

Workgroup Consultation

CMP408: Allowing consideration of a different notice period for BSUoS tariff settings

Overview: Following the [approval of CMP361 WACM3](#), of an ex-ante fixed BSUoS tariff with a 9-month notice and 6-month fix, this modification seeks to amend the notice period to a 3-month notice period.

Modification process & timetable



Have 5 minutes? Read our [Executive summary](#)

Have 20 minutes? Read the full [Workgroup Consultation](#)

Have 30 minutes? Read the full Workgroup Consultation and Annexes.

Status summary: The Workgroup are seeking your views on the work completed to date to form the final solution(s) to the issue raised.

This modification is expected to have a: **High impact** on Final Demand Users, Suppliers, ESO

Governance route Standard Governance modification with assessment by a Workgroup

Who can I talk to about the change?

Proposer:
Alice Taylor, ESO
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Code Administrator Chair:
Claire Goult
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How do I respond?

Send your response proforma to cusc.team@nationalgrideso.com by 5pm on 22 May 2023

Contents

Contents	2
Executive summary	3
What is the issue?	5
Why change?	5
What is the solution?	5
Proposer’s solution.....	5
Workgroup considerations	6
Draft Legal text	9
What is the impact of this change?	9
Proposer’s assessment against Code Objectives	9
When will this change take place?	10
Implementation date	10
Date decision required by	10
Implementation approach	10
Interactions	11
How to respond	11
Standard Workgroup consultation questions	11
Specific Workgroup consultation questions	11
Acronyms, key terms, and reference material	12
Reference material	12
Annexes	12

Executive summary

Following the [approval of CMP361 WACM3](#), of an ex-ante fixed BSUoS tariff with a 9-month notice and 6-month fix, this modification seeks to amend the notice period to a 3-month notice period.

What is the issue?

Since the CMP361/362 workgroup finished in summer 2021, BSUoS costs have been much higher and more volatile. ESO data shows that the daily BSUoS Charge has not only increased but also become more volatile since 2021, reflecting the current climate for BSUoS. With the current notice period set at 9 months and the increased volatility of BSUoS costs this makes accurate forecasting increasingly difficult which can lead to less accurate tariff settings.

Ofgem consulted on their position for CMP361 and CMP362 and responses indicated that BSUoS certainty was important, particularly avoiding mid-period tariff resets.

Ofgem also noted in their [CMP361 decision letter](#):

“As per our minded-to decision, we continue to believe that a 3-month Notice Period strikes the appropriate balance between providing Suppliers with sufficient advance notice of charges and mitigating the risk of inaccuracy in a forecast set in advance of the timeframe to which it relates”.

Therefore, CMP408 has been raised to address this concern.

What is the solution and when will it come into effect?

Proposer’s solution:

<p>Notice Period: Change from 9 months to 3 months</p>	<p>Implementation Approach: Run with the current tariff and release a new 3 month tariff for October 2024 in July 2024 superseding the one set on 9 month tariff in January 2024</p>	<p>Fixed Period and Industry Fund: Not part of CMP408 but topics to be discussed in separate but related BSUoS TCMF sub-group</p>
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Implementation date: 1 April 2024

Summary of potential alternative solution(s) and implementation date(s):

- Potential alternative to change Fixed Period from 6 to 12 months to maintain the overall 15 month (combination of fixed and notice) period. Implementation Date would still be 1 April 2024.

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What is the impact if this change is made?

The shorter notice period allows for more accurate forecasting for BSUoS costs with less risk of tariff reset during the fixed period, or even during the notice period. This should allow a reduction in risks premia being charged to customers.

Interactions

A separate but linked TCMF subgroup has been set up to seek input from industry on two aspects of Fixed BSUoS including considerations for a BSUoS industry fund and amendments to the fixed period.

What is the issue?

BSUoS charges are how 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](#) will move BSUoS charges to final demand only. All were implemented 1 April 2023.

In October 2022, Ofgem consulted on their position for CMP361 and CMP362 and received consultation responses indicating that BSUoS certainty is important, particularly avoiding mid-period tariff resets.

In December 2022, Ofgem approved the CMP361 WACM 3, which identifies a 9-month notice and 6-month fix for BSUoS tariffs. Ofgem also noted in their [CMP361 decision letter](#):

“As per our minded-to decision, we continue to believe that a 3-month Notice Period strikes the appropriate balance between providing Suppliers with sufficient advance notice of charges and mitigating the risk of inaccuracy in a forecast set in advance of the timeframe to which it relates”.

Therefore, CMP408 has been raised to address this concern.

Why change?

Since the CMP361/362 workgroup finished in summer 2021, BSUoS costs have been much higher and more volatile.

To ensure the tariffs provide Suppliers with sufficient advance notice of charges and mitigate the risk of inaccuracy in a forecast set-in advance, the ESO are proposing updating the Notice Period to 3 months. In their view, a shorter notice period allows for more accurate BSUoS tariff settings, removing the need to include risk premia in Supplier’s cost forecasting.

What is the solution?

Proposer’s solution

<p>Notice Period: Change from 9 months to 3 months</p>	<p>Implementation Approach: Run with the current tariff and release a new 3 month tariff for October 2024 in July 2024 superseding the one set on 9 month tariff in January 2024</p>	<p>Fixed Period and Industry Fund: Not part of CMP408 but topics to be discussed in separate but related BSUoS TCMF sub-group</p>
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Workgroup considerations

The Workgroup convened twice to discuss the perceived issue, detail the scope of the proposed defect, devise potential solutions, and assess the proposal in terms of the Applicable Code Objectives.

Consideration of the proposer's solution

Notice Period: Change from 9 months to 3 months

The Proposer suggested that amending the notice period for fixed BSUoS to 3-months from the current baseline of 9-months would reduce the likelihood of a BSUoS tariff reset and would minimise ESO financeability concerns. Several Workgroup members recognised the benefits of having a shorter notice period on the accuracy of forecasting but felt stronger evidence was needed to support this along with a lack of information on the impact a reset would have.

Ofgem noted in their [CMP361 decision letter](#) that they continue to believe that a 3-month Notice Period strikes the appropriate balance between providing Suppliers with sufficient advance notice of charges, and mitigating the risk of inaccuracy in a forecast set in advance of the timeframe to which it relates. However, evidence is needed to demonstrate a positive impact.

It was noted that there is a limitation to what evidence could be provided as implementation of Fixed BSUoS was only live as of 1st April 2023. However, the Proposer presented the following analysis (included in Annex 3 of this document) to support their proposed solution:

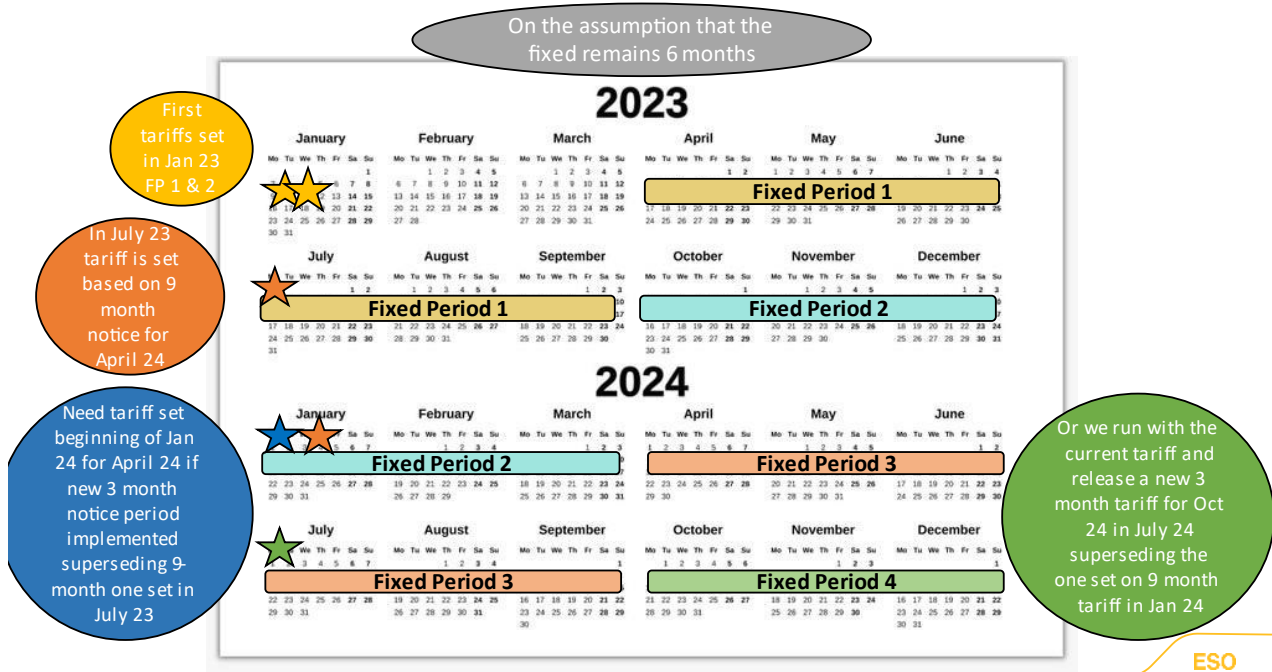
- Analysis to show an increase in accuracy of forecasting by assessing the Mean Absolute Error (MAE) with an Absolute Error being the amount of error in your measurements. The error analysis is based on the period January 2021 to the present and in summary this MAE increases the further out that you forecast, increasing the inaccuracy of forecasting the longer the notice period.
- Further analysis was shown on the volatility of BSUoS costs and how these have increased since the BSUoS Taskforce took place. The BSUoS chart for this analysis records the daily BSUoS Charge from 2015 to 2023, so no averages are being collated and these are just plotted data points for each day. Before 2021 the BSUoS daily charge was relatively stable but as you move further into 2021 and onto 2023, there is an increase in volatility and lack of predictability supports that a shorter notice period is more appropriate in the view of the Proposer.

Specific Workgroup consultation question: What notice period for the BSUoS tariff do you feel is appropriate? Please provide the rationale for your response.

Implementation Approach: Run with the current tariff and release a new 3 month tariff for October 2024 in July 2024 superseding the one set on 9 month tariff in January 2024

The Proposer noted that if CMP408 is approved for a 1 April 2024 implementation date there would be interaction with any prior tariff set. This issue is represented in the diagram below and assumes that the fixed period remains unchanged at 6 months.

The Proposer argued that the benefits to improved forecast accuracy from moving to the 3-month notice period (whilst BSUoS costs are generally high and volatile) outweigh the disadvantages of republishing the tariff.



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The Proposer identified 2 options here which are:

- Run with the current tariff and release a new 3 month tariff for October 2024 in July 2024 superseding the one set on 9 month tariff in January 2024; or
- Set a new tariff at beginning of January 2024 for April 2024 if new 3-month notice period implemented superseding 9-month one set in July 2023 - **Proposer's preferred option.**

The new tariff should be implemented for April 2024 as per the specified timeline, which coincides with the start of the charging year.

The Workgroup expressed no concerns with the Proposer's preferred option.

Specific Workgroup consultation question: Do you agree that the implementation of the tariff introduced by CMP408 (if approved for implementation on 1st April 2024) should supercede any prior tariff set in the current 9-month notice period? Please provide the rationale for your response.

Fixed Period and Industry Fund: Not part of CMP408 but topics to be discussed in separate but related BSUoS TCMF sub-group

The Workgroup discussed implications of reducing the overall period of fixed BSUoS from 15 to 9 months by leaving the fixed period at 6 months. The Workgroup discussed how this would increase supplier risk exposure and argued that without an industry fund it is unlikely that suppliers would reduce risk premia.

A Workgroup Member used the scenarios/risk ranges and data that underpinned the Proposer's analysis and considered at a high level (given commercial sensitivities) what risk premia Suppliers would need to cover these risk ranges. The analysis (set out in Annex 4) only considered the Industrial and Commercial customers whose 12-month supply contracts typically start in April or October and are typically agreed up to 3-months in advance. The analysis did not cover domestic consumers, whose contracts could start any month of the year, but it was argued that the overall pattern would be same, but risk premia applied could fluctuate depending on start date.

The overall conclusions were:

- Where no fixed period available, Suppliers would build in risk premia so argue there is more likelihood of building in risk premia for CMP408; and
- Risk of a combined period – 15 months to 9 months is causing the increased risk.
- Noted that CMP308, which was implemented 1 April 2023 and moves the liability for BSUoS charges fully onto Final Demand customers, accentuates the BSUoS risk exposure on a £/MWh basis for Suppliers.

Some Workgroup Members also questioned the timing of CMP408 considering that CMP361/362 was only implemented on 1 April 2023. A Workgroup Member asked if Ofgem would have approved a 3-month notice, 12-month fixed if this had been presented as an option for CMP361/CMP362. The Authority representative noted that any option without a fund would likely rely on a lower degree of certainty in the tariff than those options with a fund. He added that Ofgem remain open to different combinations of notice periods and fixed terms where there are clear consumer benefits and had there been a 3-month notice, 12-month fixed option, this would have been assessed it on its merits against the Applicable CUSC Objectives.

Some Workgroup Members expressed concern regarding the fixed period remaining at 6 months and that the principle of a 15-month combined fixed and notice period provided Suppliers with sufficient certainty to reduce their risk premia for consumers. The Proposer argued that analysis on BSUoS volatility shows the difference in costs from the 2nd BSUoS Taskforce which brings into question if the 15-month combined fixed and notice period is still relevant in current climate. The Proposer added that under the current data on BSUoS costs, a shorter overall period such as that of 3- months' notice and 6-month fixed is more appropriate, which is why under CMP408 with the current baseline, the ESO is not looking to increase the fixed period.

The Proposer also argued that discussed in a TCMF subgroup to engage in other aspects of fixed BSUoS such as the fixed period and BSUoS industry fund. The Chair explained the purpose of the subgroup would be to find a solution to the continued volatility of BSUoS by specifically assessing that of industry fund options.

However, most Workgroup Members were concerned with the notice period being changed in isolation and argued that the fixed period and industry fund need to be explored at the same time. They felt it was perplexing to separating one piece of the puzzle and felt strongly it should be considered holistically. However, the Proposer is keen to progress CMP408 separately and believes it is better to consider the fixed period and industry fund within a separate TCMF sub-group whilst ensuring alignment.

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A Workgroup Member (supported by some Workgroup Members) proposed they would consider a potential alternative to also change the Fixed Period from 6 to 12 months to maintain the overall 15 month (combination of fixed and notice) period, which they argue would allow Suppliers to be better placed to reduce the risk premia they include.

Specific Workgroup consultation question: Do you believe that the 15 month combined fixed and notice period remains appropriate and that the fixed period of the BSUoS tariff also needs to be changed? Please provide the rationale for your response.

Draft Legal text

Changes shown in **red text**

Notice of Fixed BSUoS Price

14.31.8 Users are given a notice period of at least ~~three~~ nine months of the Fixed BSUoS Price, for the next Fixed Price Period.

What is the impact of this change?

This modification is expected to have a high impact on Final Demand Users, Suppliers and the ESO. A shorter notice period should allow for more accurate forecasting reducing the need for risk premia (although Supplier Workgroup Members do not agree risk premia would be reduced unless the fixed period is also extended).

The additional accuracy means there is less risk of needing to reset the tariff within the fixed period.

Proposer's assessment against Code Objectives

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 The shorter notice period allows for more accurate forecasting for BSUoS costs, therefore allowing a reduction in risk premiums being charged to consumers.
(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 The proposal improves cost reflective charging due to a shorter notice period, meaning that forecasts should be more accurate.

(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;	Positive The proposal supports implementation of the recommendation of the second Balancing Services Task Force by addressing industry concerns about a shorter notice period will allow for increased accuracy on BSUoS forecasting.
(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and	Neutral No impact
(e) Promoting efficiency in the implementation and administration of the system charging methodology.	Positive The proposal supports the overall aim to implement an ex-ante BSUoS solution with the greatest overall benefit. A shorter notice period means the tariff is likely to be more accurate with less risk of tariff reset during the fixed period, or even during the notice period.
**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.	

Standard Workgroup consultation question: Do you believe that CMP408 Original proposal better facilitates the Applicable Objectives?

When will this change take place?

Implementation date

1 April 2024

Date decision required by

To allow the ESO time to publish a final tariff under the approved methodology a decision is required by Ofgem by October 2023.

Implementation approach

Limited IT changes are required prior to the implementation date.

Standard Workgroup consultation question: Do you support the implementation approach?

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"/> EBR Article 18 T&Cs ¹ | <input type="checkbox"/> Other modifications | <input checked="" type="checkbox"/> Other |

A separate but linked TCMF subgroup has been set up to seek input from industry on two aspects of Fixed BSUoS including considerations for a BSUoS industry fund and amendments to the fixed period.

How to respond

Standard Workgroup consultation questions

1. Do you believe that CMP408 Original proposal better facilitates the Applicable Objectives?
2. Do you support the proposed implementation approach?
3. Do you have any other comments?
4. Do you wish to raise a Workgroup Consultation Alternative request for the Workgroup to consider?

Specific Workgroup consultation questions

5. What notice period for the BSUoS tariff do you feel is appropriate? Please provide the rationale for your response.
6. Do you believe that the 15-month combined fixed and notice period remains appropriate and that the fixed period of the BSUoS tariff also needs to be changed? Please provide the rationale for your response.
7. Do you agree that the implementation of the tariff introduced by CMP408 (if approved for implementation on 1st April 2024) should supercede any prior tariff set in the current 9-month notice period? Please provide the rationale for your response.

The Workgroup is seeking the views of CUSC Users and other interested parties in relation to the issues noted in this document and specifically in response to the questions above.

Please send your response to cusc.team@nationalgrideso.com using the response proforma which can be found on the CMP408 [modification page](#).

In accordance with Governance Rules if you wish to raise a Workgroup Consultation Alternative Request, please fill in the form which you can find at the above link.

If you wish to submit a confidential response, mark the relevant box on your consultation proforma. Confidential responses will be disclosed to the Authority in full but, unless agreed otherwise, will not be shared with the Panel, Workgroup, or the industry, and may therefore not influence the debate to the same extent as a non-confidential response.

Acronyms, key terms, and reference material

Acronym / key term	Meaning
BSUoS	Balancing Services Use of System charges
CMP	CUSC Modification Proposal
CUSC	Connection and Use of System Code
EBR	Electricity Balancing Guideline
ESO	Electricity System Operator
TCMF	Transmission Charging Methodologies Forum
WACM	Workgroup Alternative Code Modification

Reference material

- [CMP 361/362 - Minded to decision and draft impact statement](#)
- [CMP 361/362 - 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	Proposal form
Annex 2	Terms of reference
Annex 3	Supporting analysis from Proposer
Annex 4	Supporting analysis from a Workgroup Member of the impact on suppliers