

Modification proposal:	Connection and Use of System Code (CUSC) CMP208: Provision of Monthly Updates to BSUoS charges for the current and next financial year		
Decision:	The Authority ¹ directs that the alternative proposal (WACM1) be made ²		
Target audience:	National Grid Electricity Transmission plc (NGET), Parties to the CUSC and other interested parties		
Date of publication:	7 February 2013	Implementation Date:	1 June 2013

Background to the modification proposal

In its role as System Operator (SO), National Grid Electricity Transmission plc (NGET) is responsible for making sure that electricity generation and demand are balanced in real time and for the secure operation of the network. In doing so, NGET will procure a range of energy and system balancing services, and will incur a range of costs. NGET recovers these costs, including any SO incentive adjustment elements³, through Balancing Services Use of System (BSUoS) charges.

All CUSC parties are liable for BSUoS charges based on their energy taken from, or supplied to, the national electricity transmission system (NETS) in each half hour. The methodology for setting BSUoS charges is set out in Section 14 of the CUSC.

To calculate BSUoS charges for each settlement period, NGET needs up-to-date volume information and appropriate balancing cost information⁴. While some balancing services costs can be identified on a half hourly basis, some will be incurred over longer timescales and there is no simple method to allocate these costs to half-hourly settlement periods. The level of BSUoS charges is also affected by the SO incentive arrangements.

To address this issue, BSUoS charges are calculated, billed and reconciled at scheduled intervals for each settlement day. The process seeks to use the best estimate of costs and to refine the daily charge calculation over time through the use of reconciliations based on updated volume and cost information at each incremental settlement stage.

These arrangements create some uncertainty for transmission users as BSUoS charges are not easily predictable. The current regulatory framework does not place a requirement on NGET to provide forecast BSUoS charge information⁵. CMP208 seeks to address this issue.

The modification proposal

Haven Power (the proposer) raised CMP208 (the original proposal) in March 2012. The proposer noted that there are no provisions in the CUSC that require NGET to provide forecasts of BSUoS charges and to do so accurately and regularly.

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

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

³ The cost that NGET is allowed to recover is subject to the Balancing Services Incentive Scheme.

⁴ The method of BSUoS charging applied by NGET is to determine the total BSUoS cost (£) associated with its SO activities for each half-hour (HH) period of a settlement day, then divide it by the total metered volume (in MWh) for the same period to determine a total HH BSUoS price (£/MWh). The BSUoS price is then multiplied by each customer's metered energy taken from or supplied to the NETS to calculate the HH BSUoS charge payable or to be received by each customer.

⁵ We acknowledge that NGET does currently publish high level BSUoS updates for current year charges to the Electricity Operational Forum and summary information on elements of BSUoS costs incurred and volumes to date through the Monthly Balancing Services Summary (MBSS).

The original proposal would amend the CUSC so that NGET would be required to provide monthly updates of its estimates of average BSUoS charges for each month of the current year and for each month of the following financial year. The information to be provided would include:

- an estimate of BSUoS volumes (in TWh);
- an estimate of external⁶ BSUoS costs (in £m);
- an estimate of internal⁷ BSUoS costs (in £m);
- an estimate of the average BSUoS charge (in £/MWh);
- incentive scheme performance where applicable; and
- graphs and commentary highlighting any significant changes in this information from the previous forecast(s).

The data for these updates would be generated from NGET's modelling tool for producing BSUoS data (Plexos).

In the course of assessing the original proposal, the CMP208 Workgroup noted the many inputs to the Plexos model that would need to be updated each month, in particular NGET's views of transmission constraints. NGET estimated that it would need 22 additional Full Time Equivalent (FTE) staff to update the constraint information and all other information inputs to produce more accurate and regular forecasts. The Workgroup estimated the cost of this would be around £2 million per year. This additional BSUoS cost would be initially borne by NGET. Subject to incentive adjustments, NGET would recover this additional cost from users through BSUoS charges on an ongoing basis. A one-off staff recruitment cost of £100,000 would also be incurred by NGET (and users through BSUoS charges).

The Workgroup considered a less resource intensive alternative solution where it would still publish the same information as under the original proposal. The difference from the original proposal is that the alternative would provide for NGET initially to update all the inputs other than constraints, and then update for only the most significant constraint issues which it considers to have the greatest impact on BSUoS costs.

NGET estimated that this alternative approach would reduce the additional resource requirement to two FTE staff with no additional one-off recruitment costs. This alternative was raised by the Workgroup as a Workgroup Alternative CUSC Modification (WACM1).

CUSC Panel⁸ recommendation

The CUSC Panel considered the draft Final Modification Report (the Report) for CMP208 at its meeting on 14 December 2012. Panel members agreed that both the original proposal and WACM1 better facilitated the Applicable CUSC Objectives (the 'applicable objectives') compared with the CUSC baseline. Panel members unanimously recommended that WACM1 was the best solution. The views of Panel members are set out in full in the Report.

⁶ NGET's external SO costs include the total costs of the Balancing Mechanism (BM) and the total costs relating to balancing services contracts.

⁷ NGET's internal SO costs include staff wages and other operating costs such as buildings and IT costs.

⁸ The CUSC Panel is established and constituted from time to time pursuant to and in accordance with the section 8 of the CUSC.

Our decision

We have considered the issues raised by the original proposal and WACM1 and the Report dated 3 January 2013. We have considered and taken into account the responses to the Code Administrator consultation on CMP208 which are attached to the Report⁹. We have concluded that:

1. both the original proposal and WACM1 would better facilitate the achievement of the applicable objectives¹⁰;
2. on balance, WACM1 best meets the applicable objectives; and
3. directing that WACM1 be made is consistent with our principal objective and statutory duties¹¹.

Reasons for our decision

Our reasons are set out against the applicable objectives relevant to our decision. We have not identified any impact against applicable objective (c).

(a) 'the efficient discharge by the licensee of the obligations imposed upon it under the Act and by this licence'

Both the original proposal and WACM1 seek to improve the visibility, accuracy and timing of forecast BSUoS charges by placing an obligation on NGET to provide updates to industry.

We recognise that WACM1 was supported by the Panel on the basis that it offers an acceptable improvement in the level of forecast information relative to the current baseline and offers benefits in terms of earlier implementation and the use of fewer resources. We also note that it is not possible to quantify the original proposal's additional benefits in terms of the accuracy of information and the resultant effect on competition (see below). We consider that there is a risk that the cost of the original proposal may be disproportionate to the potential additional benefits it could bring over WACM1.

We therefore consider that WACM1 better facilitates applicable objective (a).

(b) 'facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity'

The transparency of these data and the opportunities to discuss forecasts on a regular basis with NGET should help improve users' understanding of their BSUoS charges and of potential changes to these charges.

Effective competition is (in part) informed by the transparency of the marketplace. The original proposal would increase transparency to all participants and improve the visibility

⁹ CUSC modification proposals, modification reports and representations can be viewed on NGET's website at <http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/amendments/>

¹⁰ As set out in Standard Condition C10(1) of NGET's Transmission Licence, see: <http://epr.ofgem.gov.uk/EPRFiles/Electricity%20transmission%20full%20set%20of%20consolidated%20standards%20licence%20conditions%20-%20Current%20Version.pdf>

¹¹ 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.

of the data used to set charges. Therefore, we agree with the Panel's view that it better facilitates this objective relative to the baseline as it will provide greater certainty to users over their future charges. This could lower barriers to entry in the supply and generation markets.

In addition, the improved forecasts should particularly assist smaller suppliers and generators who are less able to undertake BSUoS modelling (or maintain required datasets for that activity) helping them to compete with their larger competitors.

We note that the original proposal seeks to update all of the modelling inputs within Plexos, including detailed simulations of the transmission system limits, and that NGET has stated that this would be a complicated process requiring substantial additional resource. We consider that the original proposal is likely to have benefits over WACM1 in terms of the accuracy and quantity of forecast cost, volume and charge information produced by NGET. WACM1 has benefits in terms of timing and cost, as it appears to be a lower cost solution which can be delivered three months after an approval decision. The original proposal would not be implemented before 1 April 2015.

On balance, therefore, we consider that of the two options available to us, WACM1 best facilitates the applicable CUSC objectives.

Decision notice

In accordance with Standard Condition C10 of NGET's Transmission Licence, the Authority directs that the alternative modification (WACM1) for CMP208 '*Provision of Monthly Updates to BSUoS charges for the current and next financial year*' be made.

Andrew Burgess

Associate Partner, Transmission and Distribution Policy

Signed on behalf of the Authority and authorised for that purpose