Modification proposal:	**Balancing and Settlement Code (BSC) P419: Extension of P383 to include non-final Demand (P419)**		
Decision:	The Authority[1] directs that this modification be made[2]		
Target audience:	National Grid Electricity System Operator (NGESO), Parties to the BSC, the BSC Panel and other interested parties		
Date of publication:	25 April 2022	Implementation date:	23 February 2023

Background

Balancing Services Use of System ('BSUoS') charges are the means by which National Grid Electricity System Operator ('NGESO') recovers costs associated with balancing the electricity transmission system. BSUoS charges have typically been recovered from demand customers and Large Generators[3] based on the amount of energy imported from or exported onto the transmission network (in £/MWh) within each half-hour period.

In November 2019, we published our Decision (and associated Directions) on the Targeted Charging Review (TCR) Significant Code Review[4]. The TCR included a review of how residual and cost-recovery network charges are set and recovered, in particular establishing non-cost reflective charges should be recovered from Final Demand[5] in a non-distortive manner[6]. Our

[1] 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. This decision is made by or on behalf of GEMA.
[2] This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.
[3] 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.
[4] https://www.ofgem.gov.uk/publications-and-updates/targeted-charging-review-decision-and-impact-assessment
[5] Final Demand is defined as "electricity which is consumed other than for the purposes of generation or export onto the electricity network".
[6] The TCR aimed to ensure that residual charges are recovered from network users in a way that balanced the need to reduce harmful distortions, maintain fairness, and charge in a way that is practical and proportionate.

The Office of Gas and Electricity Markets
10 South Colonnade, Canary Wharf, London, E14 4PZ **Tel** 020 7901 7000
www.ofgem.gov.uk

work on TCR removed some distortions, including the removal of an Embedded Benefit[7] associated with BSUoS, but stopped short of making changes to BSUoS itself. Instead, our November 2018 TCR minded-to decision[8] launched the first BSUoS Task Force[9], which was asked to examine whether and how the cost reflectivity of BSUoS could be improved to provide better forward-looking signals.

Subsequently, the second BSUoS Task Force recommended[10] that BSUoS be paid solely by Final Demand, and also that it should be levied in the form of a flat volumetric £/MWh charge that was known to users in advance and was of a fixed level, not varying throughout the charging year[11]. In December 2020, we published an open letter[12] supporting the Task Force's recommendations in principle, whilst recognising that quantitative analysis as to the overall impacts of the reforms would be required to inform a final decision. We also set out our expectations that industry should develop proposals to modify the Connection and Use of System Code ('CUSC') which includes provisions covering the BSUoS charging methodology.

On 25 April 2022, we will approve CUSC Modification CMP308: '*Removal of BSUoS charges from Generation*' to be implemented on 1 April 2023[13] (please check our web page for details). CMP308 gives effect to part of the Task Force recommendations, namely that liability for BSUoS charges should be moved solely to Final Demand. Two further CUSC Modifications, CMP361 & CMP362: '*BSUoS Reform: Introduction of an ex ante fixed BSUoS tariff & Consequential Definition Updates'*[14], seek to enact the remainder of the Task Force recommendations by making BSUoS an ex ante fixed volumetric tariff. The Final Modification

---

[7] Embedded Benefits is the name given to the differences in charging arrangements between Small Distributed Generators and large generators (with capacity >100MW) connected to either the distribution or transmission networks.

[8] https://www.ofgem.gov.uk/sites/default/files/docs/2018/11/targeted_charging_review_minded_to_decision_and_draft_impact_assessment.pdf

[9] Review of balancing services charges (ofgem.gov.uk)

[10] second-balancing-services-charges-task-force-final-report.pdf (chargingfutures.com)

[11] Currently BSUoS charges are recovered using a £/MWh volumetric charge that varies in cost in each 30 minute settlement period to reflect the specific costs that arose in that period.

[12] https://www.ofgem.gov.uk/publications/ofgem-response-publication-final-report-second-balancing-services-use-system-bsuos-task-force

[13] https://www.nationalgrideso.com/industry-information/codes/connection-and-use-system-code-cusc-old/modifications/cmp308-removal

[14] For the avoidance of doubt, approving P419 does not fetter our discretion in assessing CMP361/2, as we review each modification independently, on its merits.

The Office of Gas and Electricity Markets
10 South Colonnade, Canary Wharf, London, E14 4PZ **Tel** 020 7901 7000
www.ofgem.gov.uk

Report ('FMR') in relation to CMP361 and CMP362 was issued to the Authority on 8 March 2022 and is therefore are currently with us for decision[15].

NGESO currently rely on Elexon to collect and report aggregated metered data for Supplier Volume Allocation (SVA) registered Metering System Identifiers (MSIDs), which is reported in the P0210 'TUoS Report' data flow. This is then used by NGESO to calculate BSUoS charges. In addition to the existing Supplier Metered Data[16] provided in the P0210 report, BSC Code Modification P383 '*Enhanced reporting of demand data to the NETSO to facilitate CUSC Modifications CMP280 and CMP281*'[17], introduced new processes for Suppliers, Half Hourly Data Aggregators (HHDAs) and the Supplier Volume Allocation Agent (SVAA) to participate in the BSC system. P383 introduced a solution whereby demand volumes associated with storage facilities are reported separately. It also 'corrected' the Supplier BM Unit data position for the calculation of network charges and billing purposes.

Under current arrangements, reporting to NGESO includes metered data from some demand facilities which are to be treated as Non-Final Demand, such as electricity generation facilities and eligible service facilities. The current arrangements would be incompatible with CMP308, which moves BSUoS liability onto Final Demand only. P419 therefore seeks to introduce a solution that would allow NGESO and Elexon to identify and exclude demand volumes associated with generation, storage and eligible services facilities (i.e. those which are not classed as Final Demand) when calculating liability for BSUoS charges.

The modification proposal

NGESO ('the Proposer') raised P419[18] on 6 May 2020 (the 'Proposed Modification') to enable the aggregation and submission of the metered demand data of Non-Final Demand Facilities, such as electricity generation facilities, energy storage and eligible service facilities, for the

[15] https://www.nationalgrideso.com/industry-information/codes/connection-and-use-system-code-cusc-old/modifications/cmp361-cmp362
[16] Electricity meter data and relevant information of the demand site that collected by supplier.
[17] https://www.elexon.co.uk/mod-proposal/p383/
[18] https://www.elexon.co.uk/mod-proposal/p419/

The Office of Gas and Electricity Markets
10 South Colonnade, Canary Wharf, London, E14 4PZ **Tel** 020 7901 7000
www.ofgem.gov.uk

BSUoS charges exemption. The Proposer believes that code objectives[19] (a), (c) and (d) are better facilitated by this change, and that there is a neutral impact on the other code objectives.

P419 would expand the systems and processes introduced by P383 to allow Non-Final Demand Facilities to work with Suppliers to declare their Non-Final Demand metered data for the exemption of BSUoS charges and enable Elexon to provide NGESO with aggregated Non-Final Demand metered data via the P0210 'TUoS Report' data flow. As such, P419 would enable NGESO to exclude the declared Non-Final Demand data for the calculation of BSUoS charges and therefore facilitate CMP308. In addition to this, P419 would also digitalise the current paper-based declarations process by using Elexon's 'Kinnect' customer solution.

In order to process the large volume of declarations expected before the go-live date of CMP308 (1 April 2023), provisions for bulk uploads and the use of Non-Final Demand Site Certificates of Compliance for DUoS charges will be allowed for Non-Final Demand Declarations for BSUoS charges. Both measures will last for 6 months after implementation. P419 will not allow retrospective declarations.

The Proposed Modification, which facilitates CMP308, has an estimated implementation cost of c.£950k – 1600k and c. £10-15k for ongoing annual costs, for IT system changes. We consider the changes in IT system is a crucial step toward a digitalised metering system to facilitate the implementation and administration of the balancing and settlement arrangements.

BSC Panel[20] recommendation

At the BSC Panel meeting on 10 February 2022, a majority of the BSC Panel considered that P419 would better facilitate the BSC objectives (a), (c) and (d) and the Panel therefore recommended its approval.

[19] Applicable BSC objectives are set out in standard condition C3(3) of NGESO's Transmission Licence, available here:https://epr.ofgem.gov.uk/Content/Documents/Electricity%20transmission%20full%20set%20of%20consolidated%20 standard%20licence%20conditions%20-%20Current%20Version.pdf
[20] The BSC Panel is established and constituted pursuant to and in accordance with Section B of the BSC and Standard Special Licence Condition C3 of the Electricity Transmission Licence.

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 15 February 2022. We have considered and taken into account the responses to the industry consultation(s) which are attached to the FMR.[21] We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the applicable objectives of the BSC;[22] and
- directing that the modification be made is consistent with our principal objective and statutory duties.[23]

Reasons for our decision

We consider this Proposed Modification will better facilitate BSC objectives (a), (c) and (d) and has a neutral impact on the other applicable objectives.

(a) the efficient discharge by the licensee of the obligations imposed upon it by this licence

The Proposer considers that P419 better facilitates objective (a) because the information provided as a result of this modification is necessary to support NGESO's calculation of BSUoS charges in line with CMP308.

The Workgroup and Panel unanimously voted that P419 better facilitates objective (a), and agreed that the P419 proposed solution ensures the effective discharge of the NGESO's

[21] BSC modification proposals, modification reports and representations can be viewed on the Elexon website.
[22] As set out in Standard Condition C3(3) of the Electricity Transmission Licence.

[23] 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.

The Office of Gas and Electricity Markets
10 South Colonnade, Canary Wharf, London, E14 4PZ **Tel** 020 7901 7000
www.ofgem.gov.uk

obligations under its Transmission Licence. P419 would allow NGESO to calculate BSUoS charges accurately as required under its licence.

Our view

We agree that P419 better facilitates objective (a). We agree that P419 will enable NGESO to efficiently discharge its obligations under its Transmission Licence by ensuring NGESO calculates and charges BSUoS accurately as required under licence.

(c) promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity

The Proposer, Workgroup and Panel consider that P419 better facilitates objective (c). The Workgroup were of the view that P419 better promotes effective competition. The Proposer highlights that, since the implementation of CMP202 '*Revised treatment of BSUoS charges for lead parties of Interconnector BM Units*'[24] in August 2012, interconnectors have been exempt from BSUoS charges whilst GB generators are not. This Proposed Modification in conjunction with CMP308 would ensure UK generation is on a level with interconnectors.

Our view

We agree with the proposer that P419 realises the benefit from CMP308. Which better facilitates competition between different sources of generation, and, in doing so, allows more effective competition in the generation market. We also consider it to improve competition between suppliers. CMP308 achieves this by ensuring no generators are liable to pay BSUoS charges. Without P419, NGESO would not be able to identify parties who are no longer liable to pay BSUoS charges due to existing data reporting arrangements. Therefore, we consider that P419 better facilitates objective (c), on the basis that it supports the delivery of the CMP308, which benefits competition by reducing harmful distortions caused by the different BSUoS charging arrangements between different generation types.

[24] https://www.nationalgrideso.com/industry-information/codes/connection-and-use-system-code-cusc-old/modifications/cmp202-revised

The Office of Gas and Electricity Markets
10 South Colonnade, Canary Wharf, London, E14 4PZ **Tel** 020 7901 7000
www.ofgem.gov.uk

(d) promoting efficiency in the implementation and administration of the balancing and settlement arrangements

The Proposer, Workgroup and Panel unanimously voted that P419 better facilitates objective (d).

The Workgroup agreed that P419 promotes efficiency in the implementation of balancing and settlement arrangements. The Workgroup agreed that the most efficient way for NGESO to access the data required to exempt Non-Final Demand Facilities from BSUoS charges is through the Balancing and Settlement Code Company (BSCCo). P419 also maintains the status quo of the BSC providing metered data for BSUoS calculations.

Our view
We agree that P419 brings a new paperless online system and utilises the existing declaration process developed in P383, which promote efficiency in implementation and administration of the balancing and settlement arrangements. Therefore, we consider that P419 better facilitates objective (d).

Decision notice

In accordance with Standard Condition C3 of the Transmission Licence, the Authority hereby directs that modification proposal BSC P419: '*Extension of P383 to include non-final Demand*' be made.

Patrick Cassels
Head of Electricity Network Access
Signed on behalf of the Authority and authorised for that purpose

The Office of Gas and Electricity Markets
10 South Colonnade, Canary Wharf, London, E14 4PZ **Tel** 020 7901 7000
www.ofgem.gov.uk