## CUSC Modification Proposal Form

# CMP396: Re-introduction Of BSUoS on Interconnector Lead Parties

**Overview:** Re-introduction of BSUoS on Interconnector Lead Parties to reflect BSUoS is an energy management cost and not a transmission access charge

**Modification process & timetable**

1. **Proposal Form**
   12 August 2022
2. **Workgroup Consultation**
   26 August 2022 to 1 September 2022
3. **Workgroup Report**
   12 September 2022
4. **Code Administrator Consultation**
   13 September 2022 to 16 September 2022
5. **Draft Final Modification Report**
   20 September 2022
6. **Final Modification Report**
   21 September 2022
7. **Implementation**
   30 September 2022

**Status summary:** The Proposer has raised a modification and is seeking a decision from the Panel on the governance route to be taken, requesting that it be treated as urgent and should proceed as such under a timetable agreed with the Authority.

**This modification is expected to have a: High impact**

High - Interconnector Lead Parties and Customers

Medium - Suppliers, Generators, ESO

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| **Proposer's recommendation of governance route** | Urgent modification to proceed under a timetable agreed by the Authority (with an Authority decision) |

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| **Who can I talk to about the change?** | **Proposer:**<br>Scott Keen<br>Saltend Power<br>+44 7522 214676<br>scott.keen@tritonpower.co.uk<br>or<br>Lisa Waters<br>Waters Wye Associates | **Code Administrator Contact:**<br>Paul Mullen<br>07794537028<br>Paul.j.mullen@nationalgrideso.com |

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## What is the issue?

Since CMP202 was implemented 10 years ago the nature of cost border trading has changed significantly. The Proposer argues that it is no longer justifiable for GB energy customers to pay 100% of the costs of supplying electricity to interconnected markets, when those flows are adding significantly to the GB balancing costs.

## Why change?

The costs going into BSUoS directly include the costs of supplying Final Demand in interconnected markets. Ofgem have now reviewed BSUoS and decided it should be a residual charge on Final Demand. Therefore, in the Proposer's view, interconnector flows are neither demand nor supply for the purposes of charging when they are considered as exactly that in other parts of the market e.g. the calculation of margins, BMU instructions and the payment of Capacity Market agreements.

The Proposer recognises that under the Third Package Electricity Regulation (EC) 714/2009 an interconnector is defined as a transmission line. However, it is not correct that flows are not production or consumption, as market developments over the last decade have shown. It is no longer appropriate that Final Demand in interconnected markets are not charged the same charges as GB demand. For example, customers connected to private networks off the TO's networks pay BSUoS, so the Proposer argues that a customer at the end of another TO asset should also pay BSUoS and adds that the current rules are discriminatory.

### Interactions with Electricity Regulation 714/2009 – Article 14 "Charges for access to networks"

*Article 14*

**Charges for access to networks**

1. Charges applied by network operators for access to networks shall be transparent, take into account the need for network security and reflect actual costs incurred insofar as they correspond to those of an efficient and structurally comparable network operator and are applied in a non-discriminatory manner. Those charges shall not be distance-related.

2. Where appropriate, the level of the tariffs applied to producers and/or consumers shall provide locational signals at Community level, and take into account the amount of network losses and congestion caused, and investment costs for infrastructure.

3. When setting the charges for network access, the following shall be taken into account:

   (a) payments and receipts resulting from the inter-transmission system operator compensation mechanism;

   (b) actual payments made and received as well as payments expected for future periods of time, estimated on the basis of past periods.

This Article 14 covers all the charges that system users must pay in order to use the transmission system. Article 14(3) requires that charges for network access should be set taking into account payments and receipts resulting from the inter-transmission system operator (TSO) compensation (ITC)[1] mechanism.

The Proposer contests that BSUoS is not about use of the transmission system today, but about balancing of the wider GB market and flows between markets. A lot of the balancing action now occurs within the DNOs and role of DSOs will further change this.

[1] The Inter-Transmission System Operator Compensation (ITC) mechanism is defined by the Commission Regulation (EU) 838/2010. The ITC mechanism provides compensation for: the costs of losses incurred by national transmission systems as a result of hosting cross-border flows of electricity, and the costs of making infrastructure available to host cross-border flows of electricity.

Interconnector actions are no longer a predictable flow, but can flip around adding to costs and creating system issues.

The TSO ITC mechanism probably also needs to be changed in light of Brexit and the decoupling of the GB from other EU markets. The costs of operating cross border flows have increased, the TSO to TSO trade costs are not market related and the interconnector flows can add to constraints. BSUoS is therefore not a network access charge, it is a supply cost irrelevant of where the consumer is located.

Since BSUoS was removed from interconnector flows, BEIS has allowed interconnectors to be in the Capacity Market, with an obligation to import power in a Stress Event. This arrangement demonstrably treats interconnectors as production and it is their production account position under the BSC that would be the check on whether they did deliver in a stress event. The Proposer argues that it is not appropriate that in a Capacity Market Stress Event an interconnector is a producer, but exporting it has no Final Demand. Further, GB customers are paying for interconnectors to be production in a stress event, and have been for years, so why are customers outside GB not paying the full cost of supply when they benefit from exports?

One of the greatest costs of balancing is now around managing constraints (often now c£10m/day). On 20 July 2022, NGESO took actions at c£9,000/MWh to manage constraints around the interconnectors in the South East and even emergency action on NEMO. The interconnector energy flows are very much part of the wider balancing costs, either feeding into BSUoS or into cash-out.

Therefore, the Proposer argues that the legal interpretation of **Electricity Regulation 714/2009 – Article 14(3)** that Ofgem made a decade ago does not seem to be correct in light of the changes seen in the last 10 years[2]. Arguably nothing has changed, but in the view of the Proposer the reality is everything has changed and the electricity market rules need to reflect that. While we can all support cross border trading, there has to a reflection of energy costs in the delivered price wherever that delivery is.

It should also be noted that this modification would not be charging interconnectors, but the parties who flow power over those transmission lines between the relevant markets. The interconnector itself goes on being a “transmission line”, but the energy flows are treated as if going to Final Demand anywhere in the GB market. This about ensuring all customers bear the same costs.

## What is the Proposer’s solution?

Charge all interconnector lead parties BSUoS when the interconnector flows are exporting power from the GB, thereby treating all Final Demand in the same manner irrelevant of where it is located.

[2] https://www.nationalgrideso.com/electricity-transmission/document/129116/download

## Draft legal text

**For implementation for Winter 2022**:

14.29.4 All CUSC Parties acting as Generators, Suppliers and all BMUs and Trading Units associated with either Interconnectors (but not Virtual Lead Parties) are liable for Balancing Services Use of System Charges based on their energy taken from or supplied to the National Grid system in each half-hour Settlement Period.

**To implement from 1 April 2023 it would need to build on the CMP308 text:**

14.29.4 All CUSC Users including all exporting BMUs and exporting Trading Units associated with Interconnectors, but excluding those Users with a valid Declarations, and Virtual Lead Parties, are liable for Balancing Services Use of System charges based on their energy taken from the National Grid system for Final Demand in each half-hour Settlement Period.

14.30.2 BSUoS liability is based on a User's or Interconnect Lead Parties' Final Demand.

Gross Final Demand BM Unit Volume, SGQM in MWh -
The Import data as at the Transmission System Boundary by Settlement Period for Supplier and Interconnector BM Units in respect to gross Final Demand volume (exclusive of all export volumes, multiplied by the applicable TLM.

Transmission Connected Site Final Demand BM Unit Metered Volume - The BM Unit Metered Volume for Final Demand with a Bilateral Agreement with The Company, or an exporting BMU with an Interconnector Lead Party, which is multiplied by the TLM

## What is the impact of this change?

| Proposer's assessment against CUSC Charging Objectives | |
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| **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**<br><br>The change would treat the supply of energy to all customers, defined as Final Demand, the same irrelevant of their location. |
| (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); | **Positive**<br><br>The TO costs can still be covered by the STC, but the CUSC will charge the indirect costs of the energy flows to end users in line with Ofgem's decision on CMP308. |
| (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 | **Positive**<br><br>This change recognises the significant changes that |

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| developments in transmission licensees' transmission businesses; | have occurred in the market, including the impact transmission investment and use is having on BSUoS. |
| (d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and | **Positive**<br><br>BSUoS is not an access charge, but part of the energy balancing costs which are significantly different to 10 years ago. |
| (e) Promoting efficiency in the implementation and administration of the system charging methodology. | **Positive**<br><br>Because it treats all customers the same and charges BSUoS to all Final Demand irrelevant of location. |
| **The Electricity Regulation referred to in objective (d) is Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity (recast) as it has effect immediately before IP completion day as read with the modifications set out in the SI 2020/1006. | |

| **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 | **Positive**<br><br>It is not right that the Final Demand in third party countries are not facing the "right costs" for receiving supplies from the GB market. By altering this balance the market should work more efficiently and signals to customers when to reduce use, etc. will be aligned over borders. This should add to DSR competition and add to reliability.<br><br>In the longer term, where similar charges are applied in other markets those may be applied to GB demand, then that to would also sharpen signals. |
| Lower bills than would otherwise be the case | **Positive**<br><br>Spreading the cost of system energy balancing over more customers will lower the average cost to each customer who directly benefits from the market.<br><br>We noted that other interconnected markets may want to charge similar charges to demand on their networks and therefore exports to GB. However, that would then benefit the |

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| | customers in a third-party country by also spreading their costs. What is vital here is that all customers are paying some of the costs that are created to meet their demand. |
| Benefits for society as a whole | **Positive**<br><br>The GB economy faces both costs and benefits from interconnector flows. What is critical is that those costs are reflective of the costs incurred in delivering energy. |
| Reduced environmental damage | **Neutral** |
| Improved quality of service | **Neutral** |

## When will this change take place?

**Implementation date**
30 September 2022

Ideally this charge would come in for this winter, to ensure all customers carry some costs of balancing in this current energy crisis. However, if that is not achievable, request an Implementation Date of 1 April 2023 when the BSUoS costs move entirely to Final Demand.

**Date decision required by**
28 September 2022 if 30 September 2022 Implementation date.

TBC if 1 April 2023 implementation date.

**Implementation approach**
The Proposer requests that the change, if approved, is applied prior to the 1 November 2022 BSUoS bills (for the preceding month of October 2022) issued by the ESO so Final Demand is paying its fair share of BSUoS irrelevant of its location.

**Proposer's justification for governance route**

Urgent modification to proceed under a timetable agreed by the Authority (with an Authority decision)

Given the materiality, the change will need to be assessed by a Workgroup This proposal should proceed to an Urgent timescale such that the change, if approved, is applied prior to the 1st November 2022 BSUoS bills (for the preceding month of October 2022) issued by the ESO.

In seeking urgency, we are mindful of Ofgem's Urgency Criteria[3].

In our view this is "***a current issue*** *that if not urgently addressed*" will have "***a significant commercial impact*** *on parties, consumers or other stakeholder(s)*" and therefore meets Ofgem's Urgency Criteria (a).The Proposer's view against this criteria is as follows:

**Ofgem Urgency Criteria (a)**

The 'significant commercial impact' on customers is most keenly seen on industrial customers who often see BSUoS as a pass through and many of whom compete in international markets, including with customers who are not contributing to BSUoS despite being supplied by the GB market. In some of those markets' energy prices are being capped. For them anything that creates a more level playing field should improve their competitive position. Further lowering costs to sectors such as food manufacturing, even by a small amount, will also help to marginally ease the inflationary pressure the whole economy is witnessing.

There is also a significant issue of fairness. If the GB customers are picking up costs associated with supply to their party countries those customers should pay their fair share. This is not always easy, but Ofgem has said that BSUoS is a residual charge that all Final Demand should pay.

We have presented the idea informally at the August TCMF, but it has not been possible to present this proposal formally as the issue is urgent. We apologise to stakeholders for this, but we are certain that they will appreciate why it has not been possible in this case.

[3] https://www.ofgem.gov.uk/publications/ofgem-guidance-code-modification-urgency-criteria-0

## Interactions

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| ☐Grid Code<br>☐European Network Codes | ☒BSC<br>☐ EBR Article 18 T&Cs[4] | ☐STC<br>☐Other modifications | ☐SQSS<br>☒Other |

Interaction with Electricity Regulation 714/2009 – Article 14(3)

**BSC** - Changes to Elexon's data transfers may be required.

## Acronyms, key terms and reference material

| Acronym / key term | Meaning |
|---|---|
| BSC | Balancing and Settlement Code |
| BMU | Balancing Mechanism Unit |
| BSUoS | Balancing System Use of System charges |
| CMP | CUSC Modification Proposal |
| CUSC | Connection and Use of System Code |
| DNO | Distribution Network Operator |
| DSO | Distribution System Operator |
| EBR | Electricity Balancing Regulation |
| ITC | Inter-transmission system operator (TSO) compensation (ITC) mechanism. |
| STC | System Operator Transmission Owner Code |
| SQSS | Security and Quality of Supply Standards |
| T&Cs | Terms and Conditions |
| Transmission Connected Site Final Demand BM Unit Metered Volume | The BM Unit Metered Volume for Final Demand with a Bilateral Agreement with The Company, or an exporting BMU with an Interconnector Lead Party, which is multiplied by the TLM |
| TLM | Transmission Loss Multiplier |
| TO | Transmission Owner |
| TSO | Transmission System Operator |

**Reference material**

- No additional reference material

[4] 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 Electricity Balancing Guideline (EBR – 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.