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

Yes. We are not aware of any current Significant Code Review (SCR) whose scope overlaps with the scope of this modification.

Impact on Computer Systems and Processes used by CUSC Parties:

There should be no impact on computer systems and processes used by CUSC Parties.

We note that the potential IAE is up to £113m and the exact amount will not be known until post event. While National Grid will have to calculate the exact amount to be deferred, this should not have an impact on their computer system.

Details of any Related Modification to Other Industry Codes

None. CMP 250 (stabilising BSUoS with at least a twelve month notification period) could have achieved a similar impact but it has yet to be approved by the Authority and even if approved is prospective and therefore would not address this issue.

Our modification would stabilise unforeseen BSUoS which results from an IAE over a two year period.

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

- [x] (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:

Charging Objective (a)

This modification will mitigate the impacts of the unprecedented and unforeseen BSUoS charges on market participants. By allowing the costs to be known in advance and be recovered over a two year period, the proposal facilitates effective competition in the generation and supply of electricity, by removing the uncertainty that comes from short-notice, unforecastable, changes in BSUoS of materiality above this threshold. These short-notice, unforecastable, changes create risks that are hard for any participant to finance efficiently, adding to consumer costs; they may also have more adverse impacts on some categories of participant than others.

Since the modification will apply to future IAEs as well as the current potential IAE, it provides clarity going forward if a similar event occurs again next year. It provides the clarity that market participants need.

Charging Objective (b)

The proposer believes that the proposal is neutral against applicable charging objective (b).

Charging Objective (c)

The proposer believes that the proposal is neutral against applicable charging objective (c).

Charging Objective (d)

The proposer believes that the proposal is neutral against applicable charging objective (d).

Connection Charging Methodology

☐ (a) that compliance with the connection 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 connection 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 connection charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses;

☐ (d) in addition, the objective, in so far as consistent with sub-paragraphs (a) above, of facilitating competition in the carrying out of works for connection to the national electricity transmission system.

☐ (e) 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:

Additional details

Details of Proposer: (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
Details of Proposer's Representative: Name: Organisation: Telephone Number: Email Address:	 Binoy Dharsi EDF Energy 020 3126 2165 binoy.dharsi@edfenergy.com
Details of Representative's Alternate: Name: Organisation: Telephone Number: Email Address:	 Mari Toda EDF Energy 07875 116520 mari.toda@edfenergy.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.

Annex 2 – CMP267 CUSC Panel's letter to Authority on urgency

White House,
24 Upper West Street,
Reigate,
Surrey
RH2 9BU
Home: 01737 242960
Mobile Telephone Number: 07770 341581
e-mail: miketoms53@btinternet.com

Abid Sheikh
Industry Codes Manager
Ofgem
By email

27 July 2016

Dear Abid

CUSC Modifications Panel Views on Urgency for CMP267 'Defer the recovery of BSUoS costs, after they have exceeded £30m, arising from any Income Adjusting Events raised in a given charging year, over the subsequent two charging years.'

On 18 July 2016, EDF Energy raised CMP267, with a request for the proposal to be treated as an Urgent CUSC Modification Proposal. The CUSC Modifications Panel ("the Panel") considered CMP267 and the associated request for urgency at the Special CUSC Modifications Panel meeting held on 19 July 2016. This letter sets out the views of the Panel on the request for urgent treatment and the procedure and timetable that the Panel recommends.

Request for Urgency
The Panel considered the request for urgency with reference to Ofgem's Guidance on Code Modification Urgency Criteria. The majority view of the Panel is that CMP267 SHOULD be treated as an Urgent CUSC Modification Proposal as the proposal seeks to address an issue that could have a significant commercial impact on market participants.

In the discussion, members of the Panel noted a few concerns over not granting urgency, set out below;

- Ofgem has to determine on the level of cost pass-through by 24 August 2016 (i.e. 3 months from the date of National Grid's notification) and as such the proposal is time sensitive.
- The Panel noted the Proposer's concern regarding the significant additional within year BSUoS costs incurred which could lead to customers experiencing higher risk premia as a result of the Income Adjusting Event.
- The CUSC Panel recognise that there are ongoing discussions between National Grid and the Industry regarding this issue however it was also recognised that Ofgem's determination is not likely to be deferred to a later date.

Procedure and Timetable
Having decided to recommend urgency to Ofgem, the Panel discussed an appropriate process for CMP267. The Panel agreed that the CMP267 proposal would require a Workgroup and careful consideration due to its potential implications.

The Panel agreed that CMP267 subject to Ofgem's decision on Urgency should follow the attached Code Administrators proposed timetable (Appendix 1). This was supported by majority view.

The Proposer is keen to resolve this issue as soon as possible and did not agree with the Code Administrators indicative timetable and has proposed an alternative timetable which removes a consultation stage from the process. For completeness, we are also including the Proposer's timetable and their justification for a shorter timetable for you to consider (Appendix 2). Although Panel members understand the Proposer's concerns, they do not think that this timetable is feasible and have expressed concern that by removing a consultation stage that this could significantly increase the risk of an inadequate report which would be rejected on the basis of insufficient quantification of detail.

Please do not hesitate to contact me if you have any questions on this letter or the proposed process and timetable. I look forward to receiving your response.

Yours sincerely

Michael Toms
CUSC Panel Chair

Appendix 1 – Indicative Workgroup Timetable (Urgent) – Proposed Code Administrator Recommended Timetable

The following urgent timetable is following is indicative for CMP267 as per the recommendation of the Code Administrator

18 July 2016	CUSC Modification Proposal and request for Urgency submitted
19 July 2016	CUSC Panel meeting to consider proposal and urgency request
25 July 2016	Panel's view on urgency submitted to Ofgem for consultation
19 July 2016	Request for Workgroup members (5 Working days) (responses by 25 July 2016)
28 July 2016	Ofgem's view on urgency provided (3 Working days)
2 August 2016	Workgroup meeting 1
9 August 2016	Workgroup meeting 2
16 August 2016	Workgroup meeting 3
19 August 2016	Workgroup Consultation issued (5 days)
26 August 2016	Deadline for responses
5 September 2016	Workgroup meeting 4
8 September 2016	Workgroup meeting 5 (agree WACMs and Vote)
16 September 2016	Workgroup report issued to CUSC Panel
20 September 2016	Special CUSC Panel meeting to approve WG Report

Post Workgroup modification process

22 September 2016	Code Administrator Consultation issued (5 Working days)
29 September 2016	Deadline for responses
4 October 2016	Draft FMR published for industry comment (2 Working Days)
6 October 2016	Deadline for comments
4 October 2016	Draft FMR circulated to Panel
11 October 2016	Special Panel meeting for Panel recommendation vote
13 October 2016	FMR circulated for Panel comment (3 Working day)
18 October 2016	Deadline for Panel comment
19 October 2016	Final report sent to Authority for decision
2 November 2016	Indicative Authority Decision due (10 working days)
7 November 2016	Implementation date

Appendix 2 – Proposed EDF Workgroup Timetable (Urgent without Workgroup Consultation)

The following timetable has been suggested by EDF Energy. EDF also provide the following reason for this;

'EDF Energy believes its Proposal merits progress via an urgent modification process, as the nature of the proposal exhibits the following characteristics:

- The proposal is linked to an imminent date related event (on the 24th August 2016, after 3 months of consideration, Ofgem will make a determination as to the validity of the IAE that was raised by National Grid). Moreover a very large volume of customers (both domestic and non-domestic) will re-contract with suppliers this autumn. Uncertainty on allocation of this large cost will impact those contracts to the detriment of consumers.
- There is a significant commercial impact on CUSC parties and their customers.

We understand that, after the Authority's decision, National Grid is planning to engage with the industry to decide how best to recover these costs. Consultation and implementation could add a few months to this process – which during this time there is a significant amount of further uncertainty on how to treat the allocation of £113m of costs and what it means for suppliers and their customers.

Customers who are currently contracting with suppliers face uncertainty as to how much of the IAE event they will end up picking up. Those customers on pass-through terms may end up unfairly picking up a proportion of the Black Start costs based purely on the profiling of costs allocated by National Grid without due thought on the impact it will have to those organisations. If we are unable to obtain an implementation date within September 2016 then certain customers will continue to bear the full risk on the eventual outcome. We do not believe there is any point in extending the process further as there is unlikely to be material value gained and certainty is very critical in this case. '

18 July 2016	CUSC Modification Proposal and request for Urgency submitted
25 July 2016	CUSC Panel meeting to consider proposal and urgency request
25 July 2016	Panel's view on urgency submitted to Ofgem for consultation
19 July 2016	Request for Workgroup members (3 Working days) (responses by 22 July 2016)
25 July 2016	Ofgem's view on urgency provided (3 Working days) (response back by 28 July 2016)
2 August 2016	Workgroup meeting 1
9 August 2016	Workgroup meeting 2
16 August 2016	Workgroup meeting 3 (including legal text)
26 August 2016	Issue Workgroup Report to CUSC panel (5 days – deadline 5th Sept 2016)
6 September 2016	Issue Code Admin Consultation Report (6 days)
15 September 2016	Deadline for responses (15th September 2016)
20 September 2016	Special CUSC Panel meeting to approve WG Report and vote on CMP267
23 September 2016	Final report sent to Authority for decision
30 September 2016	Indicative Authority Decision due (5 working days)
5 October 2016	Implementation date

Annex 3 – CMP267 Authority's letter on urgency

Making a positive difference
for energy consumers

Michael Toms
CUSC Panel Chair
c/o National Grid Electricity Transmission plc
National Grid House
Warwick Technology Park
Gallows Hill
Warwick CV34 6DA

Direct dial: 020 7901 7000
Email: Mark.Copley@ofgem.gov.uk

Date: 1 August 2016

Dear Mr. Toms,

CUSC Modifications Panel views on urgency for CMP267 *'Defer the recovery of BSUoS costs, after they have exceeded £30m, arising from any Income Adjusting Events raised in a given charging year, over the subsequent two charging years'*

On 18 July 2016, EDF Energy (the 'Proposer') raised Connection and Use of System Code (CUSC) modification proposal CMP267 with the aim of deferring unforeseen increases in Balancing Services Use of System (BSUoS) costs arising from Income Adjusting Events (IAEs). The Proposer requested that CMP267 be treated as an Urgent CUSC Modification Proposal. The CUSC Modifications Panel (the 'Panel') considered the Proposer's urgency request at a special Panel meeting on 19 July 2016.

On 27 July 2016, the Panel wrote to inform us of its majority view that CMP267 should be treated as urgent because the proposal seeks to address an imminent (date-related) issue that could have a significant commercial impact on market participants.

This letter **gives our approval** for CMP267 to be progressed on an urgent basis, following the Code Administrator's timetable set out in Appendix 1 to the Panel's letter.

Background to the proposal

Under the Balancing Services Incentive Scheme (BSIS), National Grid Electricity Transmission (NGET) is able to apply for its System Operator (SO) Incentives scheme to be revised to allow it to recover costs which were beyond its reasonable control and which were caused by an unforeseen event - an IAE.

The unforeseen costs of an IAE can be significant. For example, Ofgem is currently considering an application from NGET to recover £113m in Black Start contracts arising from an IAE.[1] The Proposer is concerned that the introduction of such significant unforeseen costs into BSUoS charges in order to recover them will increase market participant risk premia and increase prices for consumers. The Proposer suggests that deferring IAE-associated BSUoS payments over two years would allow suppliers to

[1] Our consultation on this proposed IAE is on our website: https://www.ofgem.gov.uk/publications-and-updates/notice-and-consultation-proposed-income-adjusting-event-submitted-national-grid-electricity-transmission-plc-relation-2015-17-electricity-system-operator-incentives-scheme

recover the costs from a wider customer base over a longer duration and thereby limit the impact on consumers' bills.

The proposal

CMP267 seeks to defer recovery of unforeseen increases in BSUoS costs arising from IAEs by spreading them over a two year period, where increases to "raw BSUoS" amounts to more than £30m in a given charging year. The Proposer considers that this would provide greater certainty to suppliers and generators and support predictability of network charges.

Panel discussion

The Panel recognised our ongoing consideration of the current IAE issue and noted that Ofgem has to determine, by 24 August 2016, on the level of cost pass-through for Black Start IAE contracts. The total level of those costs, to be charged through BSUoS, is potentially significant. As such, the Panel considered the proposal to be time sensitive.

The Panel also noted the Proposer's concern regarding the significant additional BSUoS costs incurred within year which could lead to customers experiencing higher risk premia as a result of the IAE.

In this context, the Panel considers that the proposal should be treated as urgent. The majority view of Panel members supported the Code Administrator timetable set out in Appendix 1 to its letter which includes a Workgroup consultation as part of the assessment of the proposal. The Proposer did not support the Code Administrator timetable and suggested a more accelerated timetable (Appendix 2 to the Panel's letter) to be achieved by omitting the Workgroup consultation.

Our views

We have considered the proposal, the Proposer's justification for urgency and the views of the Panel. On balance, we consider that the proposed modification does meet our criteria for urgency. Specifically, we view the proposal as *"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)".*[2]

We concur with the reasoning of the Panel that urgent consideration of this modification proposal is justified. Ofgem is currently considering a request by National Grid for recovery of £113 million in Black Start IAE contracts. This decision will have a financial impact on all parties paying BSUoS charges. This modification proposal is therefore urgent to the extent that it seeks to address the recovery by National Grid of IAE costs – such as those currently under consideration by Ofgem.

We note that the CUSC modification process is designed to allow sufficient opportunity for industry to consider, and submit their views about, a modification proposal. We consider that this should apply in the case of this proposal, albeit based on an accelerated urgent timetable as supported by the majority of the Panel (Appendix 1 to the Panel's letter).

We prefer to allow as much time as possible to industry to be consulted on the proposal, recognising that the less that industry is consulted, the greater the risk that we do not receive enough information on which to make a decision in the final modification report. This includes ensuring that potential alternative solutions are properly considered

[2] https://www.ofgem.gov.uk/system/files/docs/2016/02/160217_urgency_letter_and_amended_criteria_2.pdf

alongside the original proposal. We would also encourage, within the urgent timetable, that some flexibility is shown on the milestone dates set out there so as to maximise the period of the Workgroup Consultation if possible.

For the same reason, we do not consider that the Proposer's alternative urgent timetable is suitable. We note the Proposer's concerns that, if this issue is not dealt with by the end of September 2016, customers may "continue to bear the full risk on the eventual outcome". Nevertheless, the potential implications of the modification require careful consideration by a Workgroup, including the need to ensure detailed and comprehensive input from relevant stakeholders. This is not envisaged in the Proposer's preferred timetable.

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 the discretion of the Authority in respect of this proposal.

Yours sincerely,

Mark Copley
Associate Partner, Wholesale Markets
Duly authorised on behalf of the Authority

Annex 4 – CMP267 Terms of Reference

nationalgrid

Workgroup Terms of Reference and Membership

TERMS OF REFERENCE FOR CMP267 WORKSHOP

CMP267 aims to defer unforeseen increase in BSUoS costs arising from an Income Adjusting Event (IAE) by two years. This proposal only applies to IAE's which, in their total in any given charging year, have a combined effect on "raw BSUoS" of over £30m.

Responsibilities

1. The Workgroup is responsible for assisting the CUSC Modifications Panel in the evaluation of CUSC Modification Proposal **CMP267 'Defer the recovery of BSUoS costs, after they have exceeded £30m, arising from any Income Adjusting Events raised in a given charging year, over the subsequent two charging years'** was tabled by **EDF Energy** at the Special CUSC Modifications Panel meeting on 19 July 2016.

2. 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.

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

(d) in addition, the objective, in so far as consistent with sub-paragraphs (a) above, of facilitating competition in the carrying out of works for connection to the national electricity transmission system.

3. 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

4. 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.

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

    a. Consider the implications of deferring National Grids income. E.g. additional financing costs and credit risks. E.g. potentially a different set of parties may be paying from those connected this year.
    b. Consider the implications on customers (pass through and non-pass through customers) in deferring the cost recovery into different financial years to when the costs were borne.
    c. There are potentially other costs that are not later deemed as IAEs that can cause significant increases in BSUoS costs –these should be considered by the workgroup.
    d. Workgroup to consider stakeholder engagement.
    e. Consider the consequential changes for other Code and license changes and the dependency of potential license changes
    f. Consider the distributional impacts on parties (in particular but not limited to Suppliers and Generators).

Deleted: ¶

6. The Workgroup is responsible for the formulation and evaluation of any Workgroup Alternative CUSC Modifications (WACMs) arising from Group 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.

7. 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 Group 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.

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

9. 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.

10. 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 5 working days as determined by the Modifications Panel.

11. 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.

12. The Workgroup is to submit its final report to the Modifications Panel Secretary on 16 September 2016 for circulation to Panel Members. The final report conclusions will be presented to the CUSC Modifications Panel meeting on 20 September 2016.

Membership

13. It is recommended that the Workgroup has the following members:

Role	Name	Representing
Chairman	John Martin	National Grid
National Grid Representative	Nick Pittarello	National Grid
Industry Representatives	Binoy Dharsi Robert Longden Colette Baldwin Lucas Lilja Helen Inwood Garth Graham Paul Jones Mary Teuton Lisa Waters Christopher Granby	EDF Energy Cornwall Energy EON Energy Intergen RWE Npower SSE Uniper VPI Immingham Waters Wye Infinis
Authority Representatives	Andrew White	OFGEM
Technical secretary	Caroline Wright	National Grid
Observers		

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.

14. 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 CMP267 is that at least 5 Workgroup members must participate in a meeting for quorum to be met.

15. 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.

16. 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.

17. 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.

18. 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.

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

Appendix 1 – Indicative Workgroup Timetable (Urgent) – Proposed Code Administrator Recommended Timetable

The following urgent timetable is following is indicative for CMP267 as per the recommendation of the Code Administrator

18 July 2016	CUSC Modification Proposal and request for Urgency submitted
19 July 2016	CUSC Panel meeting to consider proposal and urgency request
25 July 2016	Panel's view on urgency submitted to Ofgem for consultation
19 July 2016	Request for Workgroup members (5 Working days) (responses by 25 July 2016)
28 July 2016	Ofgem's view on urgency provided (3 Working days)
2 August 2016	Workgroup meeting 1
9 August 2016	Workgroup meeting 2
16 August 2016	Workgroup meeting 3
19 August 2016	Workgroup Consultation issued (6.5 days)
31 August 2016	Deadline for responses (midday)
6 September 2016	Workgroup meeting 4
8 September 2016	Workgroup meeting 5 (agree WACMs and Vote)
16 September 2016	Workgroup report issued to CUSC Panel
20 September 2016	Special CUSC Panel meeting to approve WG Report

Post Workgroup modification process

22 September 2016	Code Administrator Consultation issued (5 Working days)
29 September 2016	Deadline for responses
4 October 2016	Draft FMR published for industry comment (2 Working Days)
6 October 2016	Deadline for comments
4 October 2016	Draft FMR circulated to Panel
11 October 2016	Special Panel meeting for Panel recommendation vote
13 October 2016	FMR circulated for Panel comment (3 Working day)
18 October 2016	Deadline for Panel comment
19 October 2016	Final report sent to Authority for decision
2 November 2016	Indicative Authority Decision due (10 working days)
7 November 2016	Implementation date

Updated Dates due to additional workgroup meetings

13th September 2016	Additional material circulated to the workgroup
19th September 2016	Workgroup to discuss material and further clarification.
23rd September 2016	Workgroup to send all their submissions by EOD
26th September 2016	Draft report to be sent to the workgroup by EOD
28th September 2016	Deadline for all workgroup responses to the draft report to be submitted to Technical Secretary and deadline for proposed WACM's legal text.

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4th October 2016	Workgroup report submitted to the CUSC panel
11th October 2016 (proposed special CUSC panel)	Workgroup report discussed at panel
28th October 2016	CUSC panel

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Appendix 2 – Proposed EDF Workgroup Timetable (Urgent without Code Administrator Consultation)

The following timetable has been suggested by EDF Energy. EDF also provide the following reason for this;

'EDF Energy believes its Proposal merits progress via an urgent modification process, as the nature of the proposal exhibits the following characteristics:

- The proposal is linked to an imminent date related event (on the 24th August 2016, after 3 months of consideration, Ofgem will make a determination as to the validity of the IAE that was raised by National Grid). Moreover a very large volume of customers (both domestic and non-domestic) will re-contract with suppliers this autumn. Uncertainty on allocation of this large cost will impact those contracts to the detriment of consumers.
- There is a significant commercial impact on CUSC parties and their customers.

We understand that, after the Authority's decision, National Grid is planning to engage with the industry to decide how best to recover these costs. Consultation and implementation could add a few months to this process – which during this time there is a significant amount of further uncertainty on how to treat the allocation of £113m of costs and what it means for suppliers and their customers.

Customers who are currently contracting with suppliers face uncertainty as to how much of the IAE event they will end up picking up. Those customers on pass-through terms may end up unfairly picking up a proportion of the Black Start costs based purely on the profiling of costs allocated by National Grid without due thought on the impact it will have to those organisations. If we are unable to obtain an implementation date within September 2016 then certain customers will continue to bear the full risk on the eventual outcome. We do not believe there is any point in extending the process further as there is unlikely to be material value gained and certainty is very critical in this case. '

18 July 2016	CUSC Modification Proposal and request for Urgency submitted
25 July 2016	CUSC Panel meeting to consider proposal and urgency request
25 July 2016	Panel's view on urgency submitted to Ofgem for consultation
19 July 2016	Request for Workgroup members (3 Working days) (responses by 22 July 2016)
25 July 2016	Ofgem's view on urgency provided (3 Working days) (response back by 28 July 2016)
2 August 2016	Workgroup meeting 1
9 August 2016	Workgroup meeting 2
16 August 2016	Workgroup meeting 3 (including legal text)
26 August 2016	Issue Workgroup Report to CUSC panel (5 days – deadline 5th Sept 2016)
6 September 2016	Issue Code Admin Consultation Report (6 days)
15 September 2016	Deadline for responses (15th September 2016)

20 September 2016	Special CUSC Panel meeting to approve WG Report and vote on CMP267
23 September 2016	Final report sent to Authority for decision
30 September 2016	Indicative Authority Decision due (5 working days)
5 October 2016	Implementation date

Annex 5 – CMP267 Workgroup attendance register

			02/08/2016	09/08/2016	16/08/2016	06/09/2016	08/09/2016	19/09/2016
Attendee	Organisation	Member, Alternate or observer	CMP267 WG1	CMP267 WG2	CMP267 WG2	CMP267 WG2	CMP267 WG2	CMP267 WG2
John Martin	National Grid	Chair	A	X	A	A	A	X
Ryan Place	National Grid	Chair	X	X	X	X	X	A
Andrew Wainwright	National Grid	Chair	X	A	X	X	X	X
Ellen Bishop	National Grid	Tec Sec	X	X	X	A	A	A
Caroline Wright	National Grid	Tec Sec	A	A	A	X	X	X
Nick Pittarello	National Grid	NG representative	A	A	X	X	X	X
Juliet Richards	National Grid	NG representative	A	A	A	A	A	A
Robert Longden	Cornwall Energy	M	A	A/D	A	A	A	A
Binoy Dharsi	EDF Energy	M	A	A	A	A	A	A
Colette Baldwin	Eon energy	M	A	A	A	A	A	A
Lucas Lilja	Intergen	O	X	X	X	X	X	X
Helen Inwood / George Douthwaite	Npower	M	A	A	A	A	A	A
Andrew White	Ofgem	M	X - Edda Dinks attended	A	A	A	A	A
Garth Graham	SSE	M	X	A	A/D			
Paul Jones /Esther Sutton	Uniper	M	X	X	X	M (alternate)	M (alternate)	X
Guy Philips	Uniper	M (alternate)	X	A	A	X	X	X
Mary Teuton	VPI Immingham	M	A	A/D	X	A	A	A
Lisa Waters	Waters Wye	M	X	X	X	X	X	X
Christoper Granby	Infinis	M	X	X	A	X	X	X

Annex 6– CMP267 Workgroup Consultation Responses

CUSC Workgroup Consultation Response Proforma

CMP267 'Defer the recovery of BSUoS costs, after they have exceeded £30m, arising from any Income Adjusting Events raised in a given charging year, over the subsequent two charging years'.

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 **1pm 31st August 2016** to cusc.team@nationalgrid.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.

Any queries on the content of the consultation should be addressed to Caroline Wright at caroline.wright@nationalgrid.com

These responses will be considered by the Workgroup at its 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)*
Company Name:	*SSE*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	For reference, the Applicable CUSC objectives are: **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.

Standard Workgroup consultation questions – CMP267

Q	Question	Response
1	**Do you believe that the CMP267 Original Proposal better facilitates the Applicable CUSC Objectives?**	We note the justification of CMP267 set out by the Proposer in the proposal form in respect of the Applicable CUSC Objectives. We concur with the points made by the Proposer.
2	**Do you support the proposed implementation approach? Or are there any further implementation implications that need to be considered?**	We note and support the proposed implementation and transition approach set out in Section 6 of the consultation document.
3	**Do you have any other comments?**	We note that during the consultation period Ofgem issued their decision letter with respect to the IAE. It would be helpful if the various figures within the consultation could be updated in due course (following that Ofgem decision). Notwithstanding, the proposal being for an enduring solution should not be considered solely on the basis of the illustrative figures, but also on the basis of differing future scenarios and combinations of scenarios.
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	*No*

Workgroup consultation specific questions – CMP267

Q	Question	Response
5	Can you provide any information to support the Workgroup on how risk-premia is applied to customers to cover an IAE event?	Information with respect to (a) if a risk premia is applied and (b) if so, how this is done; will be determined by each party in accordance with their own (commercially sensitive) deliberations and considerations.
6	Do you think that the 2 charging years following submission of an IAE is the right time period in which to recover any deferred BSUoS costs, or can you suggest any alternative period for the recovery of deferred BSUoS costs? Can you provide any information to support this?	We note the Workgroup deliberations with respect to the two charging years following submission of an IAE. We believe there maybe merit in consider where, for example, an IAE is submitted late in a charging year (say March) but the quantum is not approved by Ofgem till well into the subsequent charging year of recovering the approved costs in four subsequent half charging years.

Q	Question		Response
7	**i)**	Do you consider that the threshold value should be set at £30m? Can you provide any information to support this, or any other threshold value?	We note the Workgroup deliberations with respect to the £30M threshold value and this seems an appropriate quantum.
	ii)	Do you agree that the threshold value should be a fixed value or should it be based on a % of BSUoS or some other value? Please provide rationale.	Having determined a level (£30M) the options are either to inflate it once a year[1] or 'convert' the £ value to an equivalent % value of BSUoS and apply that going forward. Market participants require certainty on this matter and therefore a £ value (either inflated or not) would seem to be appropriate.
	iii)	Do you agree that the agreed threshold value should be included into the CUSC?	As per the answers to (i) and (ii) above, there would be merit in the value, once agreed, to be set in the CUSC so that any change(s) to it[2] would be subject to due change process which Users can engage with.

[1] In a process set out in the CUSC; such as inflate based on the annual change to RPI published in September of the preceding charging year.

[2] Note: as per above, the value itself could be increased once a year by RPI and if this was applied then, for the avoidance of doubt, such inflationary change would not require a separate CUSC modification every year (if the CMP267 proposal set out that the £ value was to be subject to RPI).

Q	Question	Response
8	**i)** What would you consider the impact of a BSUoS price shock to be on pass through and non-pass through customers? Please provide any supporting information. **ii)** Can you provide any information about the commercial impact of a BSUoS price shock on your business / on other industry participants?	Information with respect to (i) and (ii) will be determined by each party in accordance with their own (commercially sensitive) deliberations and considerations.

Respondent:	*Colin Prestwich*
Company Name:	*SmartestEnergy*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	For reference, the Applicable CUSC objectives are: **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.

Standard Workgroup consultation questions – CMP267

Q	Question	Response
1	**Do you believe that the CMP267 Original Proposal better facilitates the Applicable CUSC Objectives?**	No. Spreading costs over future years is not consistent with the economically efficient recovery of costs in the periods in which they occur.
2	**Do you support the proposed implementation approach? Or are there any further implementation implications that need to be considered?**	No

Q	Question	Response
3	**Do you have any other comments?**	We would urge CUSC parties to think twice before raising mods of this nature. Spreading costs never has and never will be economically efficient. We would also go as far as to say that, having been seemingly uncompetitive in the market for having a had higher BSUoS cost forecast than other parties in the market – provisioning for exactly the amount of cost that this change proposal seeks to defer – it is unacceptable that one of our competitors should attempt to mitigate their own poor commercial decision making with industry change.
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	No

Workgroup consultation specific questions – CMP267

Q	Question	Response
5	Can you provide any information to support the Workgroup on how risk-premia is applied to customers to cover an IAE event?	No comment

Q	Question	Response
6	Do you think that the 2 charging years following submission of an IAE is the right time period in which to recover any deferred BSUoS costs, or can you suggest any alternative period for the recovery of deferred BSUoS costs? Can you provide any information to support this?	No. Please see answer to Q1
7	**iv)** Do you consider that the threshold value should be set at £30m? Can you provide any information to support this, or any other threshold value? **v)** Do you agree that the threshold value should be a fixed value or should it be based on a % of BSUoS or some other value? Please provide rationale. **vi)** Do you agree that the agreed threshold value should be included into the CUSC?	i) £30m or any number is random and inappropriate ii) There should not be a threshold iii) No

Q	Question	Response
8	**iii)** What would you consider the impact of a BSUoS price shock to be on pass through and non-pass through customers? Please provide any supporting information. **iv)** Can you provide any information about the commercial impact of a BSUoS price shock on your business / on other industry participants?	i) It would be more difficult to pass costs through to customers in subsequent years. A pass through customer may have left. A supplier's fixed portfolio may have shrunk. ii) Please see answer to 8 i)

Respondent:	*Please insert your name and contact details (phone number or email address)*
Company Name:	*nPower*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	For reference, the Applicable CUSC objectives are: **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.

Standard Workgroup consultation questions – CMP267

Q	Question	Response
1	**Do you believe that the CMP267 Original Proposal better facilitates the Applicable CUSC Objectives?**	This proposal better facilitates CUSC Objective (a) 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. It provides increased transparency and predictability of costs for market participants. By delaying the recovery of costs, suppliers can more accurately reflect into a wider number of non-pass through customer contracts changes as a result of IAE's rather than the impacts being borne mainly by customers on pass through contracts, suppliers and generators. Given that this modification will apply also to future IAE, it reduces the need for suppliers to add risk premia for such large, unforeseen events.
2	**Do you support the proposed implementation approach? Or are there any further implementation implications that need to be considered?**	Yes, we do generally support the implementation approach. However, as recognised in the working group, there is a risk that the £30m cap still gives rise to a substantial risk, if the decision is made late in the charging year. Our attached WACM attempts to overcome this issue. . In addition, the SF run results in known costs at an early date for both market participants and customers, thereby removing cost shocks from prior periods. Our alternative also addresses this second issue.
3	**Do you have any other comments?**	

Q	Question	Response
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	*Yes – attached.*

Workgroup consultation specific questions – CMP267

Q	Question	Response
5	Can you provide any information to support the Workgroup on how risk-premia is applied to customers to cover an IAE event?	By their very nature, IAEs are unforeseen costs, the magnitude and timing of such events are unpredictable. For that reason, it would be difficult for suppliers or generators to forecast such events and build into risk premia. Implementation of CMP267 will reduce the need for suppliers to consider including risk premia for such events since the financial impact to them is reduced. In addition our alternate allows market participants to take a clear view on whether to take account of these events within their own risk appetite.
6	Do you think that the 2 charging years following submission of an IAE is the right time period in which to recover any deferred BSUoS costs, or can you suggest any alternative period for the recovery of deferred BSUoS costs? Can you provide any information to support this?	Yes, this gives time for suppliers and generators to reflect it into future prices. Please see also our suggested WACM for consideration.

Q	Question		Response
7	**vii)**	Do you consider that the threshold value should be set at £30m? Can you provide any information to support this, or any other threshold value?	This threshold value is reasonable if recovered across a full charging year. We are concerned however that it could be recovered over a shorter period (6 months or less), thus having significant impact on BSUoS price. Our suggestion (as per proposed WACM) is that National Grid should recover no more than £2.5m at the SF run for the first 15 months; thereafter, the remaining recovery is split over the next 12 months.
	viii)	Do you agree that the threshold value should be a fixed value or should it be based on a % of BSUoS or some other value? Please provide rationale.	It should be a fixed value for simplicity and clarity. This can be adjusted through future modifications if necessary.
	ix)	Do you agree that the agreed threshold value should be included into the CUSC?	Yes, it should be built into the CUSC.

Q	Question		Response
8	**v)**	What would you consider the impact of a BSUoS price shock to be on pass through and non-pass through customers? Please provide any supporting information.	As described in the working group documentation, pass through customers take the immediate impact of a BSUoS price shock. Non-pass through customers will only see changes at the point of contract renewal. Typically, customers will sign 1, 2 or 3 year contracts with suppliers. If CMP267 is not implemented, there will be an immediate BSUoS price increase, perhaps over a period of only a few months. Non pass through customers will only feel the impact of this if their contract is being renewed around that time since suppliers should be forecasting it for the affected months. Given that the number of customers renewing their contract / tariff during that short period will be small, the majority of customers will not see that increased cost. All pass through customers, however, will pick up the additional BSUoS cost immediately if CMP267 is not implemented, the current arrangements are therefore detrimental to such customers. If CMP267 is implemented, more non pass through customers will pick up a proportion of the additional costs and the extent of the increase will be spread over a longer period for pass through customers. The benefit of this modification is that it is more fair to different types of customers and more cost reflective to those customers in terms of their use of the system.
	vi)	Can you provide any information about the commercial impact of a BSUoS price shock on your business / on other industry	Implementation of CMP267 will result in a known within year impact of any IAE therefore reducing the potential risk that market participants will need to incorporate into pricing.

Respondent:	*Paul Jones (paul.jones@uniper.energy)*
Company Name:	*Uniper UK, on behalf of the E.ON Group*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	For reference, the Applicable CUSC objectives are: **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.

Standard Workgroup consultation questions – CMP267

Q	Question	Response

Q	Question	Response
1	**Do you believe that the CMP267 Original Proposal better facilitates the Applicable CUSC Objectives?**	Yes, with regard to Objective a) for the reasons identified by the Proposer. We agree that it is neutral to objectives b) – d).
2	**Do you support the proposed implementation approach? Or are there any further implementation implications that need to be considered?**	Yes, although we note that the potential changes to National Grid's licence that may be required are unlikely to mean that the change can be implemented in time for this winter and any current IAE's in progress.
3	**Do you have any other comments?**	No.
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	*If yes, please complete a WG Consultation Alternative Request form, available on National Grid's website[3], and return to the CUSC inbox at cusc.team@nationalgrid.com* No.

Workgroup consultation specific questions – CMP267

Q	Question	Response
5	Can you provide any information to support the Workgroup on how risk-premia is applied to customers to cover an IAE event?	We have no specific comments in response to this question except that the existence of price shocks increases the risk and therefore cost associated with providing fixed price contracts.

[3] http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/amendments/forms_guidance/

Q	Question	Response
6	Do you think that the 2 charging years following submission of an IAE is the right time period in which to recover any deferred BSUoS costs, or can you suggest any alternative period for the recovery of deferred BSUoS costs? Can you provide any information to support this?	Two years is an appropriate period, as this would allow suppliers to factor this in to their tariff setting and contracting arrangements. It is also generally the longest period over which the traded market operates.
7	**x)** Do you consider that the threshold value should be set at £30m? Can you provide any information to support this, or any other threshold value? **xi)** Do you agree that the threshold value should be a fixed value or should it be based on a % of BSUoS or some other value? Please provide rationale. **xii)** Do you agree that the agreed threshold value should be included into the CUSC?	i) £30m seems to be a reasonable value. There is little evidence to support that or any other alternative value and it is not clear what methodology could be used to derive an alternative figure. This would appear to be a matter of industry parties agreeing a number which would appear, on balance, to be appropriate. ii) A fixed value provides the greatest certainty to industry participants. iii) Yes, as this provides certainty and could only be changed by a subsequent CUSC modification proposal and the associated change process.

Q	Question	Response
8	**vii)** What would you consider the impact of a BSUoS price shock to be on pass through and non-pass through customers? Please provide any supporting information. **viii)** Can you provide any information about the commercial impact of a BSUoS price shock on your business / on other industry participants?	i) The change proposal will help suppliers to price customers as accurately as possible and avoid bill shocks for customers on pass through contracts. The effects of a price shock on pass through contracts depends on the pass through terms of course. If they allow an IAE to be a reopener event then customers will be exposed to the price shock. If they do not then suppliers are exposed. The existence of price shocks will make it more difficult and costly for suppliers to provide fixed price contracts, which we know a large number of customers value. ii) We would support the observations made by the workgroup in paragraphs 3.49-3.50 of the consultation document.

Respondent:	*Mary Teuton (mteuton@vpi-i.com; 0207 312 4469)*
Company Name:	*VPI Immingham*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	For reference, the Applicable CUSC objectives are: **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.

Standard Workgroup consultation questions – CMP267

Q	Question	Response
1	**Do you believe that the CMP267 Original Proposal better facilitates the Applicable CUSC Objectives?**	Yes, we believe that CMP 267 better delivers the CUSC objectives namely (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. The proposal will limit the impact of large and unforeseen BSUoS charges on market participants, many of whom may have sold or bought power on a different set of assumptions. A longer timeframe to collect large costs better facilitates competition as it removes uncertainty and, for generators, gives greater confidence in the market. BSUoS is effectively unhedgeable and therefore all the risk is carried by those buying and selling the power. Having these costs recovered over a longer period removes the uncertainty associated with pricing unforecastable risk and should ensure plant despatch within merit.

Q	Question	Response
2	**Do you support the proposed implementation approach? Or are there any further implementation implications that need to be considered?**	Yes, we support the proposed implementation approach. However, we also recognise the risks associated with the existing black start IAE, timeframes for approval of the modification and recovery of these monies. Clarity should be given to the market as soon as possible to ensure all parties are working from the same information and therefore competition is facilitated.
3	**Do you have any other comments?**	We have no further comments. This is ultimately a sensible solution to a huge issue and should be implemented regardless of the approach adopted for the recovery of the IAE black start costs.
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	*No*

Workgroup consultation specific questions – CMP267

Q	Question	Response

Q	Question	Response
5	Can you provide any information to support the Workgroup on how risk-premia is applied to customers to cover an IAE event?	We are unable to provide such information. However, given that IAE are sporadic, random and impossible to forecast, we do not believe that parties specifically include a risk premium to cover such an eventuality. The very nature of an IAE is that it was not expected and hence not included in National Grid's costs and therefore there is no way to forecast when they could happen or the size of the impact. To mitigate general risk, parties will include a standard risk premium to their BSUoS forecasts that will cover most occasions. However, whilst different parties will have a different attitude to risk, a 10% increase in BSUoS as a result of just one event, such as the recent black start IAE, is a huge cost and we do not believe that many parties would have included a risk premium to cover such a large increase in costs. Going forward, should parties have to absorb these huge costs, it is highly likely that further risk premia be added, further increasing costs to consumers and destroying competition as the merit order for power generators becomes dictated by the size of the BSUoS risk premium a generator adds.
6	Do you think that the 2 charging years following submission of an IAE is the right time period in which to recover any deferred BSUoS costs, or can you suggest any alternative period for the recovery of deferred BSUoS costs? Can you provide any information to support this?	Yes, we believe that two charging years following submission of the IAE is the right timeframe. We believe that this allows the right balance between the costs being carried and allowing both suppliers and generators to recoup the costs. Typically the wholesale market is liquid for about two years out and if a generator had sold baseload power a year ahead, then any timeframe less than this would have a serious detrimental effect on completion between generators, depending on hedging strategy. It could also limit liquidity in the market, hence reducing competition.

Q	Question		Response	
7	**xiii)**	Do you consider that the threshold value should be set at £30m? Can you provide any information to support this, or any other threshold value?	(i)	Yes, we believe that £30M is an appropriate level. Not only does it match the floor level in the current incentive scheme, it also would appear to be an appropriate level in terms of impact. As noted in the consultation document, a gas generator would consider the impact of BSUoS on its clean spark spread. Depending on your hedging strategy, spark spreads will vary, but a generator that had hedged baseload last Winter is likely to have hedged at around £4.50/MWh. A £0.30/MWh (the approximate impact of the black start IAE recovered over Winter only) would be about a 7% impact on profitability. However, if only £30M was recovered, the impact would only be approximately 1.7%. Given the majority of gas generators have been making losses in recent years, any hit to profitability is actual a contributor to increased losses. However, 2% would seem a more acceptable level than 7% and potentially within existing risk premia calculations. It is worth noting that, since then, on the back of various announcements and fuel cost changes, the market has moved so the impact would be smaller. Although impossible to attribute the movement to one item, a leading reason is the volatility surrounding BSUoS to counter the possibility of this huge impact on profitability.
	xiv)	Do you agree that the threshold value should be a fixed value or should it be based on a % of BSUoS or some other value? Please provide rationale.	(ii)	We think that a fixed threshold is more appropriate. It is clear, simple and not dependent on other factors. It means that it can also remain fixed (unless another modification is raised) as incentive schemes change.
	xv)	Do you agree that the agreed threshold value should be included into the CUSC?	(iii)	Yes, we believe that the threshold value should be included in the CUSC. It would mean a clear definition, clearly understood by industry parties with a defined method for making changes to it.

Q	Question	Response
8	**ix)** What would you consider the impact of a BSUoS price shock to be on pass through and non-pass through customers? Please provide any supporting information. **x)** Can you provide any information about the commercial impact of a BSUoS price shock on your business / on other industry participants?	(i) We have no comment, others are better placed to answer (ii) A BSUoS price shock is a direct hit to our profitability, as outlined above, assuming we have hedged volume. Whilst a risk premium is added to counter small changes, the very nature of an IAE is that it is unforecastable. As power is usually sold many months in advance, any incident that happens closer to cost recovery makes it harder to recover the costs. However, even if unhedged, short notice BSUoS shocks impact can profitability. Although hard to isolate individual factors, we do not believe that power prices have responded to the ever increasing and ever more volatile BSUoS prices over recent months, suggesting parties may be pricing BSUoS and hence wholesale prices too low. Therefore, even if unhedged, you might not be recovering the full BSUoS impact via the wholesale price as industry seems to be under-valuing it, as is often the case when costs are rising. Furthermore, for more inflexible generators, or those with must run characteristics, they often pick up a higher proportion of the costs as it is based on total generation volumes. With sparks often being negative overnight, an increase to BSUoS in this period is just a contributor to higher losses. This would seem perverse in some occasions, such as recovery of black start costs, or SBR costs, as they are the ones least contributing to system issues.

Respondent: Chloe Drew chloe.drew@havenpower.com
Company Name: Haven Power
Please express your views regarding the Workgroup Consultation, including rationale. (Please include any issues,suggestions or queries)

For reference, the Applicable CUSC objectives are:

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.

Standard Workgroup consultation questions – CMP267

Q	Question	Response
1	**Do you believe that the CMP267 Original Proposal better facilitates the Applicable CUSC Objectives?**	Yes we believe that the Original Proposal better facilitates objective (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. Short notice of large unforeseen costs is detrimental to suppliers, generators and ultimately customers. These costs are extremely difficult for suppliers/generators to manage and are likely to be most detrimental to smaller independent suppliers/generators thereby damaging competition.
2	**Do you support the proposed implementation approach? Or are there any further implementation implications that need to be considered?**	Yes
3	**Do you have any other comments?**	See below
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	No

Workgroup consultation specific questions – CMP267

Q	Question	Response
5	Can you provide any information to support the Workgroup on how riskpremia is applied to customers to cover an IAE event?	Risk premia is applied within fully fixed pricing based on likely out-turns. However historically we haven't seen costs to the level of the recent IAE (Black Start contract) and if such costs are to be recovered within year and over a short period, suppliers will need to increase their risk approach to cover this.
6	Do you think that the 2 charging years following submission of an IAE is the right time period in which to recover any deferred BSUoS costs, or can you suggest any alternative period for the recovery of deferred BSUoS costs? Can you provide any information to support this?	Yes. Ideally we would like as much notice as possible as the majority of fully fixed contracts are set in advance for one, two or three years. This approach also provides additional notice for those customers on pass-through contracts who will not have taken this into account within their budget planning process.
7	**i)** Do you consider that the threshold value should be set at £30m? Can you provide any information to support this, or any other threshold value? **ii)** Do you agree that the threshold value should be a fixed value or should it be based on a % of BSUoS or some other value? Please provide rationale. **iii)** Do you agree that the agreed threshold value should be included into the CUSC?	Yes we feel that this is a reasonable level to set the threshold and that, as discussed by the workgroup, setting as a fixed amount provides a simpler methodology.
8	**i)** What would you consider the impact of a BSUoS price	Pass-through customers will have set their budgets based on expected out-turn costs (and included within this a range of likely out-turns). They will also use their contract structure to

	shock to be on pass through and nonpass through customers? Please provide any supporting information. **ii)** Can you provide any information about the commercial impact of a BSUoS price shock on your business / on other industry participants?	minimise costs through avoidance (e.g. Triad avoidance). However, they will not be able to avoid BSUoS increases and in particular may end up with large unforeseen increases over a short period (e.g. the current Black Start costs would be recovered over the part of the year rather than the whole year). There is a further issue if amendments are made expost. Providing a notice period and spreading the costs over a longer period would make these much more manageable for pass through customers. General impact Although suppliers may be able to reopen certain 'fully fixed' contracts to recover the impact of an IAE this is not a welcome situation for either supplier or customer. Customers chose fully fixed contracts because they want budget certainty so the reopening of contracts will cause them significant difficulties (particularly those smaller customers with a very limited knowledge of the electricity market). In addition it is not a simple process for the supplier (e.g. it will involve significant re-billing activity) and is likely to have major reputational impact to both the supplier involved and the market in general. If suppliers are not able to pass through increases, it will result in higher costs at a later date for customers – both to recover costs already lost and through increased risk premia to cover future price shocks. The impact of large unforeseen increases over a short period of time is likely to have the greatest impact on smaller independent suppliers (and generators). They are much less likely to be able to absorb this level of volatility which leaves them at a disadvantage within the market. Given that balancing costs are in general becoming increasingly difficult to forecast, implementation of this proposal will support the provision of greater certainty to customers, suppliers and generators. However to provide even further certainty and benefit this should be seen as a step towards approval of CMP250.

Respondent: Binoy Dharsi (binoy.dharsi@edfenergy.com)
Company Name: EDF Energy

Q	Question	Response
1	**Do you believe that the CMP267 Original Proposal better facilitates the Applicable CUSC**	CMP267 better facilitates objective (a). It will facilitate more effective competition in the generation and supply of electricity. CMP267 proposal mitigates unforeseen price shocks impacting BSUoS which result from the submission of an IAE.

	Objectives?	An IAE by its nature is an event that is not foreseen by the System Operator. The scale of such IAEs can have a material impact on BSUoS leading to unexpected costs to suppliers and generators. Given parties cannot hedge these costs, these risks will damage competition with parties seeking to increase risk premia to customers. CMP267 is neutral against the other objectives.
2	**Do you support the proposed implementation approach? Or are there any further implementation implications that need to be considered?**	Yes, we support the proposed implementation approach.
3	**Do you have any other comments?**	IAE's in nature are relatively uncommon however the magnitude of adjustments can be significant. Between 2011 and 2013 when National Grid spent over £200m on four unexpected events the cost shocks impacted suppliers, generators and consumers by varying magnitudes depending on their hedging position and supply contractual terms.
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	No

Workgroup consultation specific questions – CMP267

Q	Question	Response
5	Can you provide any information to support the Workgroup on how riskpremia is applied to customers to cover an IAE event?	Risk to BSUoS is applied more generally based on the quality of information available at the time of offering a price/contract to a customer. IAE's can be a significant factor in the difference between forecast and actual BSUoS. For example, in May 2016 an IAE was notified by National Grid to consider recently awarded Black Start contracts, to a maximum value of £113m. Across chargeable volume of 521.9TWh this would equate to an annualised cost of £0.22/MWh to industry participants for the 2016/17 BSIS year, with recovery of this through the 2016/17 BSUoS charges. Generators and Suppliers need to protect themselves against these price shocks, typically using risk premia or their margin targets. Suppliers' prices can also disguise the true cost of risk

		premium as Terms and Conditions, or types of products offered, protect some suppliers more than others. This can lead to Consumers incurring significantly higher costs than they originally budgeted for due to the unforeseen price shock.
6	Do you think that the 2 charging years following submission of an IAE is the right time period in which to recover any deferred BSUoS costs, or can you suggest any alternative period for the recovery of deferred BSUoS costs? Can you provide any information to support this?	Yes. Cost certainty for suppliers and generators is essential to protect behaviour that would otherwise impact the cost to end consumers. A two year period will allow most suppliers to recover the costs from a wider customer base over a longer duration which means impact to consumer bills will be limited. If a shorter recovery period was in place this could have a moderate to high impact on many suppliers. Since some suppliers will be able to absorb these costs better than others, a longer recovery period should create the least amount of distortion in supplier competitiveness.
7	**i)** Do you consider that the threshold value should be set at £30m? Can you provide any information to support this, or any other threshold value? **ii)** Do you agree that the threshold value should be a fixed value or should it be based on a % of BSUoS or some other value? Please provide rationale. **iii)** Do you agree that the agreed threshold value should be included into the CUSC?	Yes, it provides a reasonable protection against the risk faced in the raising of and IAE. Suppliers and Generators are generally comfortable with exposure to some risk and fixing this at a value allows there to be clarity of the rules. For completeness, making reference to the threshold in the CUSC would make it transparent and any changes in the future could be made via another modification request.
8	**i)** What would you consider the impact of a BSUoS price shock to be on pass through and nonpass through customers? Please provide any supporting information.	Consumers who have strategically accepted terms on passthrough would be significantly impacted if the cost arising from an IAE were recovered within year. Customers who tend to fix ahead of time would be protected unless clauses within their terms and conditions of their contract allowed a pass-through of price shocks. The link to the following website clearly shows that different suppliers use their Terms and Conditions to protect themselves from unexpected costs. Those suppliers who choose to omit these from their offers, with the intention of

	ii) Can you provide any information about the commercial impact of a BSUoS price shock on your business / on other industry participants?	providing a competitive quotation with a reasonable risk premium, will not be able to compete when such events occur. Many consumers, especially in the residential market, are keen to have fixed contracts which are truly fixed. http://www.businessjuice.co.uk/energy-guides/fixed-energydeals/

Respondent: James Anderson
James.anderson@scottishpower.com
Company Name: ScottishPower Energy Management Limited

Standard Workgroup consultation questions – CMP267

Q	Question	Response
1	**Do you believe that the CMP267 Original Proposal better facilitates the Applicable CUSC Objectives?**	Yes. By reducing uncertainty to both generator and supplier parties around unforeseeable shocks to BSUoS charges, CMP267 should improve competition, reduce risk premia applied by all parties and reduce costs to consumers. It thus better facilitates Applicable Charging objective (a). We believe that the proposal is neutral against the other CUSC Charging Objectives.
2	**Do you support the proposed implementation approach? Or are there any further implementation implications that need to be considered?**	We support the proposed implementation approach which would allow IAE costs >£30m in 2016/17 to be deferred into future charging years. As these costs were unforeseen, no party (generator, supplier or consumer) has had the opportunity to take these additional costs into account when making their economic decisions.
3	**Do you have any other comments?**	No
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	No

Workgroup consultation specific questions – CMP267

Q	Question	Response
5	Can you provide any information to support the Workgroup on how riskpremia is applied to customers to cover an IAE event?	As outlined in the supporting analysis to CMP250, BSUoS costs are subject to considerable volatility which suppliers and generators have to take into account when offering products. Income Adjusting Events are included in this overall consideration of BSUoS volatility and will tend to increase historical volatility. The increasing frequency and material impact of IAE claims outlined in Table 1 (£204.3m in 2011-13 BSIS scheme period, and £113m in 2016-17) is likely to result in an increase in the size of the risk premia applied to cover such events.
6	Do you think that the 2 charging years following submission of an IAE is the right time period in which to recover any deferred BSUoS costs, or can you suggest any alternative period for the recovery of deferred BSUoS costs? Can you provide any information to support this?	Recovery of the costs relating to an IAE should be recovered by reference to Charging Years. This ensures parties are aware of when costs are to be recovered and when the recovery period has finished. Due to the period over which both generators and suppliers contract for energy, we support the proposal that costs be recovered over the subsequent two charging years. If the IAE occurs close to the end of a given Charging Year then recovery over only the subsequent Charging Year may only allow for limited opportunity for parties to recover the costs due to their contract positions.
7	**i)** Do you consider that the threshold value should be set at £30m? Can you provide any information to support this, or any other threshold value? **ii)** Do you agree that the threshold value should be a fixed value or should it be based on a % of BSUoS or some other value? Please provide rationale. **iii)** Do you agree that the agreed threshold	An Income Adjusting Event is defined in the Transmission Licence as involving an increase or decrease in costs of more than £10m in the Relevant Year and could form a potential alternative threshold. However, cost variances of £10m in a BSUoS should be within the expected range of outcomes for parties. We therefore support the use of the current BSIS cost variance sharing value of £30m as the threshold value. A fixed value would provide clarity and transparency to BSUoS payers. This may require revision over time to take account of inflation, the overall scale of BSUoS charges or the cap applied in the BSIS Incentive Scheme but this could be achieved through a subsequent Modification if required. Including the threshold value in the CUSC will provide clarity and transparency to BSUoS users.

	value should be included into the CUSC?	
8	**i)** What would you consider the impact of a BSUoS price shock to be on pass through and nonpass through customers? Please provide any supporting information. **ii)** Can you provide any information about the commercial impact of a BSUoS price shock on your business / on other industry participants?	Customers with contracts which pass through BSUoS costs are unlikely to have any means of hedging or offsetting increased costs and are likely, in turn, to attempt to pass these costs through to their customers through increased prices for goods and services. As higher BSUoS costs will not have been factored into customer prices it may take some time to recover costs affecting profitability and cash flow. Customers experiencing such a price shock are likely to include a higher risk premium in their BSUoS cost estimates in future budget and business plans to the detriment of consumers. A BSUoS price shock of £113m as outlined in the recent IAE, would add an average £0.40/MWh to BSUoS costs if recovered over the winter 2016/17. As we have contracted a significant proportion of our generation output and customer demand ahead of this winter there is little scope for recovering this additional £0.40/MWh. Such additional uncertainty would have to be factored into the decision process for future years.

Respondent: Paul Bedford
Paul.bedford@opusenergy.com
Tel: 01604 673256
Company Name: Opus Energy Ltd
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Q	Question	Response
1	**Do you believe that the CMP267 Original Proposal better facilitates the Applicable CUSC Objectives?**	CMP267 better facilitates objective (a). By deferring the recovery of the large costs associated with any proposed IAEs, it will enable suppliers to build these costs into their prices. It would also reduce the risk premia that need to be applied to BSUoS prices by both suppliers and generators.
2	**Do you support the proposed**	Yes, we support the proposed implementation approach.

	implementation approach? Or are there any further implementation implications that need to be considered?	
3	**Do you have any other comments?**	No
4	**Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?**	No

Workgroup consultation specific questions – CMP267

Q	Question	Response
5	Can you provide any information to support the Workgroup on how riskpremia is applied to customers to cover an IAE event?	No
6	Do you think that the 2 charging years following submission of an IAE is the right time period in which to recover any deferred BSUoS costs, or can you suggest any alternative period for the recovery of deferred BSUoS costs? Can you provide any information to support this?	Yes, the 2 charging years following the submission of an IAE is the right time period to recover any deferred BSUoS costs. This will spread the cost over a longer period of time, reducing the impact, and will give enough notice to allow suppliers to build the cost into most of their prices (the exception being any fixed contracts that were agreed before the submission of the IAE and which extend into the following 2 charging years over which the costs are to be recovered).
7	**i)** Do you consider that the threshold value should be set at £30m? Can you provide any information to	i) Yes, the threshold value should be set at £30m. As an annualised cost, £30m would be roughly £0.06/MWh, and a 3% increase on BSUoS prices. We feel this level of increase is manageable, but higher increases would not be,

	support this, or any other threshold value? **ii)** Do you agree that the threshold value should be a fixed value or should it be based on a % of BSUoS or some other value? Please provide rationale. **iii)** Do you agree that the agreed threshold value should be included into the CUSC?	especially if such increases are recovered over a short period of time. ii) We agree that the threshold value should be a fixed value rather than a percentage of BSUoS prices. A fixed value allows for greater certainty, so that when an IAE is submitted it is immediately known whether the costs will be deferred. BSUoS prices are volatile, and defining the threshold value based on these could mean the threshold itself is volatile, depending on the definition chosen. iii) We agree that the agreed threshold value should be included in the CUSC. This will reduce uncertainty and therefore the risk premia applied by generators and suppliers, since a consultation would then be required to change the threshold value.
8	**i)** What would you consider the impact of a BSUoS price shock to be on pass through and nonpass through customers? Please provide any supporting information. **ii)** Can you provide any information about the commercial impact of a BSUoS price shock on your business / on other industry participants?	i) A BSUoS price shock with very short notice will not affect non-pass-through customers, but will disadvantage suppliers with these customers. Pass-through customers would be exposed to high prices in the event of a BSUoS price shock, with little notice of this. ii) Suppliers with fixed contracts will be unable to pass through BSUoS price shocks, and will be exposed to these risks themselves. Whilst they will have applied risk premia to BSUoS prices, in the cases such as IAEs where the price increase is large, the risk premia may not be sufficient to cover the increased cost. Suppliers with pass-through contracts will be able to pass through increases in BSUoS to these customers. However, large increases with very little notice could have an adverse effect on the relationship between the customer and the supplier.

Annex 7– CMP267 Workgroup Proposed Legal Text

CUSC section14.29.5

BSUoS charges comprise the following costs:

(i) The Total Costs of the Balancing Mechanism
(ii) Total Balancing Services Contract costs
(iii) Payments/Receipts from National Grid incentive schemes
(iv) Internal costs of operating the System
(v) Costs associated with contracting for and developing Balancing Services
(vi) Adjustments
(vii) Costs invoiced to The Company associated with Manifest Errors and Special Provisions.
(viii) BETTA implementation costs
ix) Costs associated with an Income Adjusting Event(s) for a previous year (see sections 14.30.6 onwards)

CUSC section 14.30.6

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.

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

Relevant term for most IAE scenarios is is $BSCCA_d$ which is balancing contract costs which are non settlement period specific. (This formula says that daily charge should then be weighted by volume). However IAEs could apply to other formulae terms.

In the above, after LBS_d add **$- IAEDR_{dt} + IAEK_{dt-1} + IAEK_{dt-2} + IAEK_{dt-3}$**

And then define IAEV, IAEBSIS, IAEK FC and IAEDR in section **14.31.8** as:

Expression	*Acronym*	*Unit*	*Definition*
Total sum of deferred cost recovery relating to Income Adjusting Event(s)	$IAEDR_t$	£	Total sum of deferred recovery resulting from notice(s) of Income Adjusting Event(s) submitted in year t, further defined in section

submitted in year t			14.30.7
Costs submitted as part of IAE notices in year t	$IAEV_{t1}$	£	Value of costs submitted as part of IAE notices in year t, where IAE_1 relates to the 1st IAE submitted in relevant year t, IAE_2 relates to the 2nd IAE submitted in relevant year t etc.
Adjustment following a notice of an Income Adjusting Event	$IAEK_t$	£	Relevant adjustment to reflect previous deferral of cost recovery relating to IAE submission(s), as defined in section 14.30.9 part iv
Financing costs	FC	£	Relevant financing costs for costs incurred in year t but recovered in years t+1 or later, as defined in licence special condition 4C.XX

New section after 14.30.6 -
14.30.7 (requires re numbering subsequent paragraphs)

Suggest new heading:
'Adjustment of BSUoS cost recovery relating to IAE submission'

14.30.7 Where the Company has given notice of an Income Adjusting Event (as defined in the transmission licence, special condition 4C) all costs subject to such a notice (i.e. the final sum in the notice of the Income Adjusting Event submitted by the Company to the Authority), once the impact minus an initial sum of £30m, shall become subject to a deferred recovery process as defined in paragraph 14.30.9, as long as a) the total costs submitted as part of the IAE notice are >£30m or b) one or more IAE(s) have already been submitted in the same charging year, such that the cumulative sum of all costs relating to notices of IAEs submitted in the charging year is greater than £30m.

This is defined as $\sum IAEV_t > £30m$

14.30.8 The initial sum of £30m will be recovered via the normal BSUoS procedure in the year that the IAE notice is submitted by the Company. For the avoidance of doubt, should more than one notice of an Income Adjusting Event be submitted by the Company in the same charging year, only an initial £30m can be recovered in the year in which these notices are submitted, no matter how many IAEs are submitted in this year.

14.30.9 The deferred recovery process shall be such that;
i) where the recovery of costs associated with an IAE has not yet been completed, all recovery of remaining costs associated with the IAE (with the exception of the initial £30m sum as defined in parts 14.30.7 and 14.30.8) shall be suspended as soon as notice of an IAE is given by the Company. This is defined as $IAEDR_t = \sum IAEV_t - £30m$

ii) Once a decision on the notice of the IAE has been made by the Authority, the remaining costs associated with the IAE submission shall be deferred in accordance with part iii below.

iii) The remaining costs (defined as $IAEDR_t$) shall be recovered over the 2 following charging years after the Authority decision, with 50% of the remaining costs being recovered in each of the following charging years
iv) for all cost recovery that takes place later than the year in which costs were incurred, relevant financing costs (as specified in special licence condition 4C) shall be added to the amount recovered.
This is defined as:

$IAEK_{t+1} = (0.5 \times IAEDR_t) + FC_{t+1}$ where IAE decision received in year t, or £0m where IAE decision received in year t+1

$IAEK_{t+2} = (0.5 \times IAEDR_t) + FC_{t+2}$

$IAEK_{t+3} = (0.5 \times IAEDR_t) + FC_{t+3}$ where IAE decision received in year t+1, or £0m where IAE decision received in year t

v) For the avoidance of doubt, where an IAE notice has been disallowed or only granted in part, any resulting change in SO incentive income (as per the BSIS incentive scheme defined in sections 14.30.12 to 14.30.20) shall be reflected in BSUoS charges in the year of the decision, and will not impact the amount of deferred recovery.

14.30.10 Where notice of an IAE has been given by the Company to the Authority after all costs associated with the IAE have already been recovered from Users, the deferral process outlined in 14.30.9 shall not apply.

14.30.11 Examples of the application of sections 14.30.7 to 14.30.10 under various scenarios are provided below:

1 IAE where the Company has given notice of the IAE in charging year t, and decision on the IAE is received in year t (assumes IAE granted in full therefore no impact on incentive scheme):

Timing	**Total Sum**	**Year t cost recovery**	**Year t+1 cost recovery**	**Year t+2 cost recovery**	**Year t+3 cost recovery**
Company gives notice year t IAE decision received year t	£100m	£30m $IAEDR_t$ = £100m - £30m = £70m	IAE decision in year t therefore: £35m +FC	£35m +FC	£0

1 IAE where the Company has given notice of the IAE in charging year t, and decision on the IAE is received in year t (IAE granted in part, with £50m granted as an IAE and £50m not granted, such that the SO incurs a reduction in income of £15m):

Timing	**Total Sum**	**Year t cost recovery**	**Year t+1 cost recovery**	**Year t+2 cost recovery**	**Year t+3 cost recovery**

Company gives notice year t IAE decision received year t	£100m	£30m $IAEDR_t$ = £100m - £30m - £70m deferred **£15m removed from BSUoS charges in year t.**	IAE decision in year t therefore: £35m+FC	£35m +FC	£0

1 IAE where the Company has given notice of the IAE in charging year t, and decision on the IAE is received in year t+1 (assumes IAE granted in full therefore no impact on incentive scheme):

Timing	**Total Sum**	**Year t cost recovery**	**Year t+1 cost recovery**	**Year t+2 cost recovery**	**Year t+3 cost recovery**
Company gives notice year t IAE decision received year t+1	£100m	£30m $IAEDR_t$ = £100m - £30m = £70m	£0m	£35m +FC	£35m +FC

2 IAEs where the Company has given notice of both IAEs in charging year t, and decision on both IAEs is received in year t (assumes both IAEs granted in full therefore no impact on incentive scheme):

Timing	**Total Sum**	**Year t cost recovery**	**Year t+1 cost recovery**	**Year t+2 cost recovery**	**Year t+3 cost recovery**
Company gives notice of IAE in year t IAE decision received year t	£10m	£10m	£0m	£0m	£0m
Company gives notice of 2nd IAE in year t	£50m	£20m $IAEDR_t$ = £60m -	£15m + FC	£15m + FC	£0m

2nd IAE decision received year t		£30m = £30m			

2 IAEs where the Company has given notice of both IAEs in charging year t, decision on 1st IAE is received in year t, and decision on 2nd IAE is received in year t+1 (assumes both IAEs granted in full therefore no impact on incentive scheme):

Timing	**Total Sum**	**Year t cost recovery**	**Year t+1 cost recovery**	**Year t+2 cost recovery**	**Year t+3 cost recovery**
Company gives notice of IAE in year t IAE decision received year t	£50m	£30m (Decision received)	£10m + FC	£10m + FC	£0m
Company gives notice of 2nd IAE in year t 2nd IAE decision received year t+1	£50m	£0m Decision not yet received. IAEDRt = (£50m + £50m) - £30m = £70m	£0m (Decision received)	£25m + FC	£25m +FC

Section 14.30.13:

14.30.13 Daily Incentivised Balancing Cost (IBC_d) is calculated as follows:

$$IBC_d = \sum_{j \in d} (CSOBM_{jd} + BSCCV_{jd}) + BSCCA_d - OM_d - RT_d - BSFS_d$$

RT_t term refers to adjustment to incentivised cost to reflect an IAE.

Section 14.32 (examples of BSUoS charge calculations):

This section will need to be updated to reflect changes in the formulae for section 14.30.6

Calculating the External Balancing Services Use of System (BSUoS) charge for a Settlement Period j

The External Balancing Services Use of System (BSUoS) charge for Settlement Period 1 on this Settlement Day 1 can now be calculated using the following formula:

$$BSUoSEXT_{11} = CSOBM_{11} + BSCCV_{11}$$
$$+\left[\left(IncpayEXT_1 + BSCCA_1 + ET_1 - OM_1 + RFIIR_1 + ROV_1 + BSFS_1 + NC_1 + IONT_1 + LBS_1\right)\right.$$
$$\left.*\left\{ \left|\sum\nolimits^{+}(QM_{i1,1} * TLM_{i1,1})\right| + \left|\sum\nolimits^{-}(QM_{i1,1} * TLM_{i1,1})\right| \right\} / \sum\nolimits_{j\in 1}\left\{ \left|\sum\nolimits^{+}(QM_{ij} * TLM_{ij})\right| + \left|\sum\nolimits^{-}(QM_{ij} * TLM_{ij})\right| \right\} \right]$$

Annex 8– CMP267 Workgroup Proposed WACM

CUSC WORKGROUP CONSULTATION ALTERNATIVE REQUEST FORM

Please send your completed form along with your completed Workgroup Consultation Response to ###### by ####.

Please note that any responses received after the deadline may not receive due consideration by the Workgroup.

Respondent Name and contact details	*Helen Inwood, npower* *07795 354788*
CMP267 - Defer the recovery of BSUoS costs, after they have exceeded £30m, arising from any Income Adjusting Events raised in subsequent two charging years	CMP267 - Defer the recovery of BSUoS costs, after they have exceeded £30m, arising from any Income Adjusting Events raise subsequent two charging years
Capacity in which the WG Consultation Alternative Request is being raised : (i.e. CUSC Party, BSC Party or "National Consumer Council ")	CUSC Party

Description of the Proposal for the Workgroup to consider***(mandatory by proposer)*****:**

CMP267 aims to defer any unforeseen increases in BSUoS cost arising from an IAE by two years when those unforeseen costs exceeds £30m in a charging year. It is proposed that up to £30m can be charged in the current charging year.

This WACM proposes that, after approval of the IAE by Ofgem, up to £2.5m per month is recovered in BSUoS through the SF settlement run in the next 15 months. Thereafter, i.e. from month 16, the

remaining recovery arising from the IAE is split equally over the next 12 months.

Description of the difference(s) between your proposal compared to Original / Workgroup Alternative(s) ***(mandatory by proposer)*****:**

The proposal provides certainty that the potential risk within a 15 month period is known. This then allows market participants to adjust their risk appetite accordingly.

Justification for the proposal (*<u>including why the Original proposal / Workgroup Alternative(s) does not address the defect</u>*) ***(mandatory by proposer)*****:**

This WACM is a variation on the original but aims to address the issue of:

(a) A large increase in BSUoS price in the event that there is only a few months left of the charging year to spread the £30m threshold cost over

(b) It allows all recovery to take place in the SF run

(c) It gives suppliers and generators clear visibility of costs being recovered

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

As per CMP267

Impact on Core Industry Documentation *(this should be given where possible)*:

As per CMP267

Impact on Computer Systems and Processes used by CUSC Parties *(this should be given where possible)*: As per CMP267
Justification for the proposal with Reference to Applicable CUSC Objectives* ***(mandatory by proposer)*****:** **Same as original proposal**

Attachments (Yes/No): **If Yes, Title and No. of pages of each Attachment:**	No

Annex 9– CMP267 Workgroup Legal Text for Proposed WACM

Addendum to CMP267 Workgroup report:

Following significant complexity in defining legal text, npower as proposer of the Workgroup Alternative agreed to simplify their Alternative proposal. The simplified proposal is defined below.

The alternative proposed by npower has some similarities to the Original proposal for CMP267, but differs with regard to the £30m threshold, recovery in the year that notice of the IAE is given, and in the timings of further deferred recovery.

Essentially, all IAEs, regardless of their size are subject to a deferred recovery as follows:

- In the year that the notice of the IAE is given by the System Operator (year t), ensuing recovery of costs is limited to a daily cap of £82,200. (If applied over the entire year this would equate to £30m p.a. but the daily cap avoids a spike in recovery where notice of an IAE is submitted late in the year). In year t+1 the daily cap continues to apply such that a maximum of £30m (plus relevant financing costs) can be recovered in year t+1. Any remaining costs are recovered in year t+2, plus relevant financing costs.

- The daily cap in years t and t+1 applies across all IAEs that are in year t or t+1 of recovery. Thus no more than £82,200 (plus relevant financing costs where applicable) in total can be added to BSUoS daily costs in order to recover costs associated with IAEs in their first 2 years of recovery. Any remaining costs are recovered in year t+2. This assures a forward view of price shocks.

- As per the original, any cost recovery that has taken place before the notice of the IAE is not 'unwound', and financing costs are applied for all years where recovery of costs takes place later than the year in which costs were incurred. Likewise all changes to BSUoS as a result of the BSIS incentive scheme take place in the year that costs were incurred and do not affect the amount of cost deferred.

In clarifying the legal text, the Workgroup noted some improvements in definitions that were then worked into the legal text for the Original for greater clarity. It was also noted that the Original legal text had not specifically noted that all cost recovery would take place through the SF run and so this was added to both the Original and the Alternative legal text.

The updated legal text for both the Original and the Alternative is attached. Of the 7 Workgroup members who had voted previously, 6 were contacted and confirmed that their voting positions had not changed following this further simplification and explanation of the Alternative.

CMP267 Final proposed legal text

CUSC section14.29.5

BSUoS charges comprise the following costs:

(i) The Total Costs of the Balancing Mechanism
(ii) Total Balancing Services Contract costs
(iii) Payments/Receipts from National Grid incentive schemes
(iv) Internal costs of operating the System
(v) Costs associated with contracting for and developing Balancing Services
(vi) Adjustments
(vii) Costs invoiced to The Company associated with Manifest Errors and Special Provisions.
(viii) BETTA implementation costs
ix) Costs associated with an Income Adjusting Event(s) for a previous year (see sections 14.30.6 onwards)

CUSC section 14.30.6 and 14.31.8
New
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.

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

Relevant term for most IAE scenarios is is $BSCCA_d$ which is balancing contract costs which are non settlement period specific. (This formula says that daily charge should then be weighted by volume). However IAEs could apply to other formulae terms.

In the above, after LBS_d add **$- IAEDR_{dt} + (IAEC_{dt} + IAEFC_{dt}) + (IAED_{dt} + IAEFC_{dt}) + (IAEE_t + IAEFC_{dt})$**

And then define IAEV, IAEBSIS, IAEK FC and IAEDR in section **14.31.8** as:

Expression	*Acronym*	*Unit*	*Definition*
Total sum of deferred cost recovery relating to Income Adjusting Event(s) submitted in year t	$IAEDR_t$	£	Total sum of deferred recovery resulting from notice(s) of Income Adjusting Event(s) submitted in year t, further defined in section 14.30.7

Costs submitted as part of IAE notices in year t	$IAEV_t$	£	Value of all costs submitted as part of IAE notices in year t.
Addition to BSUoS charge in year t to reflect costs associated with an IAE submitted in year t	$IAEB_t$	£	Addition to BSUoS charge in year t to reflect costs associated with an IAE submitted in year t.
Addition to BSUoS charge in year t+1 to reflect costs associated with an IAE submitted in year t	$IAEC_t$	£	Addition to BSUoS charge in year t to reflect costs associated with an IAE submitted in year t-1.
Addition to BSUoS charge in year t+2 to reflect costs associated with an IAE submitted in year t	$IAED_t$	£	Addition to BSUoS charge in year t+2 to reflect costs associated with an IAE submitted in year t-2.
Addition to BSUoS charge in year t+3 to reflect costs associated with an IAE submitted in year t	$IAEE_t$	£	Addition to BSUoS charge in year t+3 to reflect costs associated with an IAE submitted in year t-3.
Financing costs	IAEFC	£	Relevant financing costs for costs incurred in year t but recovered in years t+1 or later, as defined in licence special condition 4C

New section after 14.30.6 -
14.30.7 (requires re numbering subsequent paragraphs)

Suggest new heading:
'Adjustment of BSUoS cost recovery relating to IAE submission'

14.30.7 Where the Company has given notice of an Income Adjusting Event (as defined in the transmission licence, special condition 4C) all costs subject to such a notice (i.e. the final sum in the notice of the Income Adjusting Event submitted by the Company to the Authority), minus an initial sum of £30m, shall become subject to a deferred recovery process as defined in paragraph 14.30.9, as long as a) the total costs submitted as part of the IAE notice are >£30m or b) one or more IAE(s) have already been submitted in the same charging year, such that the cumulative sum of all costs relating to notices of IAEs submitted in the charging year is greater than £30m.

This is defined as $\sum IAEV_t > £30m$

14.30.8 The initial sum of £30m will be recovered via the normal BSUoS procedure in the year that the IAE notice is submitted by the Company. For the avoidance of doubt, should more than one notice of an Income Adjusting Event be submitted by the Company in the same charging year, only an initial £30m can be recovered in the year in which these notices are submitted, no matter how many IAEs are submitted in this year. This is defined as $\sum IAEB_t = £30m$.

14.30.9 The deferred recovery process shall be such that;
i) where the recovery of costs associated with an IAE has not yet been completed, all recovery of remaining costs associated with the IAE (with the exception of the initial £30m sum as defined in parts 14.30.7 and 14.30.8) shall be suspended as soon as notice of an IAE is given by the Company. This is defined as $IAEDR_t = \sum IAEV_t - £30m$

ii) Once a decision on the notice of the IAE has been made by the Authority, the remaining costs associated with the notice of the IAE shall be deferred and recovered in accordance with part iii below.

iii) The remaining costs (defined as $IAEDR_t$) shall be recovered over the 2 following charging years after the Authority decision on the IAE, with 50% of the remaining costs being recovered in each of the 2 following charging years after the decision.

iv) For all cost recovery that takes place in years later than the year in which costs were incurred, relevant financing costs (as specified in special licence condition 4C) shall be added to the amount recovered.

This is defined as:
$IAEC_{t+1} = (0.5 \times IAEDR_t) + IAEFC_{t+1}$ where IAE decision received in year t, or £0m where IAE decision received in year t+1

$IAED_{t+2} = (0.5 \times IAEDR_t) + IAEFC_{t+2}$

$IAEE_{t+3} = (0.5 \times IAEDR_t) + IAEFC_{t+3}$ where IAE decision received in year t+1, or £0m where IAE decision received in year t

v) For the avoidance of doubt, where an IAE notice has been disallowed or only granted in part, any resulting change in SO incentive income (as per the BSIS incentive scheme defined in sections 14.30.12 to 14.30.20) shall be reflected in BSUoS charges in the year of the decision, and will not impact the amount of deferred recovery. Example B in section 14.30.10 below illustrates this scenario and the ensuing cost recovery.

vi) The Company will, from time to time, publish a schedule of the daily recovery of each IAE by charging year.

vii) Furthermore, all recovery associated with IAEs shall take place using the SF run of the relevant charging year in the first instance.

14.30.10 Where notice of an IAE has been given by the Company to the Authority after all costs associated with the IAE have already been recovered from Users, the deferral process outlined in 14.30.9 shall not apply.

14.30.11 Examples of the application of sections 14.30.7 to 14.30.10 under various scenarios are provided below:

Example A: One IAE where the Company has given notice of the IAE in charging year t, and decision on the IAE is received in year t (assumes IAE granted in full therefore no impact on incentive scheme):

Timing	**Total Sum**	**Year t cost recovery**	**Year t+1 cost recovery**	**Year t+2 cost recovery**	**Year t+3 cost recovery**
Company gives notice year t IAE decision received year t	£100m	£30m $IAEDR_t$ = £100m - £30m = £70m	IAE decision in year t therefore recovery of £35m +IAEFC	£35m +IAEFC	£0m

Example B: One IAE notice (totalling £100m) where IAE granted in part, with £50m granted as being exempt from the BSIS incentive scheme and £50m not, such that the SO incurs a reduction in income of £15m via the BSIS scheme:

Timing	**Total Sum**	**Year t cost recovery**	**Year t+1 cost recovery**	**Year t+2 cost recovery**	**Year t+3 cost recovery**
Company	£100m	£30m	IAE decision in	£35m +IAEFC	£0m

gives notice year t IAE decision received year t		$IAEDR_t$ = £100m - £30m - £70m deferred **£15m removed from BSUoS charges in year t.**	year t therefore recovery of : £35m+IAEFC		

Example C: One IAE where the Company has given notice of the IAE in charging year t, and decision on the IAE is received in year t+1 (assumes IAE granted in full therefore no impact on incentive scheme):

Timing	**Total Sum**	**Year t cost recovery**	**Year t+1 cost recovery**	**Year t+2 cost recovery**	**Year t+3 cost recovery**
Company gives notice year t IAE decision received year t+1	£100m	£30m $IAEDR_t$ = £100m - £30m = £70m	£0m	£35m +IAEFC	£35m +IAEFC

Example D: Two IAEs where the Company has given notice of both IAEs in charging year t, and decision on both IAEs is received in year t (assumes both IAEs granted in full therefore no impact on incentive scheme):

Timing	**Total Sum**	**Year t cost recovery**	**Year t+1 cost recovery**	**Year t+2 cost recovery**	**Year t+3 cost recovery**
Company gives notice of IAE in year t IAE decision received year t	£10m	£10m	£0m	£0m	£0m
Company gives notice of 2nd IAE in year t 2nd IAE decision received year t	£50m	£20m $IAEDR_t$ = £60m - £30m = £30m	£15m + IAEFC	£15m + IAEFC	£0m

Example E: Two IAEs where the Company has given notice of both IAEs in charging year t, decision on the 1st IAE is received in year t, and decision on the 2nd IAE is received in year t+1

(assumes both IAEs granted in full therefore no impact on incentive scheme):

Timing	Total Sum	Year t cost recovery	Year t+1 cost recovery	Year t+2 cost recovery	Year t+3 cost recovery
Company gives notice of IAE in year t IAE decision received year t	£50m	£30m	£10m + IAEFC	£10m + IAEFC	£0m
Company gives notice of 2nd IAE in year t 2nd IAE decision received year t+1	£50m	£0m (Cap of £30m already reached due to 1st IAE). IAEDRt = (£50m + £50m) - £30m = £70m	£0m (Decision received)	£25m + IAEFC	£25m +IAEFC

Section 14.30.13:

14.30.13 Daily Incentivised Balancing Cost (IBC_d) is calculated as follows:

$$IBC_d = \sum_{j \in d} (CSOBM_{jd} + BSCCV_{jd}) + BSCCA_d - OM_d - RT_d - BSFS_d$$

RT_t term refers to adjustment to incentivised cost to reflect an IAE.

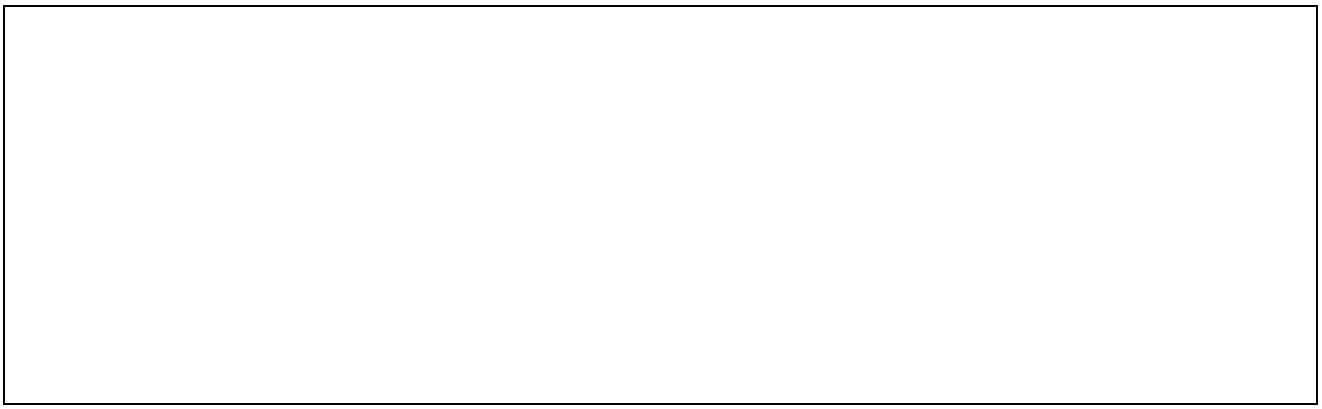
Section 14.32 (examples of BSUoS charge calculations):

This section will need to be updated to reflect changes in the formulae for section 14.30.6

Calculating the External Balancing Services Use of System (BSUoS) charge for a Settlement Period j

The External Balancing Services Use of System (BSUoS) charge for Settlement Period 1 on this Settlement Day 1 can now be calculated using the following formula:

$$BSUoSEXT_{11} = CSOBM_{11} + BSCCV_{11}$$
$$+\left[(IncpayEXT_1 + BSCCA_1 + ET_1 - OM_1 + RFIIR_1 + ROV_1 + BSFS_1 + NC_1 + IONT_1 + LBS_1) \right.$$
$$\left. * \{ \left| \sum^{+} (QM_{i1,1} * TLM_{i1,1}) \right| + \left| \sum^{-} (QM_{i1,1} * TLM_{i1,1}) \right| \} / \sum_{j \in 1} \{ \left| \sum^{+} (QM_{ij} * TLM_{ij}) \right| + \left| \sum^{-} (QM_{ij} * TLM_{ij}) \right| \} \right]$$



CMP267 Alternative proposed legal text

CUSC section14.29.5

BSUoS charges comprise the following costs:

(i) The Total Costs of the Balancing Mechanism
(ii) Total Balancing Services Contract costs
(iii) Payments/Receipts from National Grid incentive schemes
(iv) Internal costs of operating the System
(v) Costs associated with contracting for and developing Balancing Services
(vi) Adjustments
(vii) Costs invoiced to The Company associated with Manifest Errors and Special Provisions.
(viii) BETTA implementation costs
ix) Costs associated with an Income Adjusting Event(s) for a previous year (see sections 14.30.7 onwards)

CUSC section 14.30.6 and 14.31.8
New
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.

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

Relevant term for most IAE scenarios is is $BSCCA_d$ which is balancing contract costs which are non settlement period specific. (This formula says that daily charge should then be weighted by volume). However IAEs could apply to other formulae terms.

In the above, after LBS_d add **$- IAEDR_{dt} + (IAEC_{dt} + FC_{dt}) + (IAED_{dt} + FC_{dt})$**

And then define IAEV, IAEB, IAEC, IAED, IAEK, FC and IAEDR in section **14.31.8** as:

Expression	*Acronym*	*Unit*	*Definition*
Addition to BSUoS charge in year t to reflect costs associated with an IAE submitted in year t	$IAEB_t$	£	Addition to BSUoS charge in year t to reflect costs associated with an IAE submitted in year t. This shall be subject to a daily cap as defined in 14.30.8 part ii where $\sum IAEB_{dt} \leq$ £82,200. This is further defined as $IAEB_{dta}$ for daily additions associated with IAE_a as the first IAE submitted in year t, similarly $IAEB_{dtb}$ for daily additions associated with IAE_b as the second IAE submitted in year t etc.

Addition to BSUoS charge in year t+1 to reflect costs associated with an IAE submitted in year t	$IAEC_{t+1}$	£	Addition to BSUoS charge in year t+1 to reflect costs associated with an IAE submitted in year t. This shall be subject to a daily cap as defined in 14.30.8
Addition to BSUoS charge in year t+2 to reflect costs associated with an IAE submitted in year t	$IAED_{t+2}$	£	Addition to BSUoS charge in year t+2 to reflect costs associated with an IAE submitted in year t.
Total sum of deferred cost recovery relating to Income Adjusting Event(s) submitted in year t	$IAEDR_t$	£	Total sum of deferred recovery resulting from notice(s) of Income Adjusting Event(s) submitted in year t, further defined in section 14.30.7. This is further defined as $IAEDR_{ta}$ for the deferred recovery associated with IAE_a as the first IAE submitted in year t, similarly $IAEDR_{tb}$ for deferred recovery associated with IAE_b as the second IAE submitted in year t etc.
Costs submitted as part of IAE notices in year t	$IAEV_t$	£	Value of all costs submitted as part of IAE notices in year t, where $IAEV_{at}$ relates to the 1st IAE submitted in relevant year t, $IAEV_{bt}$ relates to the 2nd IAE submitted in relevant year t etc.
Financing costs	IAEFC	£	Relevant financing costs for costs associated with an IAE and incurred in year t but recovered in years t+1 or t+2, as defined in licence special condition 4C.

New section after 14.30.6 -
14.30.7 (requires re numbering subsequent paragraphs)

Suggest new heading:
'Adjustment of BSUoS cost recovery relating to IAE submission'

14.30.7 Where the Company has given notice of an Income Adjusting Event (as defined in the transmission licence, special condition 4C) all costs subject to such a notice (i.e. the final sum in the notice of the Income Adjusting Event submitted by the Company to the Authority), minus any costs already recovered, shall become subject to a deferred recovery process as defined in paragraph 14.30.8.

14.30.8 The deferred recovery process shall be such that;
i) The recovery of remaining costs associated with the IAE shall cover 3 charging years - the year in which the notice of an IAE was given and the 2 following charging years.

ii) Recovery of remaining costs associated with the IAE can begin immediately, but in the first and second years of recovery (year t and year t+1 for an IAE where notice is given in year t) is subject to a daily cap of £82,200 applied to the daily charge being added to BSUoS to recover these costs. Example A in 14.30.10 illustrates this scenario and the ensuing cost recovery.

iii) In the event of there being more than one IAE raised, this cap applies to the recovery of all IAEs raised in the relevant year(s) such that the total addition to daily BSUoS charges to recover cost associated with all IAEs in the 1st and 2nd years of cost recovery can never exceed the daily cap of

£82,200. This cap does not include relevant financing costs as defined in part iv.

This is defined as $IAEB_{at}$ = a maximum value up to $IAEV_a$ subject to $[\sum IAEB_{dt} + ([\sum IAEC_{dt} - IAEFC_{dt})] \leq$ £82,200

Where $\sum IAEB_{dt}$ represents all additions to BSUoS daily charges in year t to recover costs associated with an IAE where notice is given in year t, and $\sum IAEC_{dt}$ represents all cost recovery for IAEs in their 2nd year of recovery (i.e. where notice was given in year t-1).
Examples C and D in 14.30.10 illustrate these scenarios and the ensuing cost recovery.

Furthermore, allowable spend is prioritised to IAEs in order of date of submission, and the recovery of costs associated with an individual IAE can never exceed the associated spend (as set out in the licence). The Company will, from time to time, publish a schedule of the daily recovery of each IAE by charging year.

iv) For all cost recovery that takes place later than the year in which costs were incurred, specifically years t+1 and t+2 where costs were incurred in year t, relevant financing costs (as specified in special licence condition 4C) shall be added to the amount to be recovered. These costs are defined as $IAEFC_{t+1}$ and $IAEFC_{t+2}$ where costs are incurred in year t.

v) Recovery of the costs associated with an IAE raised in year t shall continue as follows:
In year t+1 the cost recovery shall still be subject to the daily cap of £82,200, plus the addition of financing costs. The cap applies to all additions to BSUoS charges to recover costs for IAEs in the 1st and 2nd year of recovery. This is defined as

$IAEC_{at+1}$ = a maximum value up to $[IAEDR_{at} + FC_{at+1}]$ **subject to** $[\sum IAEB_{dt+1} + (\sum IAEC_{dt+1} - FC_{dt+1})] \leq$£82,200

Where $\sum IAEB_{dt+1}$ represents all additions to BSUoS daily charges to recover costs associated with an IAE where notice is given in year t+1, and $\sum IAEC_{dt+1}$ represents cost recovery for all IAEs in their 2nd year of cost recovery (i.e. where notice was given in year t).

Any remaining costs, plus relevant financing costs, shall then be completely recovered in year t+2, with no cap applicable to recovery. This is defined as:

$IAED_{at+2} = [(IAEDR_{at} - (IAEC_{at+1} - FC_{at+1}) + FC_{at+2}]$ where this is > 0.

vi) For the avoidance of doubt, where an IAE notice has been disallowed or only granted in part, any resulting change in SO incentive income (as per the BSIS incentive scheme defined in sections 14.30.12 to 14.30.20) shall be reflected in BSUoS charges in the year of the decision, and will not impact the amount of deferred recovery. Example B in section 14.30.10 below illustrates this scenario and the ensuing cost recovery.

vii) Furthermore, all recovery associated with IAEs shall take place using the SF run of the relevant charging year in the first instance.

14.30.9 Where notice of an IAE has been given by the Company to the Authority after all costs associated with the IAE have already been recovered from Users, the deferral process outlined in 14.30.8 shall not apply.

14.30.10 Examples of the application of sections 14.30.7 to 14.30.9 under various scenarios are provided below:

Example A: One IAE where the Company has given notice of the IAE in year t (assumes IAE granted in full therefore no impact on incentive scheme):

Timing	**Total Sum to be recovered**	**17/18 Year t cost**	**18/19 Year t+1 cost**	**19/20 Year t+2 cost**

		recovery	recovery	recovery
Company gives notice of IAE_a on 1st July 2017 year t	$IAEV_{at}$ = £100m	**$IAEB_{at}$ = £22.44m** (273 days x £82,200) recovered in year t **$IAEDR_{at}$** = £100m - £22.44m = **£77.56m** deferred	Daily cap applies therefore **$IAEC_{at+1}$ = (**365 x£82,200) +FC_{at+1} = **£30m + FC_{at+1}** recovered and **£47.56m deferred**	**$IAED_{at+2}$** = [$IAEDR_{at}$ – ($IAEC_{at+1}$– FC_{at+1})+ FC_{at+2}] = £77.56m - £30m + FC_{at+2} = **£47.56m + FC_{at+2}**

Example B: One IAE notice (totalling £100m) where IAE granted in part, with £50m granted as being exempt from the BSIS incentive scheme and £50m not, such that the SO incurs a reduction in income of £15m via the BSIS scheme:

Timing	Total Sum to be recovered	16/17 Year t cost recovery	17/18 Year t+1 cost recovery	18/19 Year t+2 cost recovery
Company gives notice of IAE_a on 1st January 2017 year t	$IAEV_{at}$ = £100m	**$IAEB_{at}$ = £7.39m** recovered in year t (90 days x £82,200) **$IAEDR_{at}$** = £100m - £7.39m = **£92.61m** deferred £15m removed from BSUoS in year t due to BSIS scheme – does not impact recovery	Daily cap still applies therefore **$IAEC_{at+1}$ =** 365 x £82,200 = **£30m + FC_{at+1}** recovered and **£62.61m deferred.**	**$IAED_{at+2}$** = **£62.61m + FC_{at+2}**

Example C: Two IAEs where the Company has given notice of both IAEs in charging year t (assumes both IAEs granted in full therefore no impact on incentive scheme):

Timing	Total Sum	17/18 Year t cost recovery	18/19 Year t+1 cost recovery	19/20 Year t+2 cost recovery
Company gives notice of IAE on 1st April	$IAEV_{at}$ = £60m	**$IAEB_{at}$ =** 365 x £82,200 = **£30m**	Daily cap still applies therefore **$IAEC_{at+1}$ =**:	£0m

2017 in year t (IAE_a)		**$IAEDR_{at}$ = £30m**	365 x £82,200 = **£30m +FC_{at+1}** recovered and £0m deferred.		
Company gives notice of 2nd IAE on 30th Nov 2017 in year t (IAE_b)	$IAEV_{bt}$ = £50m	No additional cost recovery as 'daily cap' already reached: **So $IAEDR_{bt}$ = £50m**	No additional cost recovery as 'daily cap' already reached. Therefore **$IAEC_{bt+1}$ = 0**	**$IAED_{at+2}$** = [$IAEDR_{at}$ – ($IAEC_{at+1}$ – FC_{at+1})+ FC_{t+2}] = **£50m+ FC_{t+1} + FC_{t+2}**	

Example D: Two IAEs where the Company has given notice of both IAEs in different charging years (assumes both IAEs granted in full therefore no impact on incentive scheme):

Timing	**Total Sum**	**17/18 Cost recovery**	**18/19 Cost recovery**	**19/20 Cost recovery**	**20/21 Cost recovery**
Company gives notice of IAE_a on 1st April 2017	$IAEV_{17/18}$ = £40m	**$IAEB_a$ =** 365 x £82,200 = **£30m** **$IAEDR_a$** = £40m - £30m = **£10m**	Daily cap allows for max. £82,200 recovery per day across all live IAEs. Therefore full remaining amount of IAE is recovered after 122 days, and financing costs are added to this. **$IAEC_a$ = £10m + $FC_{18/19}$** recovered, £0m deferred.	**$IAED_a$** = £0m	£0m
Timing	**Total Sum**	**17/18**	**18/19 Cost recovery**	**19/20 Cost recovery**	**20/21 Cost recovery**
Company gives notice of 2nd IAE (IAE_b) on 1st April 2018	$IAEV_{18/19}$ = £55m		Remaining cap over 243 days: IAE_b: **$IAEB_b$ =** c. **£20m** recovered, **$IAEDR_b$ = £35m deferred**. No financing costs added to recovery for IAE_b as this	As this is 2nd year of recovery for IAE_b daily cap still applies: **$IAEC_b$ = £30m + $FC_{19/20}$**	**$IAED_b$** = [$IAEDR_b$) – ($IAEC_b$ – $FC_{19/20}$)+ $FC_{20/21}$] = £35m – £30m + $FC_{20/21}$= **£5m + $FC_{20/21}$**

			takes place in the year costs were incurred		
Total impact:		**Recovery in 17/18** = $IAEB_{15/16}$ = **£30m** Deferred: $IAEDR_{15/16}$ =£10m	**Recovery in 18/19 =** $IAEC_{18/19}$ =£10m + $FC_{18/19}$ **plus** $IAEB_{18/19}$ = £20m **(Total £30m + $FC_{18/19}$)** Deferred: $IAEDR_{18/19}$ = £35m	**Recovery in 19/20 =** $IAEC_{19/20}$ = **£30m + $FC_{19/20}$**	**Recovery in 20/21 =** $IAED_{20/21}$ = **£5m + $FC_{20/21}$**

Section 14.30.13:

14.30.13 Daily Incentivised Balancing Cost (IBC_d) is calculated as follows:

$$IBC_d = \sum_{j \in d} (CSOBM_{jd} + BSCCV_{jd}) + BSCCA_d - OM_d - RT_d - BSFS_d$$

RT_d term refers to adjustment to incentivised cost to reflect an IAE.

Section 14.32 (examples of BSUoS charge calculations):

This section will need to be updated to reflect changes in the formulae for section 14.30.6

Calculating the External Balancing Services Use of System (BSUoS) charge for a Settlement Period j

The External Balancing Services Use of System (BSUoS) charge for Settlement Period 1 on this Settlement Day 1 can now be calculated using the following formula:

$$BSUoSEXT_{11} = CSOBM_{11} + BSCCV_{11}$$
$$+\left[(IncpayEXT_1 + BSCCA_1 + ET_1 - OM_1 + RFIIR_1 + ROV_1 + BSFS_1 + NC_1 + IONT_1 + LBS_1) \right.$$
$$\left. * \{ \left| \sum^{+} (QM_{i1,1} * TLM_{i1,1}) \right| + \left| \sum^{-} (QM_{i1,1} * TLM_{i1,1}) \right| \} / \sum_{j \in 1} \{ \left| \sum^{+} (QM_{ij} * TLM_{ij}) \right| + \left| \sum^{-} (QM_{ij} * TLM_{ij}) \right| \} \right]$$

Suggest no further change added as examples of the deferral process are included in 14.30.11