

Modification proposal:	<b>Balancing and Settlement Code (BSC) P402: Enabling reform of residual network charging as directed by the Targeted Charging Review (P402)</b>		
Decision:	The Authority <sup>1</sup> directs that the Alternative Modification of P402 be made <sup>2</sup>		
Target audience:	National Grid Electricity System Operator (NGESO), Parties to the BSC, the BSC Panel and other interested parties		
Date of publication:	24 May 2021	Implementation date:	24 February 2022

## Background

In November 2019, we published our Decision (and associated Direction) on the Targeted Charging Review (TCR) Significant Code Review.<sup>3</sup> Once the Decision is implemented, the costs of operating, maintaining and upgrading the electricity grid will be spread more fairly and, through reducing harmful distortions, will save consumers approximately £300m per year, with anticipated £4bn-£5bn consumer savings in total over the period to 2040.

The TCR included a review of how residual network charges are set and recovered. The aim of the TCR was to ensure that these charges are recovered from network users in a way that meets the TCR Principles of:

- reducing harmful distortions;
- fairness; and
- proportionality and practical considerations.

We decided that residual charges should apply to final demand consumers only and that they will be fixed charges, with implementation of these changes in 2022. We also decided to separate demand Transmission Network Use of System (TNUoS) charges into separate

<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) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

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

<sup>3</sup> [https://www.ofgem.gov.uk/system/files/docs/2019/12/full\\_decision\\_doc\\_updated.pdf](https://www.ofgem.gov.uk/system/files/docs/2019/12/full_decision_doc_updated.pdf)

residual and forward-looking (locational) components and to have different charging structures for different consumers (domestic consumers; distribution-connected non-domestic consumers; and transmission-connected non-domestic consumers). NGENSO raised five Connection and Use of System Code (CUSC) modification proposals to implement transmission demand residual reforms in line with the TCR Decision: CMP334, CMP335/336, CMP340, and CMP343.

For the transmission network, the Transmission Owners (TOs) recover their allowed revenue from their customers through TNUoS charges. NGENSO is responsible for forecasting, setting and billing TNUoS tariffs. Currently, the Balancing and Settlement Code (BSC) provides for the provision of aggregated Metered Data and Metering System counts that NGENSO and Licensed Distribution System Operators (LDSOs) use to calculate TNUoS, Balancing Services Use of System (BSUoS) and Distribution Use of System (DUoS) charges. NGENSO relies on BSC processes to ensure it receives data which it uses to calculate TNUoS and BSUoS charges.

In order for NGENSO to implement the directed changes to transmission residual charging it requires access to additional data for band setting, tariff setting and billing. It is understood that Distribution System Operators (DSOs) have or can procure this data, and the Supplier Volume Allocation Agent (SVAA) has access to some relevant data from existing settlement data, but this data is not currently provided as part of BSC processes.

### **The modification proposal**

NGENSO raised BSC modification proposal P402 on 5 March 2020 (the 'Proposed Modification') to introduce new reporting requirements on LDSOs and Elexon<sup>4</sup> that will ensure the provision of data to enable the NGENSO to set transmission demand residual tariffs and enable accurate billing of subsequent charges.

Under the Proposed Modification, LDSOs would be required to send data for Tariff Setting and Billing Reports to Elexon (via SVAA), who would complement this with data for non half hourly (NHH) sites and then compile the data into a set of monthly Billing Reports and annual Tariff Setting reports to be sent to NGENSO, with output data reported to industry.

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<sup>4</sup> Elexon is the BSCCo, the entity responsible for managing the BSC

In addition to the Proposed Modification, the P402 Workgroup raised an alternative modification on 2 November 2020 (the 'Alternative Modification'). The Alternative Modification sees LDSOs compiling the required data themselves and sending it directly to NGENSO.

Both solutions introduce requirements for the reporting of Monthly Billing data, Annual Tariff Setting data and Unmetered Supplies (UMS) data to NGENSO and mapping of Line Loss Factor Classes (LLFCs) to residual charging bands. The Proposed Modification has an estimated implementation cost of c.£2 million - £2.6 million, and the Alternative Modification has an estimated implementation cost of c.£800,000 - £910,000.

### **BSC Panel<sup>5</sup> recommendation**

At the BSC Panel meeting on 11 March 2021, the BSC Panel unanimously agreed that the P402 Proposed Modification better facilitates Applicable BSC Objective (a) and that the P402 Alternative Modification better facilitates Applicable BSC Objectives (a) and (d). The BSC Panel recommended that Ofgem accept the Alternative Modification.

### **Our decision**

We have considered the issues raised by P402 and the Final Modification Report (FMR) dated 15 March 2021. We have considered and taken into account the responses to the industry consultation(s) which are attached to the FMR<sup>6</sup>. We have concluded that:

- implementation of the Alternative Modification will better facilitate the achievement of the applicable objectives of the BSC;<sup>7</sup> and
- directing that the Alternative Modification be made is consistent with our principal objective and statutory duties.<sup>8</sup>

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<sup>5</sup> 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](#) available.

<sup>6</sup> BSC modification proposals, modification reports and representations can be viewed on the [Flexon website](#).

<sup>7</sup> As set out in [Standard Condition C3\(3\) of the Electricity Transmission Licence](#).

<sup>8</sup> 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.

## Reasons for our decision

We consider the Alternative Modification will better facilitate BSC objectives (a) 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 Panel and Workgroup unanimously agreed that both P402 solutions better facilitate Applicable BSC Objective (a), given that Ofgem's TCR Direction was for NGENSO to raise 'any such consequential proposals for modification to ... other industry codes' to give effect to the TCR Decision.

We consider that P402 will provide a solution to enable the implementation of related CUSC modifications and therefore is necessary for NGENSO to comply with the TCR Direction. Both P402 solutions therefore better enable NGENSO to discharge its licence obligations compared to the baseline, and are positive against objective (a).

We note that the reforms to the transmission demand residual under CMP343 were expected to be implemented by 1 April 2022 and on this basis the Panel recommended an implementation date for P402 of 24 February 2022 as part of the February 2022 BSC Release, with the Proposed Modification requiring an interim solution for a period from this implementation date. We recently advised that we were considering delaying the implementation date for CMP343 by one year to April 2023.<sup>9</sup> This would delay when NGENSO requires the additional data to implement the directed changes to transmission residual charging, however we do not expect to publish our decision on CMP343 until August 2021, so in the interests of allowing sufficient time to implement under either time scenario, we are publishing our decision on P402 now. Our assumption is that the lead times set out in the FMR for the Alternative Modification allow time for much of the implementation works to wait until our decision on CMP343 is published.

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<sup>9</sup> [https://www.ofgem.gov.uk/system/files/docs/2021/04/ofgem\\_open\\_letter\\_on\\_cmp343.pdf](https://www.ofgem.gov.uk/system/files/docs/2021/04/ofgem_open_letter_on_cmp343.pdf)

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

The Panel and Workgroup both unanimously agreed that the Alternative Modification better facilitates Applicable BSC Objective (d), whilst the majority of the Panel and Workgroup found the Proposed Modification to be neutral. A majority of consultation respondents saw the Alternative Modification as simpler and providing greater value to customers than the Proposed Modification. The Proposer (NGESO) maintained that the Proposed Modification would provide benefits from greater visibility and transparency of data and mapping, and potentially be better suited to data needs for future reforms.

We agree that the Alternative Modification, based on the estimated implementation costs and ability to meet data needs to billing and reporting timeframes, provides a simpler and more cost efficient solution to implementing the required changes for residual charging. As such the Alternative provides an effective solution for implementing and administering broader balancing and settlement arrangements for Ofgem's TCR Direction and avoids making central system changes at significant cost to enable additional processes. We therefore consider the Alternative Modification to be positive against objective (d).

Whilst we can see potential efficiency benefits in the centralised compiling and validation of data by Elexon under the Proposed Modification, we also note the limitations of the data validation that would be done, the materially higher implementation costs, and the potential for the system changes to be superseded by other reforms. Therefore on balance, we see the Proposed Modification as only neutral in promoting implementation and administration efficiency.

We note that whilst we are approving the Alternative Modification in this case, we are considering data processes for other reforms. The implementation of other reforms could mean that data provision, such as that covered by this modification, could be carried out by other means in the future.

## **Decision notice**

In accordance with Standard Condition C3 of the Transmission Licence, the Authority hereby directs that the Alternative Modification proposal BSC P402: *Enabling reform of residual network charging as directed by the Targeted Charging Review* be made.

**Patrick Cassels**

**Head of Electricity Network Access, Energy Systems Management & Security**

Signed on behalf of the Authority and authorised for that purpose