

Modification proposal:	<b>Connection and Use of System Code (CUSC) CMP281: Removal of BSUoS Charges From Energy Taken From the National Grid System by Storage Facilities (CMP281)</b>		
Decision:	The Authority <sup>1</sup> directs that this modification be made <sup>2</sup>		
Target audience:	National Grid Electricity System Operator (NGESO), Parties to the CUSC, the CUSC Panel and other interested parties		
Date of publication:	14 May 2020	Implementation date:	01 April 2021

## Background

Balancing Service Use of System (BSUoS) charges are the means by which National Grid Electricity System Operator (NGESO) recovers the costs associated with balancing the electricity transmission system. BSUoS charges are recovered from demand customers and generators based on the amount of energy imported or exported onto the network (£/MWh) within each half-hour period. The value varies in each half-hourly settlement period reflecting the different costs incurred by NGESO in each period.

The first Balancing Services Task Force concluded that BSUoS charges do not provide useful forward looking signals and should be considered a cost-recovery charge.<sup>3</sup> Currently, electricity storage providers, along with other generation assets, pay BSUoS on both their import and export volumes. Compared with other generation, electricity storage facilities import relatively high volumes of electricity (more than they export) leading to higher BSUoS charges.

In July 2017, based on analysis of responses to a corresponding Call for Evidence, we announced our joint plan with government, the Smart Systems and Flexibility Plan (SSFP).<sup>4</sup> The SSFP concluded that electricity storage facilities are not end consumers of energy. Further, our view is that charging arrangements should not discriminate between electricity storage and generation and as such, 'storage providers should only pay one set of balancing system charges'. With government, we identified a range of policy and regulatory barriers to the further deployment of electricity storage. Specifically, we stated that the definition of electricity storage, based on the definition proposed by the Electricity Storage Network, is a distinct subset of the generation asset class.

In order to deliver the changes as quickly as possible, we determined that charging arrangements for electricity storage should not be included in the Targeted Charging

<sup>1</sup> References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work.

<sup>2</sup> This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

<sup>3</sup> <http://www.chargingfutures.com/charging-reforms/task-forces/previous-task-forces/balancing-services-charges-task-force/resources/>

<sup>4</sup> <https://www.ofgem.gov.uk/publications-and-updates/upgrading-our-energy-system-smart-systems-and-flexibility-plan>

Review (TCR) Significant Code Review (SCR).<sup>5</sup> Instead, we encouraged parties to raise changes to network charges for electricity storage through the usual industry code modification process.

In January 2019, we published an open letter on the implications of our charging reform on electricity storage.<sup>6</sup> In that letter we confirmed that 'our view remains that, insofar as such [BSUoS] charges are cost-recovery charges, storage should not pay a disproportionate amount compared to other forms of generation.'

In November 2019, we published our TCR decision and impact assessment.<sup>7</sup> We directed that NGENSO raise a modification proposal (CMP333) to implement 'partial BSUoS reform' to remove the ability for suppliers to reduce their liability for BSUoS charges by contracting with small distributed generators.<sup>8</sup> CMP333 focuses on BSUoS charges for exports, while CMP281 focuses on imports; the two proposed modifications seek to amend the same section of the CUSC.

Alongside the TCR decision, we launched a second Balancing Services Charges Task Force to consider who should pay BSUoS charges and on what basis.<sup>9</sup> The second Task Force is due to report its findings in the autumn.<sup>10</sup>

## **The modification proposal**

Scottish Power proposed CMP281 and submitted it to the CUSC Modifications Panel (the 'Panel') for its consideration on 26 June 2017. Scottish Power withdrew support for the modification following the sale of its traditional generation business. It was adopted by Engie ('the Proposer') in November 2018.

CMP281 aims to remove liability from electricity storage facilities for BSUoS charges only on their imports. Compared with other generation, electricity storage facilities import relatively high volumes of electricity (more than they export) leading to higher BSUoS charges. The Proposer considers that electricity storage providers are therefore contributing more towards the cost of balancing the system than other generators who provide the same or similar service.

As a result, according to the Proposer, storage providers, who compete with generators in the provision of ancillary services, are at a competitive disadvantage, which is likely to distort market outcomes and so disadvantage consumers. Moreover, given the nature of electricity storage facilities and the system support role that they play, the Proposer

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<sup>5</sup> [https://www.ofgem.gov.uk/system/files/docs/2017/08/tcr\\_scr\\_launch\\_letter.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/08/tcr_scr_launch_letter.pdf)

<sup>6</sup> [https://www.ofgem.gov.uk/system/files/docs/2019/01/storage\\_and\\_charging\\_reform\\_2201f.pdf](https://www.ofgem.gov.uk/system/files/docs/2019/01/storage_and_charging_reform_2201f.pdf)

<sup>7</sup> <https://www.ofgem.gov.uk/publications-and-updates/targeted-charging-review-decision-and-impact-assessment>

<sup>8</sup> <https://www.nationalgrideso.com/industry-information/codes/connection-and-use-system-code-cusc-old/modifications/cmp333-bsuos>

<sup>9</sup> <http://www.chargingfutures.com/charging-reforms/task-forces/second-balancing-services-charges-task-force/resources/>

<sup>10</sup> In April 2020 we agreed to a three-month pause to the work of the second Balancing Services Charges Task Force, in light of the Covid-19 pandemic. In June 2020 we will decide whether it is appropriate for the Task Force to resume its work in July, to develop its report for September 2020.

considers that electricity storage facilities are very unlikely to impose such balancing costs on the system when compared with other users. The ability of electricity storage facilities to both import and export electricity means they are able to respond to system needs, such as importing overnight when there is otherwise relatively low demand but generation output may be high.

The proposal would include both Central Volume Allocation and Supplier Volume Allocation electricity storage facilities. It would only apply to electricity storage facilities operating under a generation licence and where the only function of that facility is electricity storage. The proposed modification would amend the calculation of BSUoS charges to exclude imported electricity volumes from eligible storage facilities from both: (i) attracting BSUoS charges and (ii) the calculation of BSUoS charges for all liable parties.

The original proposal stated that the proposed modification would remove a distortion in competition and avoid some users paying a disproportionate share of BSUoS costs. Therefore, it considered CMP281 would better meet CUSC charging objectives (a) and (b) in comparison with the current baseline.<sup>11</sup>

### **CUSC Panel<sup>12</sup> recommendation**

At the CUSC Panel meeting on 12 September 2019, a majority of the CUSC Panel considered that CMP281 would better facilitate the CUSC charging objectives and the Panel therefore recommended its approval.

### **Our decision**

We have considered the issues raised by the modification proposal and the final Modification Report (FMR) dated 15 October 2019. We have considered and taken into account the responses to the Code Administrator consultations on the modification proposal which are attached to the FMR.<sup>13</sup> We have concluded that:

1. implementation of the modification proposal will better facilitate the achievement of the relevant charging objectives of the CUSC; and
2. directing that the modification be made is consistent with our principal objective and statutory duties.<sup>14</sup>

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<sup>11</sup> As set out in Standard Condition C5(5) of the Electricity Transmission Licence, see: <https://epr.ofgem.gov.uk/Content/Documents/Electricity%20transmission%20full%20set%20of%20consolidated%20standard%20licence%20conditions%20-%20Current%20Version.pdf>

<sup>12</sup> The CUSC Panel is established and constituted from time to time pursuant to and in accordance with the section 8 of the CUSC.

<sup>13</sup> CUSC modification proposals, modification reports and representations can be viewed on NGENSO's website at <https://www.nationalgrideso.com/industry-information/codes/connection-and-use-system-code-cusc>

<sup>14</sup> The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989 as amended.

## Reasons for our decision

We consider this modification proposal will better facilitate CUSC objectives (a) and (b) and has a neutral impact on the other applicable objectives.

***(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***

The majority of members of the CUSC Panel and the majority of respondents to the first code administrator consultation agreed that CMP281 would better facilitate objective (a).<sup>15</sup> Two Panel members considered that CMP281 would not better facilitate this objective.

Those Panel members that considered the proposed modification better facilitates this objective highlighted that it would create a more level playing field between different types of generation by introducing more equitable treatment of electricity storage compared with other generators. Other Panel members were concerned that the proposal could result in discrimination between those electricity storage facilities that would no longer be liable for BSUoS charges on imports and other generators still facing BSUoS import charges.

### *Our position*

We think the current charging arrangements are distortive and lead to network costs being disproportionately recovered from electricity storage facilities that are currently at a relative disadvantage to other generation, providing the same or similar services. This is because the relationship between electricity imports and exports for energy storage is different to other types of electricity generation. Electricity storage participants import electricity for the purpose of exporting it at a different time, with system losses meaning that total imports exceed exports. As a result, the ratio of electricity imports relative to exports is much higher than other generators, who generally import electricity for ancillary purposes only. As we have previously stated, including in the SSFP, we want to see electricity storage become a genuinely viable proposition in the energy system.

We acknowledge that CMP281 will introduce some differential treatment: between electricity storage and other generation, and between different types of electricity storage, depending on eligibility for exemption from BSUoS on storage imports. We consider the differential treatment, which the proposed modification introduces has a less significant impact than the large distortion and differential treatment which currently exists. In this respect, the proposed modification is an improvement of the baseline and will better facilitate competition.

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<sup>15</sup> The second code administrator consultation specifically considered edits to the proposed legal text and sought no views on assessment against the relevant objectives.

We consider CMP281 to be a 'stepping stone' towards an enduring solution for BSUoS charging that may follow the conclusions of the second Balancing Services Charges Task Force. We will consider any proposed modifications to BSUoS charging – stemming from the Task Force or otherwise – on their own merits. In the meantime, we believe that approving CMP281 will reduce barriers to deployment of electricity storage facilities allowing opportunities presented by flexible technologies to be realised sooner, as we set out in the SSFP.

***(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)***

Half of the members of the CUSC Panel and a minority of respondents to the first code administrator consultation agreed that CMP281 would better facilitate objective (b). Two Panel members considered that CMP281 would not better facilitate this objective. The remainder of Panel members and consultation respondents considered it would be neutral against this objective or did not comment.

Those Panel members that considered the proposed modification better facilitates this objective highlighted the role that electricity storage typically plays in reducing balancing services costs when importing at periods of low demand. Therefore, removing BSUoS charges for electricity storage imports would result in an improvement in cost reflectivity. In contrast, a different Panel member considered that electricity storage should continue to face charges for the system operation costs it causes when importing, suggesting that the current arrangement results in more cost reflective charging than the proposed modification. The NGESO Panel representative considered that CMP281 is incompatible with transmission licence condition C26.

#### *Our position*

The first Balancing Services Charges Task Force concluded that BSUoS should be considered a cost-recovery charge. We have consistently stated that where charges are cost-recovery, electricity storage should not pay a disproportionate amount compared to other forms of generation. We consider that excluding electricity storage from paying cost-recovery charges on both imports and exports, given the distinctive characteristics of electricity storage with respect to electricity imports, helps address the current disproportionate situation. We consider it is more cost reflective if electricity storage facilities do not face a disproportionate level of cost-recovery charges.

Transmission licence condition C26.6 gives effect to a Public Service Obligation for constraint costs. It states that:

*'The licensee shall use all reasonable endeavours to ensure that in its application of the use of system charging methodology in accordance with standard condition C5 (Use of system charging methodology), use of system charges resulting from*

*transmission constraints costs are treated by the licensee such that the effect of their recovery is shared on an equal per MWh basis by all parties liable for use of system charges.'*

We consider CMP281 is consistent with the intent of C26.6 insofar as BSUoS costs would continue to be recovered on an equal per MWh basis. Furthermore, we consider that the proposed modification to the CUSC is compatible with the wording of C26.6. CMP281 simply excludes electricity storage imports from the volumes of 'parties liable for use of system charges' and parties will therefore continue to pay on an equal per MWh basis for what they are liable for. Consequently, we do not think a licence change is required for the implementation of CMP281.

However, we note that the second Balancing Services Charges Task Force, which will make recommendations on reforms to how BSUoS charges should be recovered, is considering potential implications for and possible amendments to C26.6 as a result of any such reforms.

***(d) compliance with the Electricity Regulation and any relevant legally binding decisions of the European Commission and/or the Agency***

One member of the CUSC Panel considered that CMP281 would not better facilitate objective (d). The Panel member did not provide a specific explanation for this position. The remaining Panel members were neutral with respect to this objective.

*Our position*

We consider CMP281 to be neutral against this objective. We note that Article 18 of the Clean Energy Package states that "...network charges shall not discriminate either positively or negatively against energy storage".<sup>16</sup> As noted in our assessment against objective (a), we consider that CMP281 will remove a significant, existing distortion between electricity storage and other generators. We acknowledge that this will result in the introduction of a small advantage to electricity storage facilities (eligible for exemption from BSUoS import charges) relative to other forms of generation who will continue to pay BSUoS import charges. We consider that CMP281 can be justified by reference to the applicable charging objectives and that implementation of CMP281 would not lead to unlawful discrimination in favour of electricity storage.

**Implementation**

We consider that April 2021 remains an appropriate implementation period for CMP281 despite resourcing challenges caused by the Covid-19 pandemic. We think the changes can be progressed in tandem with those already required for the TCR BSUoS proposed modification and this combination represents an opportunity for savings in implementation costs relative to the changes progressing independently. We consider that CMP281 represents a proportionate means of addressing the current distortion in

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<sup>16</sup> <https://ec.europa.eu/energy/en/topics/energy-strategy/clean-energy-all-europeans>

advance of a more enduring solution that may follow, upon the conclusion of the Balancing Services Charges Task Force.

Industry parties raised two other proposed modifications to enable implementation of CMP281. We approved P383: *Enhanced reporting of demand data to the NETSO to facilitate CUSC Modifications CMP280 and CMP281* on 28 February.<sup>17</sup> We will shortly be issuing our decision on CMP319: *Consequential changes to section 11 of the CUSC as a result of CMP280 and/or 281*.<sup>18</sup> Approving CMP281 does not fetter our discretion in assessing CMP319.

### **Interaction with CMP333**

NGESO raised CMP333: *BSUoS – charging Supplier Users on gross demand (TCR)* in response to our TCR decision. Its intention is to charge BSUoS on a gross basis at the Grid Supply Point to remove an embedded benefit related to BSUoS charges for exports for distributed generation. CMP333 seeks to amend the same section of the CUSC as CMP281, but was proposing to do so against the existing baseline (i.e. without CMP281 approval).

We note that the CMP333 code administration consultation is due to close on 15 May. We expect the revised legal text of CMP333 to take CMP281 into account, including allowing stakeholders to comment on the proposal against this new baseline, for example by extending the consultation deadline.

### **Decision notice**

In accordance with Standard Condition C10 of the Transmission Licence, the Authority, hereby directs that modification proposal CMP281: *Removal of BSUoS Charges From Energy Taken From the National Grid System by Storage Facilities* be made.

**Andrew Self**

**Deputy Director, Electricity Access and Charging – Energy Systems Transition**

Signed on behalf of the Authority and authorised for that purpose

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<sup>17</sup> [https://www.ofgem.gov.uk/system/files/docs/2020/03/p383\\_d.pdf](https://www.ofgem.gov.uk/system/files/docs/2020/03/p383_d.pdf)

<sup>18</sup> <https://www.nationalgrideso.com/industry-information/codes/connection-and-use-system-code-cusc-old/modifications/cmp319>