

CUSC Modification Proposal Form

CMP407: Allowing consideration of a reduced BSUoS fund for Fixed BSUoS implementation

Overview: This modification is being raised to update the required definitions into CUSC section 11 from CMP406.

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

Final Demand Users, Suppliers, Generators, Electricity System Operator

Proposer's recommendation of governance route

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

Who can I talk to about the change?

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What is the issue?

BSUoS charges are the means by which the ESO recovers the costs associated with balancing the electricity system. [CMP361 and CMP362](#) were raised to implement the recommendation of the second Balancing Services Task Force to recover BSUoS charges as a flat volumetric charge set on an ex-ante basis. This is in addition to [CMP308](#), which, following its approval in April 2022,¹ will move BSUoS charges to final demand only. All have an implementation date of 01 April 2023.

In October 2022 Ofgem consulted on their position for CMP361 and CMP362. Ofgem were minded to approve WACM5 for CMP361 and the original proposal for CMP362. WACM5 has a fixed tariff period of 1 year, with 3 months notice, and provides the ESO with a fund to better manage the resulting cash flow impacts.

Ofgem received consultation responses indicating some uncertainty and misunderstanding about the size of the BSUoS fund and how it works. In addition, the ESO have also received feedback that BSUoS certainty is important, particularly avoiding mid-period tariff resets.

Ofgem is concerned the size of the fund is reducing the potential consumer benefits of the overall recommendations of the BSUoS taskforce and their original impact assessments. The ESO agree that there is a need to appropriately manage the trade off between certainty for suppliers and costs to consumers. The assessment of costs and benefits undertaken by Frontier found that the benefits of fixed BSUoS come about by moving risk from suppliers to the ESO as the ESO has a lower cost of capital than suppliers. However, a large industry fund is underpinned by the cost of capital of suppliers, and potentially consumers. This has the potential to erode the benefits of fixing BSUoS, particularly at higher Probability (P) levels. It is important to mitigate the impact on consumers bills given the increases in inflation and cost of living currently being experienced in GB.

The ESO has been asked to raise this urgent CUSC modification by Ofgem to address this specific concern. This is a different proposal from that of CMP361 and has a substantially different effect because it is focused on a solution around the size of the industry fund and the effect this has on Suppliers and consumers.

The ESO will appreciate views from across industry on the impact and cost of different P levels. We welcome engagement throughout the workgroup to ensure that the proposal is fit-for-purpose and protects consumers. In addition, we emphasize that a key part of this proposal is to find the balance that is needed between the cost of protecting consumers from the risk of tariff resets and setting a P level (and therefore by extension a fund) that provides certainty and stability.

This modification seeks to ensure alignment with definitions across CUSC Section 14 and Section 11 by making changes to Section 11, and as it is related to CMP406 is also raised as Urgent.

Why change?

To introduce the CMP406 changes into the BSUoS charging methodology, updates to Section 11 are also required.

What is the proposer's solution?

Update CUSC Section 11 to reflect the required definitions created through CMP406.

¹ <https://www.ofgem.gov.uk/publications/cmp308-removal-bsuos-charges-generation>

Draft legal text

CUSC Section 11 would need to be updated to reflect updates to the following definitions: Balancing Services Use of System Working Capital Facility and Industry Balancing Services Use of System Fund.

What is the impact of this change?**Proposer's assessment against CUSC Non-Charging Objectives**

Relevant Objective	Identified impact
(a) The efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence;	Neutral No impact
(b) Facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity;	Positive The proposal supports tariff setting by suppliers and therefore competition
(c) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and	Neutral No impact
(d) Promoting efficiency in the implementation and administration of the CUSC arrangements.	Positive The proposal improves efficiency by ensuring all required definitions for BSUoS reform are included in Section 11.

*The Electricity Regulation referred to in objective (c) 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	Neutral No impact
Lower bills than would otherwise be the case	Positive A fixed ex ante BSUoS tariff should bring about overall cost reductions as enables suppliers to remove risk premia from their tariff setting over the fixed period. For any given forecast, a lower P level means a lower fund levy rate that is recovered via consumer

	bills. This modification supports the implementation (via CMP406) of this by updating the required definitions.
Benefits for society as a whole	Neutral No impact
Reduced environmental damage	Neutral No impact
Improved quality of service	Positive Supports clarity and understanding of the CUSC by ensuring definitions are consistent.

When will this change take place?

Implementation date

01 April 2023 – alongside implementation of CMP308 and CMP406. A single implementation date simplifies implementation for industry and reflects the work undertaken by ESO to date on the new billing system in relation to CMP308 and CMP406.

Date decision required by

An Ofgem decision is required by mid December 2022 to support effective implementation and allow ESO teams time to publish a final tariff under the approved methodology (per CMP406) before 01 January 2023.

Implementation approach

Limited IT changes are required prior to the implementation date required prior to the implementation date.

Proposer's justification for governance route

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

In the ESO's view, it 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)

- There is a significant impact on parties if we cannot publish a final tariff allowing parties to price their contracts. In addition, there is a knock-on impact to consumer costs with a high BSUoS industry fund.
- It is important that as much notice as possible is given to BSUoS payers as to the likely tariff from April 2023. The ESO also recognises that even under an Urgent timeline there is a risk that it will not be possible to produce a fixed tariff by the end of December, as such the ESO will commit to produce the tariff as soon as practicable following the decision by Ofgem on the final version of a Fixed BSUoS tariff.
- An Ofgem decision is required by mid December 2022 to support effective implementation and allow ESO teams time to publish a final tariff under the

approved methodology before 01 January 2023. Publication of a final tariff as soon as possible is required to support suppliers cost forecasting and tariff setting.

Guidance on governance routes		
Timescales	Route	Who makes the decision (Governance type)
Normal	Proceed to Code Administrator Consultation*	Authority (Standard Governance) or Panel (Self-Governance)
	Assessment by a Workgroup**	
Urgent	Proceed to Code Administrator Consultation	Authority (Standard Governance)
	Assessment by a Workgroup	
Fast-track	Straight to appeals window, then implementation	Panel (Self-Governance)
<p>* This route is for modifications which have a fully developed solution and therefore don't need to be considered by a Workgroup.</p> <p>** For modifications which need further input from industry to develop the solution.</p>		
Self-Governance Criteria		
<p>It depends on the material effect of the modification as to whether it should be subject to Standard or Self-Governance. If you are proposing that your modification should be subject to Self-Governance, you must explain how it meets the below criteria.</p> <p>The modification is unlikely to discriminate between different CUSC Parties and is unlikely to have a material effect on:</p> <ul style="list-style-type: none"> 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 Panel's governance procedures or the CUSC Panel's modification procedures 		
Urgency Criteria		
<p>If you are proposing that your modification is Urgent, you must explain how it meets Ofgem's Urgent criteria (below). When modifications are granted Urgency, this enables the us to shorten the standard timescales for industry consultations. Note that the we (Code Admin) must seek Authority approval for this option.</p> <p>Ofgem's current guidance states that an urgent modification should be linked to an imminent issue or a current issue that if not urgently addressed may cause:</p> <ul style="list-style-type: none"> A significant commercial impact on parties, consumers or other stakeholder(s); or A significant impact on the safety and security of the electricity and/or gas systems; or A party to be in breach of any relevant legal requirements. 		
Fast-Track Self-Governance Criteria		
<p>This route is for modifications which are minimal changes to the code. E.g. Typos within the codes. If you are proposing that your modification should be subject to Fast-Track Self-Governance, you must explain how it meets the below criteria.</p> <p>The modification is a housekeeping modification required as a result of an error or factual change, such as:</p> <ul style="list-style-type: none"> Updating names or addresses listed in the CUSC; Correcting minor typographical errors; Correcting formatting and consistency errors, such as paragraph numbering, or; Updating out of date references to other documents or paragraphs. 		

Interactions

 Grid Code

 BSC

 STC

 SQSS

European Network Codes
 EBR Article 18 T&Cs²
 Other modifications
 Other

Ofgem have asked the ESO to bring forward a modification with a different effect to those which are currently available under CMP361/CMP612. CMP407 is created to update Section 11 to reflect the required definitions as created by CMP406 so will naturally interact with this modification.

Acronyms, key terms and reference material

Acronym / key term	Meaning
BSC	Balancing and Settlement Code
BSUoS	Balancing Services Use of System
CMP	CUSC Modification Proposal
CUSC	Connection and Use of System Code
EBR	Electricity Balancing Regulation
ESO	Electricity System Operator
MTR	Main Tariff Recovery
P (level)	Probability
STC	System Operator Transmission Owner Code
SQSS	Security and Quality of Supply Standards
T&Cs	Terms and Conditions
WACM	Workgroup Alternative Code Modification
WCF	Working Capital Fund

Reference material

- [CMP 361/362 – Minded to decision and draft impact assessment](#)
- [CMP361/362 – Second Ofgem Consultation](#)
- [Ofgem response to publication of the final report of the second BSUoS Task Force](#)
- [Final Report – Second Balancing Services Charges Task Force](#)
- [Targeted Charging Review: Decision and Impact Assessment](#)

Annexes

Annex	Information
Annex 1	Draft legal text

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 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.