

National Grid Electricity System Operator Limited  
and other interested stakeholders

Email:

[ElectricityNetworkCharging@  
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Date: 3 February 2023

Dear Stakeholders,

**Decision on the proposal to modify the special conditions of the electricity transmission licence held by National Grid Electricity System Operator Limited (NGESO)**

As a result of the approval of CMP<sup>1</sup>361<sup>2</sup> and CMP395<sup>3</sup>, certain provisions of the electricity transmission licence held by NGESO (“the Licence”) need to be changed. This decision letter is a combined response to two separate statutory consultations both concerning changes to Chapter 4 of the Licence:

1. *Statutory consultation on a proposal to modify the special conditions of the Electricity Transmission Licence held by National Grid Electricity System Operator Limited* – Published 21 September 2022, closed 20 October 2022.<sup>4</sup> This proposal sought to insert a new Special Condition (“SpC”) 4.1 and make further changes to Chapter 4 in accordance with our CMP361 decision.
2. *Statutory consultation on a proposal to modify the special conditions of the Electricity Transmission Licence held by National Grid Electricity System Operator Limited* – Published 15 December 2022, closed 20 January 2023.<sup>5</sup> This proposal sought to modify SpC 4.2 to reflect changes required as a result of our CMP395 decision.

We<sup>6</sup> received one response to each consultation, which are published on our website. On considering the feedback received via these responses, we have decided to insert SpC 4.1 and modify SpC 4.2 and Chapter 4 references in the manner set out in the consultation, however with minor amendments made to the text, as explained in this letter. We have presented a single schedule of merged changes for version control.

A licence modification notice under section 11A(1)(a) of the Electricity Act 1989 (the Act), including Schedule 1 which details the changes, has been issued and is published alongside this letter. These licence changes will take effect from 1 April 2023.

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

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<sup>1</sup> CMP stands for Connection and Use of System Code (CUSC) Modification Proposal

<sup>2</sup> [CMP361 - BSUoS Reform: Introduction of an ex ante fixed BSUoS tariff](#)

<sup>3</sup> [CMP395 - Cap BSUoS costs and Defer payment to 2023/24 to protect GB customers \(CMP395\)](#) [CMP395 - Cap BSUoS costs and Defer payment to 2023/24 to protect GB customers \(CMP395\)](#)

<sup>4</sup> [Statutory consultation on a proposal to modify the special conditions of the Electricity Transmission Licence held by National Grid Electricity System Operator Limited](#)

<sup>5</sup> [Statutory consultation on a proposal to modify the special conditions of the Electricity Transmission Licence held by National Grid Electricity System Operator Limited](#)

<sup>6</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

## Background

Balancing Services Use of System (BSUoS) charges are the means by which NGESO 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>7</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>8</sup>, BSUoS charges will be payable from April 2023 solely by Final Demand as defined in the Connection and Use of System Code (CUSC).<sup>9</sup> On 15 December 2022, we approved CMP361, which changed variable BSUoS charges to a fixed flat volumetric charge set on an ex-ante basis with effect from April 2023.

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

On 5 October 2022, we approved another modification, CMP395, which applied a cap to BSUoS charges from 1 October 2022 to 31 March 2023 and provided that deferred costs would be recovered in charging year 2023/24. We identified that a further license modification is required to accommodate these changes. The changes related to CMP395 allow NGESO to recoup deferred costs from charging year 2022/23 in charging year 2023/24.

## Statutory consultations on proposal to modify Chapter 4

- 1) On 21 September 2022, we consulted on our proposal to insert SpC 4.1 and make further changes to Chapter 4 of the Licence. The consultation closed on 19 October 2022 and we received one response.
- 2) On 15 December 2022, we consulted on our proposal to modify SpC 4.2 of the Licence. The consultation closed on 20 January 2023 and we received one response.

## Summary of consultation responses and our view

- 1) *Statutory consultation on a proposal to modify the special conditions of the Electricity Transmission Licence held by National Grid Electricity System Operator Limited – Published 21 September 2022, closed 20 October 2022*

We received one response to the statutory consultation from NGESO. A summary of their response and our view is given below. A copy of the response is published alongside this letter.

### *NGESO's response and our view*

NGESO supported our proposal to introduce SpC 4.1 and modify SpC 4.2 of the Licence, and suggested the following changes:

- SpC 4.1.2 should include the wording 'most recent forecast of the SO Revenue from Balancing Services Activity Term (SOTART)' to remove ambiguity surrounding the proposed term ('best forecast').

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<sup>7</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>8</sup> [CMP308: Removal of BSUoS charges from Generation | Ofgem](#)

<sup>9</sup> See CMP334 decision [CMP334: Transmission Demand Residual - consequential definition changes | Ofgem](#)

- SpC 4.1.3 should include the wording '*excluding any revenue which relates to Balancing Services Activity in a Regulatory Year commencing on or before 1 April 2022 unless included within the scope of TotAdj<sub>t</sub> as described in paragraph 4.3.3*'
- SpC 4.2 should be revised to '*System Operator Internal Allowed Revenue (SOIAR<sub>t</sub>)*' as it no longer carries a charging restriction
- SpC 4.3 should be similarly revised to '*Balancing Services external costs (BXext<sub>t</sub>)*' as it no longer carries a restriction

In addition, to be consistent with other licence conditions, NGESO proposed changes to the clauses in the licence which reference the amended conditions.

We note NGESO's response supports our proposed licence modification. We agree with the amendments recommended by NGESO that give effect of approved code modification CMP361, by removing text incompatible with the proposed license modifications, aid clarity and consistency with calculations, and do not change the meaning of the drafting. We consider that the proposed changes are consistent with the reasons and effects of the proposed changes as stated in the statutory notice issued in accordance with section 11A(2) of the Act.

NGESO also proposed further amendments to the licence drafting relating to our CMP361 minded-to decision at the time (which would have introduced a BSUoS fund of ~£2bn). Ultimately, following updated analysis, we believed that in practice this option would have increased consumer costs significantly, as reliance on a BSUoS fund of this size would have increased the overall BSUoS charge faced by consumers. We have taken account of these proposed licence amendments, but consider them unnecessary where a BSUoS fund has not ultimately been approved.

Finally, NGESO brought it to our attention that the introduction of a new SpC 4.1 and deletion of Part A from the previous SpC 4.1 and 4.2 necessitates renumbering of the remainder of Chapter 4 and a correction of references. NGESO proposed this could be addressed in one of two ways and indicated a formatting preference which differed from how these proposed modifications were presented within the statutory consultation. Their preferred approach was to align number formatting to how similar information is portrayed elsewhere in the licence. We understand that further code modifications might be brought forward, we can't therefore rule out future changes and review at that time. As we intend to update the references across the whole Electricity Transmission license at a future date, we have not implemented the preferred formatting changes, but have made reference amendments to ensure consistency within Chapter 4.

2) *Statutory consultation on a proposal to modify the special conditions of the Electricity Transmission Licence held by National Grid Electricity System Operator Limited – Published 15 December 2022, closed 20 January 2023*

We received one response to the statutory consultation from NGESO. A summary of their response and our view is given below. A full version of the response is published alongside this letter.

*NGESO's response and our view*

NGESO supported the proposed modification of SpC 4.2. However, they recommended a further new clause is needed as part of paragraph 4.2.3 to mirror the existing clause (d) in relation to the deferral of costs under CMP395. They proposed:

*"e) the difference in value of financing costs, as a result of updating the forecast SONIA rate used to calculate the recovery of 2023/24 BSUoSFXC<sub>t</sub> to actual SONIA rates as agreed by the Authority for Regulatory Year 2024/25 only"*

We note NGESO's response supports our proposed licence modifications and we agree with the amendment recommended by NGESO, which seeks to clarify financing arrangements, allowing NGESO to manage the costs of the deferral, and is consistent with the effect of the proposed modifications. We consider that the proposed change is consistent with the reasons and effects of the proposed changes as stated in the statutory notice issued in accordance with section 11A(2) of the Act.

**The Office of Gas and Electricity Markets**

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## **Decision**

Having considered the responses to the statutory consultation, we have decided to insert SpC 4.1 and modify SpC 4.2 of the electricity license held by NGESO in the manner set out in the consultation, with reference changes and text amendments to ensure clarity and consistency within the Licence. These alterations are explained above and are demonstrated in the accompanying notice. We consider that these consolidated amendments will facilitate NGESO's recovery of the BSUoS costs as outlined in accordance with our decisions on CMP395 and CMP361.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'Charlotte Friel', is written over a light yellow rectangular background.

Charlotte Friel

**Deputy Director,  
Energy Systems Management and Security**

Duly authorised on behalf of the Authority  
03 February 2023