

CUSC Modification Proposal Form (for **nationalgrid** Charging Methodology Proposals) CMP267

Connection and Use of System Code (CUSC)

Title of the CUSC Modification Proposal

Defer the recovery of BSUoS costs, after they have exceeded £30m, arising from any Income Adjusting Events raised in a given charging year, over the subsequent two charging years.

Submission Date

18 July 2016

Description of the Issue or Defect that the CUSC Modification Proposal seeks to address

National Grid notified Ofgem of an Income Adjusting Event (IAE) in relation to the 2016-2017 System Operator Incentive Scheme. Approval of the IAE would lead to the recovery of up to £113m, through 2016-2017 BSUoS charges.

Historically, Black Start contracts have been a relatively small component of Balancing Services costs at £20-£40m/year for ~16-18 plants. The recovery of up to £113m for two plants is an unprecedented amount and if the IAE is approved, will have a significant commercial impact on market participants, and ultimately customers. We believe this material short notice impact on BSUoS charges is a defect to the CUSC.

If this Proposal is not implemented, National Grid is likely to seek to recover up to £113m through 2016-2017 charges from market participants. The proposal mandates recovery of the IAE costs, instead, over the two subsequent charging years i.e. 2017-2018 and 2018-2019, which would minimise the impact on industry parties by reducing volatility, increasing predictability and stabilising BSUoS charges.

Description of the CUSC Modification Proposal

Under the Balancing Services Incentive Scheme (BSIS) National Grid is able to apply for the SO Incentives to be revised so as to allow them to recover costs which were beyond their reasonable control and were caused by an unforeseen event i.e. an IAE.

This proposal seeks to defer unforeseen increase in BSUoS costs arising from an IAE by two years. This proposal only applies to IAE's which, in their total in any given charging year, have a combined effect on "raw BSUoS" of over £30m. We believe most market participants will be able to manage IAEs in a charging year with a combined effect on BSUoS of under £30m (i.e. the same amount as the floor on National Grid's incentive scheme which reflects its maximum commercial exposure under the scheme) in the year it is incurred. This proposal enables

market participants to spread out the unexpected cost over a two year period.

Shocks like the £113m Black Start contracts will increase market participant risk premia which in turn will increase prices for consumers. By deferring the payment over two years, this will allow most suppliers to recover the costs from a wider customer base over a longer duration which means impact to consumer bills will be limited. A shorter recovery period will still have a moderate to high impact on many suppliers. Since some suppliers will be able to absorb these costs better than others, a longer recovery period should create the least amount of distortion in supplier competitiveness.

Our proposal is relevant in an environment where identifying and quantifying the necessary balancing services in advance is proving to be difficult and where balancing costs are expected to increase significantly. It will provide greater certainty to suppliers and generators and support predictability of network charges which will result in consumers' benefits in the medium to long term.

Impact on the CUSC

This is an optional section. Please indicate the sections and clauses of the CUSC which would be affected by the modification or the general area in the CUSC if specific impacts are not yet known.

Do you believe the CUSC Modification Proposal will have a material impact on Greenhouse Gas Emissions? No

Include your view as to whether this Proposal has a quantifiable impact on greenhouse gas emissions. If yes, please state what you believe that the impact will be.

You can find guidance on the treatment of carbon costs and evaluation of the greenhouse gas emissions on the Ofgem's website:

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=196&refer=Licensing/IndCodes/Governance>

Impact on Core Industry Documentation. Please tick the relevant boxes and provide any supporting information

BSC

Grid Code

STC

Other We believe a Transmission licence change may be needed.
(please specify)

This is an optional section. You should select any Codes or state Industry Documents which may be affected by this Proposal and, where possible, how they will be affected.

Urgency Recommended: Yes

This is an optional section. You should state whether you believe this Proposal should be treated as Urgent.

Justification for Urgency Recommendation

*Historically, Black Start contracts have been a relatively small component of Balancing Services costs at £20-£40m/year for ~16-18 plants. £113m for two plants is an unprecedented amount and if the IAE is approved, **will have a significant commercial impact on market participants, and ultimately customers** who may experience higher risk premia as a result of the IAE. Currently BSUoS costs are just under £1bn so this additional costs represents a 10% increase in costs. However, as we are already mid-way through the year effectively if recovered within year this increase costs for parties by a factor of 20%.*

We have been engaging with National Grid to better understand how they intend to recover the additional costs (if approved by Ofgem) and also the merits of other options to address the issue / defect. We are raising our proposal now so that the industry can consider our proposal in parallel with any other proposals National Grid might put forward in the near future.

*Since **Ofgem has to determine on the level of cost pass-through by 24 August 2016** (i.e. 3 months from the date of National Grid's notification), we would like our CUSC modification to be considered as an Urgent modification. **It is time sensitive to Ofgem's determination of the IAE.***

Self-Governance Recommended: No

This is an optional section. You should state whether you believe this Proposal should be treated as Self-Governance.

Justification for Self-Governance Recommendation

If you have answered yes above, please describe why this Modification should be treated as Self-Governance.

A Modification Proposal may be considered Self-governance where it is unlikely to have a material effect on:

- Existing or future electricity customers;*
- Competition in generation or supply;*
- The operation of the transmission system;*
- Security of Supply;*
- Governance of the CUSC*
- And it is unlikely to discriminate against different classes of CUSC Parties.*

Should this CUSC Modification Proposal be considered exempt from any ongoing Significant Code Reviews?

Yes. We are not aware of any current Significant Code Review (SCR) whose scope overlaps with the scope of this modification.

Impact on Computer Systems and Processes used by CUSC Parties:

There should be no impact on computer systems and processes used by CUSC Parties.

We note that the potential IAE is up to £113m and the exact amount will not be known until post event. While National Grid will have to calculate the exact amount to be deferred, this should not have an impact on their computer system.

Details of any Related Modification to Other Industry Codes

None. CMP 250 (stabilising BSUoS with at least a twelve month notification period) could have achieved a similar impact but it has yet to be approved by the Authority and even if approved is prospective and therefore would not address this issue.

Our modification would stabilise unforeseen BSUoS which results from an IAE over a two year period.

Justification for CUSC Modification Proposal with Reference to Applicable CUSC Objectives for Charging:

Please tick the relevant boxes and provide justification for each of the Charging Methodologies affected.

Use of System Charging Methodology

- (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;
- (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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard condition C26 (Requirements of a connect and manage connection);
- (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.

- (d) compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.
These are defined within the National Grid Electricity Transmission plc Licence under Standard Condition C10, paragraph 1.

Objective (c) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).

Full justification:

Charging Objective (a)

This modification will mitigate the impacts of the unprecedented and unforeseen BSUoS charges on market participants. By allowing the costs to be known in advance and be recovered over a two year period, the proposal facilitates effective competition in the generation and supply of electricity, by removing the uncertainty that comes from short-notice, unforecastable, changes in BSUoS of materiality above this threshold. These short-notice, unforecastable, changes create risks that are hard for any participant to finance efficiently, adding to consumer costs; they may also have more adverse impacts on some categories of participant than others.

Since the modification will apply to future IAEs as well as the current potential IAE, it provides clarity going forward if a similar event occurs again next year. It provides the clarity that market participants need.

Charging Objective (b)

The proposer believes that the proposal is neutral against applicable charging objective (b).

Charging Objective (c)

The proposer believes that the proposal is neutral against applicable charging objective (c).

Charging Objective (d)

The proposer believes that the proposal is neutral against applicable charging objective (d).

Connection Charging Methodology

- (a) that compliance with the connection 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;
- (b) that compliance with the connection 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 in accordance with the STC)

incurred by transmission licensees in their transmission businesses and which are compatible with standard condition C26 (Requirements of a connect and manage connection);

- (c) that, so far as is consistent with sub-paragraphs (a) and (b), the connection charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses;
- (d) in addition, the objective, in so far as consistent with sub-paragraphs (a) above, of facilitating competition in the carrying out of works for connection to the national electricity transmission system.
- (e) compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.
These are defined within the National Grid Electricity Transmission plc Licence under Standard Condition C10, paragraph 1.

Objective (c) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).

Full justification:

Additional details

Details of Proposer: (Organisation Name)	EDF Energy
Capacity in which the CUSC Modification Proposal is being proposed: (i.e. CUSC Party, BSC Party or "National Consumer Council")	CUSC Party
Details of Proposer's Representative: Name: Organisation: Telephone Number: Email Address:	Binoy Dharsi EDF Energy 020 3126 2165 binoy.dharsi@edfenergy.com
Details of Representative's Alternate: Name: Organisation: Telephone Number: Email Address:	Mari Toda EDF Energy 07875 116520 mari.toda@edfenergy.com
Attachments (Yes/No): No If Yes, Title and No. of pages of each Attachment:	

Contact Us

If you have any questions or need any advice on how to fill in this form please contact the Panel Secretary:

E-mail cusc.team@nationalgrid.com

Phone: 01926 653606

For examples of recent CUSC Modifications Proposals that have been raised please visit the National Grid Website at <http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/Current/>

Submitting the Proposal

Once you have completed this form, please return to the Panel Secretary, either by email to jade.clarke@nationalgrid.com copied to cusc.team@nationalgrid.com, or by post to:

Jade Clarke
CUSC Modifications Panel Secretary, TNS
National Grid Electricity Transmission plc
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

If no more information is required, we will contact you with a Modification Proposal number and the date the Proposal will be considered by the Panel. If, in the opinion of the Panel Secretary, the form fails to provide the information required in the CUSC, the Proposal can be rejected. You will be informed of the rejection and the Panel will discuss the issue at the next meeting. The Panel can reverse the Panel Secretary's decision and if this happens the Panel Secretary will inform you.