

An aerial night photograph of a city, likely New York City, showing a wide river (the Hudson River) winding through the urban landscape. The city is densely packed with buildings, many of which are brightly lit, creating a vibrant glow against the dark sky. The river is also illuminated, and the surrounding area is filled with lights from streets and structures. The overall scene is a panoramic view of a major metropolitan area at night.

CMP277 'Special License Condition 4J'

CMP278 'BSIS 2017 Housekeeping'

31 March 2017

nationalgrid

CMP277 'Special License Condition 4J'

- New NGET License Condition due to come into effect and be applied retrospectively from 1 April 2017
- Allows the SO to proactively procure Commercial Operational Services from the **Scottish** TOs, in order to minimise whole system costs, e.g. could build a temporary bypass circuit to alleviate a transmission constraint thereby lowering BSUoS costs
- CUSC 14.30 needs updated to reflect the new terms in the License definition of External BSUoS costs
- CUSC 14.32 (example BSUoS calculation) needs updated in a similar way

CMP278 'BSIS 2017 Housekeeping'

- Changes to NGET/SO License due to be applied retrospectively from 1 April 2017 relating to Balancing Services Incentive Scheme (BSIS)
- Cap/Collar/Sharing factor of BSIS changed from £30mn/-£30mn/30% to £10mn/-£10mn/10%
- Some minor modifications to terminology in definition of External BSUoS costs and Incentivised Balancing Costs
- Requires modification to CUSC 14.30.11 and example BSUoS calculation 14.32

CUSC Drivers

- Both mods are positively aligned with CUSC Charging Objectives (b) and (c):
 - (b) That compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard licence condition C26 requirements of a connect and manage connection);
 - (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*;

Background Timeline – Industry Consultation

- Ofgem consultation on Electricity System Operator Incentives from April 2017 published 4 Aug 2016
- Ofgem Initial Proposals for electricity System Operator incentives from April 2017 published 21 Dec 2016
- Ofgem Final Proposals for electricity System Operator incentives from April 2017 published 1 March 2017
- Notice of statutory consultation on License modification published 1 March 2017
- Presentation on Special License Condition 4J delivered to TCMF on 8 March 2016 (See Appendix)

Key Points – License Condition 4J

■ From Ofgem Final Proposals:

- 1.79. The relationship between NGET and the TOs is becoming increasingly important with strong interdependencies between the two. However, there is a gap in the current arrangements where the TO could incur increased expenditure to reduce overall system costs.
- 1.80. At present, there is no mechanism through which NGET can fund the TO for carrying out works which lead to overall system cost savings. For example, the TO could build a temporary tower so as to maintain a circuit operational when upgrading a section of the network, or add an additional shift of work to minimise the outage period.

SO-TO Mechanism: Key facts and figures	
Size of fund pot for pilot scheme	£1.4million
Length of mechanism	one year pilot
Cap and floor	±£1m
Sharing factor	10%
Anticipated size of projects under mechanism	£10k - £100k

■ Changes to definition of External BSUoS terms:

$$BXext_t = CSOBM_t + BSCC_t + TotAdj_t - OM_t + IncPayExt_t + BSC_t + FIIR_t + SOTOC_t + LBS_t$$

[Adjusted to rename NC_t to $SOTOC_t$, $RFIIR_t$ to $FIIR_t$, $BSFS_t$ to BSC_t , remove ROV_t and $IONT_t$ terms.]

Key Points – BSIS Changes

- Within the CUSC, sections 14.30.11 and 14.32 contain references to the BSIS cap and collar and sharing factor of £25mn/£25mn/25% respectively. From 1 April 2017 Ofgem have imposed a change to NGET License where these terms become £10mn/£10mn/10% respectively.
- Changes to definition of External BSUoS terms:

$$BXext_t = CSOBM_t + BSCC_t + TotAdj_t - OM_t + IncPayExt_t + BSC_t + FIIR_t + SOTOC_t + LBS_t$$

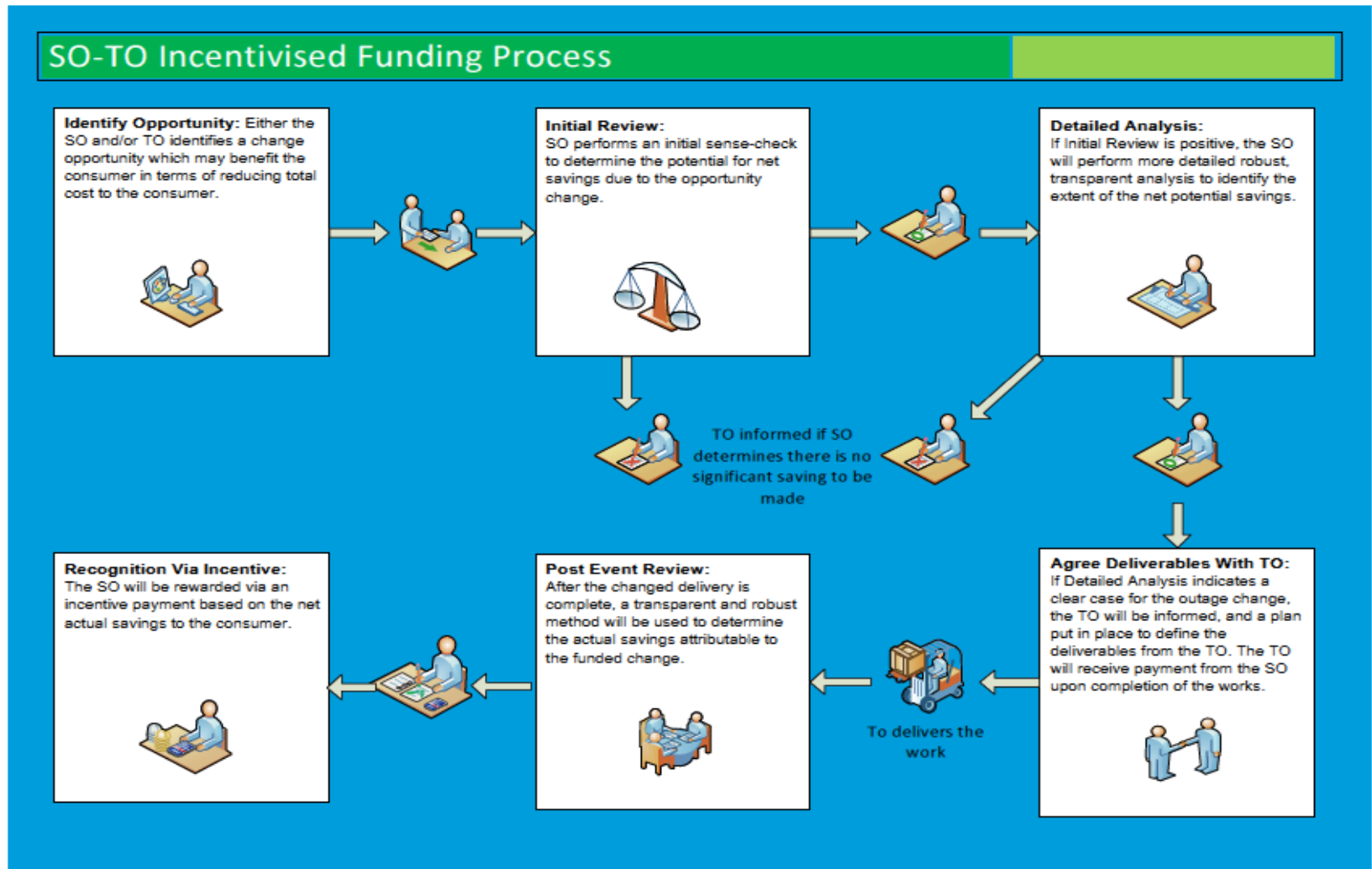
[Adjusted to rename NC_t to $SOTOC_t$, $RFIIR_t$ to $FIIR_t$, $BSFS_t$ to BSC_t , remove ROV_t and $IONT_t$ terms.]

APPENDIX:
SO – TO Incentivised
Funding Mechanism
License Condition
8 March 2017

Background

- *“The relationship between NGET and the TOs is becoming increasingly important with strong interdependencies between the two. However, there is a gap in the current arrangements where the TO could incur increased expenditure to reduce overall system costs.”*
- *“At present, there is no mechanism through which NGET can fund the TO for carrying out works which lead to overall system cost savings. For example, the TO could build a temporary tower so as to maintain a circuit operational when upgrading a section of the network, or add an additional shift of work to minimise the outage period.”*

Process Overview



New Special License Condition 4J

- Establishes the value of SO to Scottish TOs Cost Allowance
- Places obligation on NG to produce quarterly reports on use of funding
- Establishes incentive mechanism for part of the allowance

Value of Allowances

- Main components:
 - Outage changes (OC), as per existing STCP 11.3, used by the SO to compensate the TO for changes to the TO works plan instigated by the SO, e.g. recalling a circuit due to changing system considerations.
 - Value £1.1mn in 09/10 prices, approx. £1.4mn today
 - Commercial Operational Services (COS) is a new allowance. Incentivises the SO and TO to work together to deliver works differently to reduce overall cost of system, e.g. install a temporary bypass circuit to alleviate a constraint-causing outage. STCP 11.4 being drafted.
 - Value approx. £1.4mn

Value of Allowances (cont'd)

- Main components (cont'd):
 - Joint Works Projects (JW):
 - The cost of a Commercial Operational Service proposal > COS yearly value (e.g. £1.4mn).
 - Works cannot be funded elsewhere.
 - Must provide value to consumers > costs.
 - SO submits a sanction paper to Ofgem to include: forecast costs and savings; methodologies of how costs and savings are calculated; evidence that the project cannot be funded through other mechanisms (e.g. RIIO); support from independent third party review.
 - The Authority will decide on sanctioning the project, and the level of costs allowed to be recovered.

Value of Allowances (cont'd)

- Main components (cont'd):
 - Incentive payment
 - The Authority will determine the level of payment based on the end of year report submitted by the SO.
 - Payment set at sharing factor of 10% of savings demonstrated, capped/collared at \pm £1mn

Reporting

- Quarterly reporting to be published on NG website by 1 July, 1 Sept etc.
- Report must include:
 - Detail of all works undertaken for all categories (OC, COS, JW)
 - Include forecast and actual costs; forecast and actual savings; robust methodologies to cover these items, e.g. full detail on any counterfactual used to state savings. Consider making any models used available to Ofgem (eg. spreadsheets/Plexos)
 - Detail of all commercial works rejected where the cost or savings of such works estimated > £25k
 - Can exclude confidential data if approved by Ofgem

Reporting (cont'd)

- End of Year Commercial Operational Services and Joint Works report:
 - Contains information on Commercial Operational Services and Joint Works, *NOT* Outage Changes
 - Submitted by 1 July 2018
 - Has been put out to consultation by NG for 28 days
 - Consultation includes: methodologies used to calculate costs and savings; explanation of actions considered and taken by the SO
 - All responses must be included in report, and NG 'must have regard to stakeholder views'
 - Accompanied by statement from independent expert's opinion on:
 - Investigation on projects and costs in the report
 - Appropriateness of original outage plans
 - The Authority will use the report to decide on the level of incentive payment NG receives

Cost Recovery

- OC expenditure incurred via STCP 11.3 recovered in same way as currently via BSUoS
 - Costs billed across all settlement periods
- New term COS to be recovered in same way as OC term
 - Billed across all settlement periods
- In the event JW is used, billing will also be spread across all settlement periods

Outage Cost Adjusting Event

- Current process will still apply to OC term:
 - If the SO spends more or less than the £300k 'outage threshold amount' around the OC allowance (approx. £1.4mn) we need to inform Ofgem as per usual process (e.g. if OC spend is $< \text{£}1.1\text{mn}$ or $> \text{£}1.7\text{mn}$) in order to utilise IONT term (money returned via BSUoS)
- For new COS term, the SO needs to inform Ofgem when spend is less than the allowance, to utilise IONT term. SO is not permitted to spend more than the allowance via self governance.
 - Note that the JW term gives the opportunity to spend $> \text{£}1.4\text{mn}$ on an individual project

CMP277 'Special License Condition 4J' CMP278 'BSIS 2017 Housekeeping'



CUSC Panel – 31 March 2017
John Martin

Code Administrator - Proposed Progression

- The Panel is asked to agree:
 - whether CMP277 should be progressed using either;
 - A Standard timetable
 - An Urgent timetable
 - *Code Administrator recommends 'Urgent' timetable*
 - whether CMP278 should be progressed using either;
 - A Standard timetable
 - An Urgent timetable
 - A Self Governance timetable
 - *Code Administrator recommends 'Self-Governance' timetable*

Urgency Criteria

- Ofgem's current view is that an urgent modification should be linked to **an imminent issue** or a **current issue** that if not urgently addressed may cause:
 - a) **A significant commercial impact** on parties, consumers or other stakeholder(s); or
 - b) **A significant impact on the safety and security** of the electricity and/or gas systems; or
 - c) A party to be in breach of any **relevant legal requirements**.

Self Governance criteria.

- Unlikely to discriminate between different classes of CUSC Parties and is unlikely to have a material effect on:
 - Existing or future electricity customers;
 - Competition in the generation, distribution, or supply of electricity or any commercial activities connected with the generation, distribution or supply of electricity
 - The operation of the National Electricity Transmission System
 - Matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies
 - The CUSC's governance procedures or the CUSC's modification procedures

Proposed standard timetable

CMP277 & CMP278

17 March 2017	CUSC Modification Proposal and request for Urgency submitted
31 March 2017	CUSC Panel meeting to consider proposal, agree TOR and urgency request
3 April 2017	Panel's view on urgency submitted to Ofgem for consultation
3 April 2017	Request for Workgroup members (10 Working days) (responses by 19 April 2017)
10 April 2017	Ofgem's view on urgency provided (5 Working days)
w/c 24 April 2017	Workgroup meeting 1
w/c 8 May 2017	Workgroup meeting 2
w/c 22 May 2017	Workgroup meeting 3
5 June 2017	Workgroup Consultation issued (15 days)
26 June 2017	Deadline for responses
w/c 3 July 2017	Workgroup meeting 4
w/c 17 July 2017	Workgroup meeting 5
w/c 31 July 2017	Workgroup meeting 6 (agree WACMs and Vote)
17 August 2017	Workgroup report issued to CUSC Panel
25 August 2017	CUSC Panel meeting to approve WG Report

Proposed standard timetable CMP277 & CMP278

30 August 2017	Code Administrator Consultation issued (15 Working days)
20 September 2017	Deadline for responses
3 October 2017	Draft FMR published for industry comment (5 Working Days)
10 October 2017	Deadline for comments
19 October 2017	Draft FMR circulated to Panel
27 October 2017	Panel meeting for Panel recommendation vote
1 November 2017	FMR circulated for Panel comment (3 Working day)
6 November 2017	Deadline for Panel comment
8 November 2017	Final report sent to Authority for decision
13 December 2017	Indicative Authority Decision due (25 working days)
20 December 2017	Implementation date

Proposed Urgent Timetable

CMP277 & CMP278

17 March 2017	CUSC Modification Proposal and request for Urgency submitted
31 March 2017	CUSC Panel meeting to consider proposal, agree TOR and urgency request
3 April 2017	Panel's view on urgency submitted to Ofgem for consultation
3 April 2017	Request for Workgroup members (5 Working days) (responses by 10 April 2017)
10 April 2017	Ofgem's view on urgency provided (5 Working days)
w/c 10 April 2017	Workgroup meeting 1
w/c 18 April 2017	Workgroup meeting 2
w/c 24 April 2017	Workgroup meeting 3
3 May 2017	Workgroup Consultation issued (5 days)
10 May 2017	Deadline for responses
w/c 15 May 2017	Workgroup meeting 4 (agree WACMs and Vote)
18 May 2017	Workgroup report issued to CUSC Panel
26 May 2017	CUSC Panel meeting to approve WG Report

Proposed Urgent Timetable CMP277 & CMP278

26 May 2017	Code Administrator Consultation issued (5 Working days)
5 June 2017	Deadline for responses
6 June 2017	Draft FMR published for industry comment (3 Working Days)
9 June 2017	Deadline for comments
9 June 2017	Draft FMR circulated to Panel
16 June 2017	Special CUSC Panel meeting for Panel recommendation vote
17 June 2017	FMR circulated for Panel comment (3 Working day)
20 June 2017	Deadline for Panel comment
21 June 2017	Final report sent to Authority for decision
7 July 2017	Indicative Authority Decision due (7 working days)
11 July 2017	Implementation date

Proposed Self Governance Timetable nationalgrid

CMP278

3 April 2017	Code Administrator consultation issued (20 WD)
5 May 2017	Deadline for responses
11 May 2017	Draft CUSC Modification Report issued for industry comment
18 May 2017	Deadline for comment
18 May 2017	Draft CUSC Modification Report issued to CUSC Panel
26 May 2017	CUSC Panel determination vote
30 May 2017	Appeals window open (15WD)
20 June 2017	Appeals window closes
22 June 2017	Decision implemented in CUSC