

CUSC Modification Proposal Form

CMP361: BSUoS Reform: Introduction of an ex ante fixed BSUoS tariff

Overview: This modification seeks to introduce an ex ante fixed volumetric BSUoS tariff set over a total fix and notice period of 14 months. This tariff would be split with a different price for the summer and winter periods. This will deliver the recommendations of the Second BSUoS Task Force.

Modification process & timetable



Status summary: The Proposer has raised a modification and is seeking a decision from the Panel on the governance route to be taken.

This modification is expected to have a: High impact on suppliers, generators, final demand and National Grid ESO.

Proposer's recommendation of governance route

Standard Governance modification with assessment by a Workgroup

The Workgroup should be joined with CMP361 to cover both modifications

Who can I talk to about the change?

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Contents

Contents	2
What is the issue?	3
Why change?	3
What is the proposer’s solution?	4
Draft legal text	5
What is the impact of this change?	5
Proposer’s assessment against CUSC Charging Objectives	5
Proposer’s assessment of the impact of the modification on the stakeholder / consumer benefit categories.....	6
When will this change take place?	7
Implementation date.....	7
Date decision required by	7
Implementation approach	7
Proposer’s justification for governance route	7
Interactions	7
Acronyms, key terms and reference material	8
Reference material	8

What is the issue?

Section 14 of the CUSC currently refers to the Balancing Service Use of System (BSUoS) tariff being set on a half-hourly basis, changing in each settlement period and charged to both generation and demand.

This approach does not provide certainty, stability or transparency of BSUoS charges, as identified through the BSUoS Task Force, and therefore the methodology should be updated to enable a fixed tariff.

The current BSUoS methodology is no longer aligned with other cost recovery charges which are now based on Final Demand only. CMP308 will change who pays BSUoS charges so they are paid by Final Demand only. The CUSC must therefore also be updated to ensure that any change to the charging base works alongside the CUSC's new fixed BSUoS tariff methodology.

Currently, due to the nature of tariffs being set on a settlement period basis, there is no enduring consideration of the ESO's ability to finance BSUoS as the risk to the ESO is low. To enable a fixed tariff, where the ESO sets the tariff in advance and holds the associated risk, the CUSC must also be updated to ensure that the ESO financial position remains viable. This is by setting out in CUSC:

- how any additional working capital can be provided; and
- a process for exceptional circumstances.

Why change?

BSUoS charges are the means by which the ESO recovers the costs associated with balancing the electricity transmission system.

Ofgem have previously considered whether the current methodology for BSUoS charges needed to change in their Targeted Charging Review (TCR) Significant Code Review (SCR). Alongside this SCR, Ofgem had asked the ESO to lead two industry Task Forces.

The First BSUoS Task Force considered whether BSUoS should either send cost reflective signals or be treated as a cost recovery charge. The conclusion was that BSUoS should be a cost recovery charge as it was not considered feasible to positively influence BSUoS payers' behaviour through the charging methodology and lower costs for consumers.

In November 2019 the TCR concluded and Ofgem directed the ESO to raise [CMP333](#) (BSUoS charged on gross demand) to remove the embedded benefit for distribution connected generators. This creates a more level playing field for generation, by charging suppliers on a gross volume basis. Alongside the TCR decision, Ofgem requested that the ESO lead a Second BSUoS Task Force to explore who should pay BSUoS and how it should be recovered.

The Second BSUoS Task Force published their recommendations in September 2020¹. The Task Force concluded that Final Demand should pay all Balancing Charges subject to enough notice to industry before implementation. This recommendation will be developed further through CMP308 (Removal of BSUoS Charges from Generation).

In terms of how BSUoS should be recovered, the Task Force concluded that a volumetric fixed BSUoS charge would be likely to deliver an overall consumer benefit, and that the

¹ [BSUoS Task Force Final Report](#)

total length of the fix and notice period should be around 14 to 15 months in length. Ofgem agreed that this work should proceed.

The current BSUoS Charging Methodology in the CUSC requires updating to enable the conclusions of the BSUoS Task Force to be taken forwards. This CMP will focus on elements of the change to the charging methodology not covered by CMP308. The introduction of a fixed BSUoS tariff decreases the impact of CMP308 by giving suppliers more confidence on BSUoS costs during the fixed tariff period.

The ESO in the [RIIO2 business plan](#) commits to reviewing the possibility of a fixed BSUoS tariff. This is to reduce variability of BSUoS prices, create certainty for suppliers to support their pricing decisions, and should result in risk premia reductions and cost savings for consumers. These benefits were re-iterated in the Second BSUoS Task Force conclusions.

What is the proposer's solution?

To implement an ex-ante fixed BSUoS tariff with a 14-month combined fixed and notice period, the Proposer suggests the following solution:

Timescales and Process

Prices will be fixed in January for the following charging year (April to March) including known and forecast under/over recovery for preceding years. This could benefit consumers as suppliers will be able to remove risk premia from their bills.

The ESO will set two prices to reflect changes in £/MWh levels (Summer vs. Winter) allowing within year cashflow positions to be managed. This will contribute to the successful management of the scheme by the ESO and should reduce overall funding costs leading to consumer benefits.

Setting Fixed Price BSUoS tariff

The total BSUoS pot to be recovered will be made up of all the relevant cost elements that make up BSUoS including financing costs and any over/under recovery adjustment. The ESO will forecast Final Demand volumes over the fixed period. These two inputs will be used to set the relevant fixed BSUoS tariff.

Applying fixed price BSUoS to charging base

The ESO will calculate each relevant User's BSUoS liability based on final demand and the fixed tariff as above. The frequency of billing and the associated credit cover and data requirements will be considered through modifications to the CUSC and BSC which will be raised in due course.

ESO Working Capital and Capped Liability

There should be a cap on the ESO's total over and under recovery based on the ESO working capital facility and any additional working capital available. This cap ensures that the risk is manageable by the ESO.

To provide confidence that the ESO can finance a fixed BSUoS tariff we suggest that additional working capital could be required. This could, for example, be either through explicit supplier contributions, or through the ESO seeking to over-recover against expected BSUoS costs to build up working capital.

Process for exceptional circumstances

As seen in 2020, BSUoS costs can rise to unforeseeable levels due to unprecedented circumstances. A review process will be needed so that in the unlikely event that the working capital as defined above, is close to being exceeded, steps can be taken to ensure the ESO's financial position remains viable and to ensure that the market is aware of any potential consequence. This could involve restating BSUoS prices to suppliers or restricting payments to balancing service providers until the situation is resolved. We propose that Ofgem and the market will be made aware if various utilisation thresholds (i.e. 50%, 75%, 90%) of the working capital facility are being reached and the likely steps that would need to be considered at each utilisation threshold by Ofgem and wider industry.

Interaction with CMP308

The changes to the charging base created through CMP308 have to be considered in the fixed tariff application. The solutions, despite being able to be created independently, have to function on a holistic basis.

Draft legal text

It is suggested that CUSC Sections 14.29 & 14.30 are rewritten to implement this modification as it will fundamentally alter the nature of BSUoS cost recovery.

What is the impact of this change?

Proposer's assessment against CUSC Charging Objectives	
Relevant Objective	Identified impact
(a) That compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity;	Positive This modification will contribute to CMP308's aim of removing competitive distortions between transmission, distribution and interconnected generation. It will also improve competition between suppliers by removing volatility in their pricing leading to efficiencies in consumer offerings.
(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);	Neutral
(c) That, so far as is consistent with subparagraphs (a) and (b), the use of system charging methodology, as far as is reasonably practicable, properly takes	Positive This CMP applies the TCR principles of reducing harmful distortions, fairness and proportionality. The ESO Forward Plan

account of the developments in transmission licensees' transmission businesses;	commits to reviewing fixed BSUoS to address industry concerns about BSUoS unpredictability and resulting risk premia. We believe that fixing BSUoS could allow more efficient pricing to consumers than those currently available through the removal of risk premia.
(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and	Neutral
(e) Promoting efficiency in the implementation and administration of the system charging methodology.	Positive Reforming BSUoS charging to create an ex ante fixed price methodology simplifies BSUoS payers' charging methodology and unlocks process efficiencies for BSUoS payers.
*Objective (d) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).	

Proposer's assessment of the impact of the modification on the stakeholder / consumer benefit categories

Stakeholder / consumer benefit categories	Identified impact
Improved safety and reliability of the system	Neutral
Lower bills than would otherwise be the case	Positive The conclusions of the Second BSUoS Task Force indicate that creating a fixed ex-ante BSUoS tariff will result in cost reductions to consumers, due to the ability to remove risk premia in place to manage the current volatility risk of BSUoS.
Benefits for society as a whole	Neutral
Reduced environmental damage	Neutral
Improved quality of service	Positive This involves simplification and facilitation of the BSUoS Charging Methodology as the number of BSUoS tariffs is significantly

reduced from a cost per half hour to a single or a few set tariffs within a charging year.
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When will this change take place?

Implementation date

1 April 2023 - alongside the wider BSUoS Reform implementations. A single implementation date would simplify the implementation process for industry.

The interaction between this modification and CMP308 (Removal of BSUoS Charges from Generators) creates a further driver for joint implementation. The additional BSUoS liability shifted to final demand may be offset to some extent through creating a fixed BSUoS tariff and reducing uncertainty around pricing.

Date decision required by

An Ofgem decision is required by December 2021 to allow effective implementation in ESO systems. This would provide certainty to involved parties which could remove cost from their risk premia. We would expect the Workgroup and consultation process to determine if a longer period or later implementation is necessary.

Implementation approach

Relevant IT and process changes will be required prior to the implementation date.

Proposer's justification for governance route

Governance route: Standard Governance modification with assessment by a Workgroup (joint to cover CMP361 and CMP362)

Assessment by a Workgroup will ensure the costs and benefits to different industry participants are sufficiently assessed and reflected in the solution.

Interactions

- | | | | |
|--|---|--|--------------------------------|
| <input type="checkbox"/> Grid Code | <input type="checkbox"/> BSC | <input type="checkbox"/> STC | <input type="checkbox"/> SQSS |
| <input type="checkbox"/> European
Network Codes | <input type="checkbox"/> EBGL Article 18
T&Cs ² | <input checked="" type="checkbox"/> Other
modifications | <input type="checkbox"/> Other |

This modification is linked to CMP308 as mentioned above. To ensure the interactions are considered it is recommended that the legal text is considered creating a holistic legal text solution. This modification interacts with CMP362 which will update any required new and amended definitions into CUSC Section 11. Additionally, a further modification is expected to be raised to review BSUoS billing frequency and credit cover requirements that will interact with how a fixed BSUoS charge would be billed.

² If your modification amends any of the clauses mapped out in Exhibit Y to the CUSC, it will change the Terms & Conditions relating to Balancing Service Providers. The modification will need to follow the process set out in Article 18 of the European Electricity Balancing Guideline (EBGL – EU Regulation 2017/2195) – the main aspect of this is that the modification will need to be consulted on for 1 month in the Code Administrator Consultation phase. N.B. This will also satisfy the requirements of the NCER process.

Acronyms, key terms and reference material

Acronym / key term	Meaning
BSC	Balancing and Settlement Code
BSUoS	Balancing Services Use of System Charges
CMP	CUSC Modification Proposal
CUSC	Connection and Use of System Code
EBGL	Electricity Balancing Guideline
ESO	Electricity System Operator
Final Demand	Electricity which is consumed other than for the purposes of generation or export onto the electricity network
STC	System Operator Transmission Owner Code
SQSS	Security and Quality of Supply Standards
SCR	Significant Code Review
T&Cs	Terms and Conditions
TCR	Targeted Charging Review

Reference material

1. [Ofgem Response Letter to BSUoS Task Force Findings](#)
2. [BSUoS Task Force Final Report](#)
3. [Ofgem TCR Decision](#)
4. [First BSUoS Task Force Final Report](#)