

National Grid Electricity System Operator Limited  
and other interested stakeholders

Email:

[ElectricityNetworkCharging@  
ofgem.gov.uk](mailto:ElectricityNetworkCharging@ofgem.gov.uk)

Date: 21 September 2022

Dear Stakeholders,

**Statutory consultation on a proposal to modify the special conditions of the electricity transmission licence held by National Grid Electricity System Operator Limited**

We<sup>1</sup> are consulting on a proposal to modify Chapter 4 of the electricity transmission licence held by National Grid Electricity System Operator Limited (ESO).

A Notice under section 11A(2) of the Electricity Act 1989 (the Act), including Schedule 1 which details the changes, has been issued and is published alongside this letter.

**Background**

Balancing Services Use of System (BSUoS) charges are the means by which ESO recovers the costs of balancing the electricity transmission system. BSUoS charges are currently variable in nature, and recovered from demand customers and Large Generators<sup>2</sup> based on the amount of energy imported from or exported onto the transmission network (in £/MWh) within each half-hour period.

Following the changes we approved in April 2022 under CMP308<sup>34</sup>, BSUoS will be payable from April 2023 only by Final Demand as defined in the Connection and Use of System Code (CUSC)<sup>5</sup>. We are currently consulting on a minded to position to approve another modification, CMP361, which if approved would change the existing variable BSUoS charges to a flat volumetric charge set on an ex-ante basis.

As part of our consideration of CMP361, we identified that we consider that a licence change is required to facilitate the under- or over-recovery of balancing costs from year to year. This function, commonly described as a "correction" or "K" factor, will need to be added to the licence, and conditions that are incompatible with the concept of this "correction" factor need to be removed. This statutory consultation concerns these licence modifications. CMP361 introduces the risk of under/over recovery in each year which is inconsistent with the existing licence conditions which do not envisage this. Suitable changes to the licence will ensure that ESO is able to recover fully the costs it incurs for BSUoS.

This consultation coincides with the consultation on our minded-to position and the changes proposed support that position. Should the minded-to position change as a result of consultation, we may be required to revisit these proposed licence changes. If we do not proceed with our minded-to position, the changes may not be required at all.

**Proposed insertion of a new Special Condition 4.1**

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<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)

<sup>2</sup> 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.

<sup>3</sup> [CMP308: Removal of BSUoS charges from Generation | Ofgem](#)

<sup>4</sup> CMP stands for Connection and Use of System Code (CUSC) Modification Proposal

<sup>5</sup> See CMP334 decision [CMP334: Transmission Demand Residual - consequential definition changes | Ofgem](#)

In order to allow ESO to reflect any under- or over-recovery of revenues as an adjustment to Allowed Revenue in subsequent years, necessary to introduce fixed ex-ante charges, we need to amend the licence as follows:

- Adding a condition that provides an overarching requirement for ESO to keep revenue collected from Balancing Services Activity to its forecast of SO Total Allowed Revenue.
- Including a “K” correction term in the formula setting out how this requirement is measured.
- Setting out the interest payable on any under- or over-recovery.

#### **Proposed changes to Special Licence Conditions 4.1 and 4.2**

In order to facilitate the introduction of fixed ex-ante charges, we need to amend the licence to remove conditions that prevent this activity and remove any duplicative obligations to the new SpC 4.1. The changes are as follows:

- Removal of the part of Special Licence Condition 4.1 Part A that requires ESO to use best endeavours to ensure revenue collected from the Balancing Services Activity associated with internal costs does not exceed SO Internal Allowed Revenue.
- Removal of the part of condition Special Licence Condition 4.2 Part A that requires ESO to use best endeavours to ensure that the revenue derived from and associated with procuring and using balancing services (being the external costs of the Balancing Services Activity) does not exceed the BText<sub>t</sub> licence term.

#### **Proposed changes to re-number Special Conditions within Chapter 4, and fix references**

The introduction of a new Special Condition 4.1 and deletion of Part A from the previous Special Conditions 4.1 and 4.2 requires renumbering the remainder of Chapter 4 and a correction of references. These changes are shown in the attached Schedule 1.

#### **Necessary changes to Connection and Use of System Code**

We would ask the licensee to consider whether changes are needed to the CUSC, further to those identified by the CMP361 Workgroup’s assessments of legal text changes, to enable a “K” correction factor to be reflected in the code and to ensure compliance with the licence. In particular, the text around CUSC sections 14.29 and 14.30 should be reviewed and modifications, if needed, raised.

#### **Next steps**

We are seeking your views on our proposed additions and changes to Special Licence Condition 4 of ESO’s electricity transmission licence. Please send any comments to [ElectricityNetworkCharging@ofgem.gov.uk](mailto:ElectricityNetworkCharging@ofgem.gov.uk) by 19 October 2022. Unless stated as confidential, consultation responses may be published alongside our decision.

Yours faithfully,

Charlotte Friel

**Deputy Director,  
Energy Systems Management and Security**  
Duly authorised on behalf of the Authority  
21 September 2022

## **Annex 1 – Statutory Consultation Notice**

**To: National Grid Electricity System Operator Limited**

**Electricity Act 1989  
Section 11A(2)**

### **Notice of statutory consultation on a proposal to modify the special conditions of the electricity transmission licence held by National Grid Electricity System Operator Limited**

1. The Gas and Electricity Markets Authority ('the Authority') proposes to modify the special conditions of the electricity transmission licence held by National Grid Electricity System Operator Limited (ESO) granted or treated as granted under 6(1)(b) of the Electricity Act 1989 as shown in Schedule 1.
2. The purpose of these licence modifications is to enable ESO to carry surplus or deficit revenues recovered over the level of revenue restriction into subsequent tariff periods. This is required to maintain fixed BSUoS tariffs and to account for interest payable or deductible.
3. The effect of the proposed modifications is to add a correction term to the formula used to calculate the balancing services activity revenue and ensure this term is operable by removing restrictions on revenue elsewhere relating to these costs. This will allow ESO to carry over surplus or deficits as required.

Schedule 1 to this Notice show the proposed modifications. The text of the proposed modifications are set out below, with the text to be deleted marked with ~~striketrough~~ and new text to be inserted shown double underlined.

4. The reason why the Authority is proposing to make this SLC modification is to facilitate the effective implementation and administration of fixed ex-ante BSUoS tariffs as provided for by the changes approved Connection and Use of System Code change CMP361.
5. A copy of the proposed modifications and other documents referred to in this Notice have been published on our website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)). Alternatively, they are available from [foi@ofgem.gov.uk](mailto:foi@ofgem.gov.uk).
6. Any representations with respect to the proposed licence modifications must be made on or before 19 October 2022 to: Ruben Pereira, Office of Gas and Electricity Markets, 10 South Colonnade, Canary Wharf, London E14 4PU or by email to [ElectricityNetworkCharging@ofgem.gov.uk](mailto:ElectricityNetworkCharging@ofgem.gov.uk).
7. We normally publish all responses on our website. However, if you do not wish your response to be made public then please clearly mark it as not for publication. We prefer to receive responses in an electronic form so they can be placed easily on our website.
8. If we decide to make the proposed modifications, they will take effect not less than 56 days after the decision is published

Charlotte Friel

**Deputy Director,  
Energy Systems Management and Security**  
Duly authorised on behalf of the Authority