

Draft Final Modification Report

CMP415: Amending the Fixed Price Period from 6 to 12 months

Overview: This modification is a consequential modification for [CMP408](#), which looks at a change to a definition in Section 11. Amending the Fixed Price Period from 6 months to 12 months.

Modification process & timetable

1	Proposal Form 11 July 2023
2	Workgroup Report 04 August 2023
3	Code Administrator Consultation 16 August 2023 - 13 September 2023
4	Draft Modification Report 21 September 2023
5	Final Modification Report 13 October 2023
6	Implementation 01 April 2024

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

Have 30 minutes? Read the full [Draft Final Modification Report](#)

Have 45 minutes? Read the full Draft Final Modification Report and Annexes.

Status summary: The Draft Final Modification Report has been prepared for the recommendation vote at Panel.

Panel recommendation: The Panel will meet on 29 September 2023 to carry out their recommendation vote.

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

Governance route Standard Governance modification has been assessed by a Workgroup

Who can I talk to about the change?

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Executive summary

What is the issue?

[CMP408](#): Allowing consideration of a different notice period for BSUoS tariff settings required, as part of its terms of reference, consideration of an amendment to the Fixed Price Period of BSUoS in which the definition falls under Section 11 of the CUSC. This modification proposes to change the definition of the Fixed Price Period from 6 months to 12 months and should only be considered for implementation and approval in conjunction with [CMP408](#).

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

Proposer's solution:

Fixed Price Period: Change from 6 months to 12 months	Implementation Approach: From 1 April to 31 March
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Implementation date: 1 April 2024

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

WACM1 - Amending the Fixed Price Period from 6 to 12 months with two seasonal tariffs. This seeks to amend the definition of the Fixed Price Period from 6 months to 12 months but with two seasonal tariffs: a spring summer tariff (1 April to 30 September) and an autumn winter tariff (1 October to 31 March). The split tariff would prevent excessive under-recovery of costs in the summer in comparison to the winter. An under-recovery would mean a tariff reset is needed which would mean increased costs to suppliers and end consumers.

Workgroup conclusions:

The Workgroup concluded unanimously that the Original solution, and by majority that WACM1 did not better facilitate the Applicable Objectives than the Baseline.

The Workgroup concluded unanimously that WACM1, and by majority the Original solution, would better facilitate the Applicable Objectives than the Baseline were the change to Section 14 as proposed in [CMP408](#) to be implemented.

Panel recommendation: Panel will meet on 29 September 2023 to carry out their recommendation vote.

What is the impact if this change is made?

The shorter notice period combined with the longer fixed period, allows for suppliers to price longer contracts with more price certainty. A longer fixed period allows for suppliers to reduce the risk premia being built into BSUoS prices due to a longer period of certainty. By increasing the fixed period and reducing the notice period this falls in line with the results from the Second BSUoS Taskforce of a 15 month overall combined period.

ESO

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. The Proposer believes this should allow a reduction in risks premia being charged to customers.

Interactions

[CMP415](#) and WACM1 are the result of [CMP408](#) Workgroup discussions, however, as a charging proposal [CMP408](#) could not modify Section 11 of the CUSC. This modification should only be considered in conjunction with [CMP408](#) in terms of approval and implementation.

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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 Taskforce 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: Allowing consideration of a different notice period for BSUoS tariff settings](#) was raised as a charging modification to amend the Notice Period from 9 months to 3 months for the Fixed BSUoS tariffs within Section 14.

Under the terms of reference there is consideration of an amendment to the Fixed Price Period of BSUoS in which the definition falls under Section 11, which is a non-charging section, of the CUSC.

This modification proposes change the definition of the Fixed Price Period from 6 months to 12 months.

Why change?

[CMP408](#) modification proposal will be assessed under the CUSC Charging Applicable Objectives (applicable to Section 14 only).

Discussions within [CMP408](#) led to this modification being raised due to an additional change falling outside of Section 14. The proposed change is being made to Section 11 amending the definition of the Fixed Price Period from 6 months to 12 months.

This modification should only be considered in conjunction with [CMP408](#) in terms of approval and implementation.

What is the solution?

Proposer's solution

This modification should be considered in conjunction with [CMP408](#) in terms of approval and implementation.

This change relates to a definition of Fixed Price Period in Section 11.

Fixed Price Period: Change from 6 months to 12 months	Implementation Approach: From 1 April to 31 March
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Workgroup considerations

The Workgroup convened once on 02 August 2023 as part of a reconvened [CMP408](#) Workgroup to discuss the perceived issue, detail the scope of the proposed defect, devise potential solutions, and assess the proposal in terms of the Applicable Objectives.

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

The [CMP415](#) Original solution and WACM1 were initially raised as Alternates through discussions within [CMP408](#): Allowing consideration of a different notice period for BSUoS tariff settings modification (see [CMP408 Workgroup Report](#) for full details).

[CMP415](#) Original solution and WACM1 relate to the duration of the Fixed Price Period, to retain the overall 15 months of certainty, as a proposed change to CUSC (non-charging) Section 11 whereas [CMP408](#) proposes to change the Notice Period is within (charging) Section 14.

Therefore, [CMP415](#) should only be considered in conjunction with [CMP408](#) in terms of approval and implementation.

Consideration of the proposer's Original solution

Through the [CMP408](#) Workgroup Consultation some responses indicated a preference for a longer fixed period with several members referencing 12 months. The [CMP408](#) Proposer raised the potential issue of seasonality explaining a single tariff set within a year, under some forecast scenarios, is not always guaranteed. The ESO could significantly under recover during the summer months then recover this shortfall during the winter. It was suggested, given the significant increase in BSUoS costs from 2022 to 2023, there is a risk ESO's Working Capital would be fully utilised in summer before it is rebuilt up over the winter leading to increased likelihood of a mid-year tariff reset. The Proposer indicated this was the reason why ESO have stayed with the 6 months fixed period.

A [CMP408](#) Workgroup member questioned if the 12 month fixed period could have a summer and winter tariff, or does it have to be the same rate for each month? The Proposer clarified a summer and winter tariff is forecast at the beginning of the twelve months and stays the same throughout the year explaining this is different from having two 6 month tariffs.

The Proposer explained this had been raised to shorten the notice period and extend the fixed period. This proposal will maintain the 15 months combined period recommended by the second BSUoS Taskforce.

During a [CMP408](#) Workgroup, the Authority Representative indicated that Ofgem are open to different combinations of notice/fixed periods, but most importantly the benefit to consumers for this combination needs to be clear. The Ofgem Rep stated it was essential to have evidence on how the 12 month fixed term is more beneficial than the current 6 month baseline and an understanding of why increasing the risk of a tariff reset would be more beneficial than including risk premia. [CMP408](#) Workgroup Members agreed to share information with Ofgem offline.

Workgroup Alternative CUSC Modification (WACM) Overview

Alternative 1 was voted by (7 out of 7) to become WACM1 and proposes a 3 month notice period, followed by 12 months fixed, including a separate summer and winter tariff.

The split tariffs over a 12 month fixed period provides increased accuracy to suppliers when setting BSUoS related costs over that of one tariff within a 12 month fixed period, while still providing the sufficient notice of these tariffs for suppliers to price contracts.

This change differs to Original as it allows for a better risk management method of the ESO Working Capital Facility (WCF). The allowance of two tariffs within a 12 month Fixed Period, can reduce the likelihood of the ESO's working capital fund being depleted, reducing the likelihood of tariff resets within a fixed period while still providing the certainty to suppliers of BSUoS costs. The impact is that suppliers can further reduce risk premia being built into their prices which lowers costs to end consumers.

Why is Seasonality important?

A fixed BSUoS charge applied on a £/MWh basis means the value of BSUoS recovered across a financial year by the ESO is directly related to the total BSUoS volume across that same year. However, the BSUoS costs incurred are not related to this and can be relatively flat across the year. With a single fixed £/MWh charge (one tariff), the natural annual volume curve across the year means that ESO would always recover less revenue in the April to September period than we would in the October to March period. Given the higher BSUoS costs that have been seen in 2022/2023 there is a risk that the ESO's WCF fund is significantly depleted, increasing the risk of a mid-year tariff change being needed, which erodes the benefits of fixed BSUoS to suppliers and end consumers on price certainty. This solution is therefore proactive in preventing this from happening by allowing a spring summer tariff (1 April to 30 September) and an autumn winter tariff (1 October to 31 March).

With a 12 month fixed tariff and all other things being equal, ESO would most likely under recover during the first 6 months of the scheme, then as the higher demand volume was seen in the second 6 months that shortfall would be caught up, ideally revenue and costs equalling each other at the end of March. With the financial year split into two 6 month tariffs, the effects of any under recovery due to volume are halved because you get to that point where revenue and costs equal each other twice a year, at the end of each fixed tariff period.

This change would help support the ESO's working capital and market mechanisms while ensuring that the result will be cash neutral across the whole of the financial year so that there is no additional cost to suppliers and end consumers.

This therefore offers suppliers the longer fixed period, whilst providing additional certainty over BSUoS costs via the two tariffs which not only reduces the need for risk premia but also reduces the likelihood of the ESO working capital fund being depleted within a fixed period, subsequently reducing the likelihood of tariff resets within a fixed period.

Full seasonality analysis can be found in Annex 5.

Difference in Risk to the ESO WCF

- [CMP408](#) looks at a **9 month total combined period** for Fixed BSUoS (3 month notice, 6 month fixed)
 - This lowers the risk of the ESO WCF being depleted due to the shorter fixed period meaning there is less time for the ESO WCF to be fully utilised. This therefore aids in a reduction in risk of a tariff reset mid fixed period.
- [CMP415](#) looks at a **15 month total combined period** for Fixed BSUoS (3 month notice, 12 month fixed)
 - With a longer fixed period, this increases the risk of the ESO WCF being fully utilised, compared to that of [CMP408](#), which subsequently increases the risk of tariff resets within a fixed period.
- **WACM 1** in [CMP415](#) looks at a **15 month total combined period** for Fixed BSUoS (3 month notice, 12 months fixed with **two seasonal tariffs**)
 - Although this also has the same longer fixed period as [CMP415](#), the two tariffs reduce the risk of the ESO WCF being utilised as the two seasonal tariffs can take into account the issue of seasonality which is not addressed in [CMP415](#). This can reduce the risk seen in [CMP415](#) of tariff resets within a fixed period.

Workgroup Vote Rationale

The [CMP415](#) Original solution and WACM1 update the Fixed Price Period definition (see Annex 3) within Section 11 of the CUSC. When providing their assessment for the proposed solutions, the Workgroup is required to vote against the current Section 11 CUSC baseline (Annex 6).

However, as the [CMP415](#) Original solution and WACM1 have been developed alongside the proposed change to the Notice Period from 9 months to 3 months for the Fixed BSUoS tariffs within Section 14 (via [CMP408](#)). The Workgroup held a second illustrative vote to reflect their assessment for the proposed solutions were the [CMP408](#) change approved (Annex 7).

Legal text

Full legal text can be found in Annex 3.

Original (Page 32)

“Fixed Price Period”

the period of time during which the **Fixed BSUoS Price** applies. Each **Fixed Price Period** shall apply for ~~six~~ twelve months, from 1st April to ~~30th September and 1st October to~~ 31st March;

WACM1 (Page 32)

“Fixed Price Period”

the period of time during which the **Fixed BSUoS Price** applies. Each **Fixed Price Period** shall apply for ~~six~~ twelve months, from 1st April to ~~30th September and 1st October to~~ 31st March, comprising:

- (a) the Spring Summer Tariff (1st April to 30th September); and
 (b) the Autumn Winter Tariff (1st October to 31st March).

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
(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 A longer fixed period allows for suppliers to reduce the risk premia being built into BSUoS prices due to a longer period of certainty. By increasing the fixed period and reducing the notice period this falls in line with the results from the Second BSUoS Taskforce of a 15 month overall combined period.
(c) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and	Neutral
(d) Promoting efficiency in the implementation and administration of the CUSC arrangements.	Neutral

*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.

Workgroup Vote

The Workgroup met on 02 August 2023 to carry out their Workgroup vote. The full Workgroup vote can be found in Annex 6 and Annex 7. The table below provides a summary of the Workgroup members view on the best option to implement this change.

The Applicable non-charging CUSC Objectives are:

- a) The efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence;
- 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;
- c) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and
- d) Promoting efficiency in the implementation and administration of the CUSC arrangements.

*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.

The Workgroup concluded unanimously that the Original solution, and by majority that WACM1 did not better facilitate the Applicable Objectives than the Baseline (Annex 6).

Option	Number of voters that voted this option as better than the Baseline
Original	0
WACM1	2

The Workgroup concluded unanimously that WACM1, and by majority the Original solution, would better facilitate the Applicable Objectives than the Baseline were the change to Section 14 as proposed in [CMP408](#) to be implemented (Annex 7).

Option	Number of voters that voted this option as better than the Baseline
Original	6
WACM1	7

Code Administrator Consultation Summary

The Code Administrator Consultation was issued on the 16 August 2023 closed on 13 September 2023 and received 6 non-confidential responses and 0 confidential

responses. A summary of the responses can be found in the table below, and the full responses can be found in Annex 9.

Code Administrator Consultation summary	
Question	
Do you believe that the CMP415 Original Proposal or WACM1 better facilitates the Applicable CUSC Objectives?	Two respondents stated the Original Proposal and WACM 1 better facilitates objective b.
Do you have a preferred proposed solution?	Four respondents preferred the Baseline. Two respondents stated their preferred option was WACM1.
Do you support the proposed implementation approach?	Two respondents stated they support the proposed implementation approach. One respondent further clarified they would only support implementation of CMP415 WACM1 if CMP408 is passed. Two respondents stated they did not agree any change should result in tariffs being replaced.
Do you have any other comments?	Three respondents supportive of WACM1 gave the following reasons: <ul style="list-style-type: none"> • Having a longer notice period increases price certainty for suppliers so no risk of premium charge to customers is required. • It is in line with the recommendation of the second BSUoS Task Force of a total 15 month combined period. • A summer tariff from CMP361 and CMP362 is already published, and suppliers have already agreed contracts. • Supports the ESO WCF by splitting the financial year so the effects of under recovery are halved. • Allows the ESO to better align the profiles and cost recovery to its best view at the time of tariff setting. • Approving CMP408 in isolation would erode the benefits of CMP361 and CMP362. Three respondents not supportive of the Original or WACM1 gave the following reasons:

	<ul style="list-style-type: none"> • Insufficient evidence that a defect exists in the current charging methodology as it has only been in place for a few months. • These modifications, including CMP408, have been raised more for the benefit and ease of the ESO as opposed to industry and the end consumer. • Neither solution have demonstrated any benefit of how improved forecasting will outweigh the additional risk premium included in contracts due to less notice provided. • Less tariff notice mean fewer contracts can take account of the published fixed tariff, this will act to increase risk premium included, negatively impacting competition and higher prices for consumers.
Legal text issues raised in the consultation	
No legal text issues were raised by the respondents.	
EBR issues raised in the consultation	
No EBR issues were raised by the respondents.	

Panel Recommendation/Determination vote

The Panel will meet on the 29 September 2023 to carry out their recommendation vote. They will assess whether a change should be made to the CUSC by assessing the proposed change and any alternatives against the Applicable Objectives.

Vote 1: Does the Original or WACM1 facilitate the objectives better than the Baseline?

Panel Member: **Andrew Enzor**

	Better facilitates AO (a)?	Better facilitates AO (b)?	Better facilitates AO (c)?	Better facilitates AO (d)?	Overall (Y/N)
Original					
WACM1					

Panel Member: **Andy Pace**

	Better facilitates AO (a)?	Better facilitates AO (b)?	Better facilitates AO (c)?	Better facilitates AO (d)?	Overall (Y/N)
Original					
WACM1					

Panel Member: **Binoy Dharsi**

	Better facilitates AO (a)?	Better facilitates AO (b)?	Better facilitates AO (c)?	Better facilitates AO (d)?	Overall (Y/N)
Original					
WACM1					

Panel Member: **Cem Suleyman**

	Better facilitates AO (a)?	Better facilitates AO (b)?	Better facilitates AO (c)?	Better facilitates AO (d)?	Overall (Y/N)
Original					
WACM1					

Panel Member: **Claire Huxley**

	Better facilitates AO (a)?	Better facilitates AO (b)?	Better facilitates AO (c)?	Better facilitates AO (d)?	Overall (Y/N)
Original					
WACM1					

Panel Member: **Garth Graham**

	Better facilitates AO (a)?	Better facilitates AO (b)?	Better facilitates AO (c)?	Better facilitates AO (d)?	Overall (Y/N)
Original					
WACM1					

Panel Member: **Grace March**

	Better facilitates AO (a)?	Better facilitates AO (b)?	Better facilitates AO (c)?	Better facilitates AO (d)?	Overall (Y/N)
Original					
WACM1					

Panel Member: **Joseph Dunn**

	Better facilitates AO (a)?	Better facilitates AO (b)?	Better facilitates AO (c)?	Better facilitates AO (d)?	Overall (Y/N)
Original					
WACM1					

Panel Member: **Paul Jones**

	Better facilitates AO (a)?	Better facilitates AO (b)?	Better facilitates AO (c)?	Better facilitates AO (d)?	Overall (Y/N)
Original					
WACM1					

Vote 2 – Which option is the best?

Panel Member	BEST Option?	Which objectives does this option better facilitate? (If baseline not applicable).
Andrew Enzor		
Andy Pace		
Binoy Dharsi		
Cem Suleyman		
Claire Huxley		
Garth Graham		
Grace March		
Joseph Dunn		
Paul Jones		

Panel conclusion

To be updated after Panel meet on 29 September 2023 to carry out their recommendation vote.

When will this change take place?**Implementation date**

Implementation of [CMP415](#) will be aligned with [CMP408](#) which is 1 April 2024.

Date decision required by

End of November 2023.

Implementation approach

The modification can only be approved and implemented in conjunction with [CMP408](#).

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 checked="" type="checkbox"/> Other modifications | <input type="checkbox"/> Other |

This modification is a consequence of the modification [CMP408](#). The Workgroup do not believe there are any EBR implication.

¹ If the modification has an impact on Article 18 T&Cs, it will need to follow the process set out in Article 18 of the Electricity Balancing Regulation (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.

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
EBR	Electricity Balancing Regulation
ESO	Electricity System Operator
T&Cs	Terms and Conditions
WCF	Working Capital Facility
WACM	Workgroup Alternative Code Modification

Reference material

- [CMP408: Allowing consideration of a different notice period for BSUoS tariff settings](#)

Annexes

Annex	Information
Annex 1	Proposal form
Annex 2	Terms of reference
Annex 3	Legal Text
Annex 4	Alternative Form
Annex 5	WACM1 Seasonality Analysis
Annex 6	Alternative and Workgroup vote
Annex 7	Indicative vote were CMP408 in place
Annex 8	Workgroup attendance log
Annex 9	Code Administrator Consultation Responses