

National Grid Electricity System
Operator Limited and other
interested stakeholders

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Date: 4 March 2022

Dear Stakeholders,

Decision to modify the special conditions of the electricity transmission licence held by National Grid Electricity System Operator Limited

On 28 January 2022, we¹ published a consultation² on a proposal to modify Special Condition 1.1 (Interpretation and definitions) ('SpC 1.1') and Special Condition 4.2 (Balancing Services Activity Revenue Restriction on External Costs) ('SpC 4.2') of the electricity transmission licence held by National Grid Electricity System Operator Limited (NGESO or ESO).

We received one response to the consultation, which is published in full alongside this decision. Following consideration of this response, we have decided to modify SpC 1.1 and SpC 4.2 in the manner set out in the consultation, with one housekeeping text amendment and one typographical correction as explained later in this letter.

A licence modification notice under section 11A(1)(a) of the Electricity Act 1989 (the Act), detailing the modifications to SpC 1.1 and SpC 4.2, has been issued and is published alongside this letter. These licence changes will take effect from 30 April 2022.

This letter summarises the background to our decision and the one consultation response received, as well as detailing our view on the response, our decision and reasons for that decision.

Background: Balancing Services Use of System ('BSUoS') charges and CMP381³

BSUoS charges are the means by which NGESO recovers the costs of balancing the electricity transmission system. BSUoS charges are currently recovered from demand customers and Large Generators⁴ based on the amount of energy imported from or exported onto the transmission network (in £/MWh) within each half-hour period.⁵

¹ References to the "Authority", "Ofgem", "we", "us" 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.

² [Statutory consultation on a proposal to modify the licence held by the Electricity System Operator | Ofgem](#)

³ CMP stands for Connection and Use of System Code (CUSC) Modification Proposal.

⁴ Large Generators are those generators that are directly connected to the transmission network and generators that are connected to the distribution network with capacities greater than 100MW. Interconnectors and distribution connected generation smaller than 100MW do not face BSUoS charges.

⁵ The Authority recently published a minded-to decision on CMP308 which would move liability for BSUoS charges solely to final demand: [CMP308 – Minded-to decision and draft impact assessment | Ofgem](#)

The sustained increase in gas and electricity prices since August 2021 has contributed to significantly higher costs associated with balancing the electricity transmission system.⁶ As a result of the market conditions, BSUoS charges have considerably exceeded NGESO's forecasts for winter 2021/22.

On 14 January 2022, we published our decision⁷ on CMP381⁸ to implement a £20/MWh cap on BSUoS costs in each Settlement Period from 17 January until 31 March 2022 and defer costs above the cap (with a limit of £200m for the cumulative amount of deferred costs) to the following charging year (2022/23). In the decision, we recognised that a licence change may be required to facilitate the recovery of the deferred costs and stated that we would seek to progress any associated licence modification imminently.

Statutory consultation on a proposal to modify SpC 1.1 and SpC 4.2

On 28 January 2022, we consulted on our proposal to modify SpC 1.1 and SpC 4.2 of NGESO's electricity transmission licence.⁹

Summary of consultation response and our view

We received one response from NGESO to the statutory consultation. A summary of the response and our view on it can be found below. The full response is published alongside this letter.

NGESO's response and our view

NGESO supported our proposal to modify SpC 1.1 and SpC 4.2 of its electricity transmission licence. However, NGESO recommended one minor housekeeping amendment to the proposed licence modifications. NGESO's suggestion was that SpC 4.2, and specifically the definition of $BSUoS_{EXC_t}$, should be amended to remove the wording "(as defined in the CUSC section 14)" with reference to the 'Exceptional Costs Support Scheme'. This is because the modification proposal also included 'Exceptional Costs Support Scheme' as a defined term in SpC 1.1, which also cross-referred to section 14 of the CUSC.

We note NGESO's response supports our proposed licence modifications and we agree with the housekeeping amendment recommended by NGESO. In our view, the words which NGESO propose to remove are superfluous given that the term will be defined in SpC 1.1.

In our review of the proposed modifications, we have also identified that it will be necessary to correct one further minor typographical error in the proposed licence modifications set out in the statutory consultation notice, by changing the new definition added in SpC 1.1 from "Exceptional Cost Support Scheme" to "Exceptional Costs Support Scheme".

Our decision

Having considered the one response received to the statutory consultation, we have decided to modify SpC 1.1 and SpC 4.2 of the electricity transmission licence held by NGESO in the manner set out in the consultation, with one housekeeping text amendment and one typographical correction. These two alterations are explained above and demonstrated in the accompanying notice. We consider that this amendment will facilitate NGESO's recovery of the 2021/22 BSUoS costs deferred in accordance with our decision on CMP381, in the charging year 2022/23.

⁶ [Rising wholesale energy prices and implications for the regulatory framework | Ofgem](#)

⁷ [Decision on CMP381 | Ofgem](#)

⁸ EDF raised CMP381 on 16 December 2021: [CMP381: Defer exceptionally high Winter 2021/22 BSUoS costs to 2022/2023 | National Grid ESO](#)

⁹ [Statutory consultation on a proposal to modify the licence held by the Electricity System Operator | Ofgem](#)

The licence modification notice is published alongside this decision letter. The modifications to SpC 1.1 and SpC 4.2 of the electricity transmission licence held by NGESO will come into effect on 30 April 2022.

Yours sincerely

Andrew Malley
Head of Electricity Network Charging
Duly authorised on behalf of the Authority