

Modification proposal:	<b>Connection and Use of System Code (CUSC) CMP296: Aligning the CUSC to the BSC post-P344 (Project Terre) to exempt Virtual Lead Parties from BSUoS (CMP296)</b>		
Decision:	The Authority <sup>1</sup> directs that these modifications be made <sup>2</sup>		
Target audience:	National Grid Electricity Transmission PLC (NGET), Parties to the CUSC, the CUSC Panel and other interested parties		
Date of publication:	19 November 2018	Implementation date:	1 April 2019

## Background

The Trans-European Replacement Reserves Exchange (TERRE) project is the implementation project of the European platform for the exchange of balancing energy from Replacement Reserve<sup>3</sup> (RR) pursuant to Article 19 of the European Electricity Balancing Guideline (EBGL).<sup>4</sup>

The goal of the TERRE project is to develop a platform that allows the Transmission System Operators (TSOs) that use the RR process<sup>5</sup> to exchange balancing energy from this type of reserve. Through the TERRE platform, Balancing Service Providers<sup>6</sup> (BSP) in GB will be able to provide balancing services to other TSOs in addition to the GB Electricity System Operator (ESO). The ESO is expecting to utilise RR products for energy balancing in Great Britain (GB) from the TERRE platform go-live date – currently scheduled for between October-December 2019 and in advance of the deadline set in Article 19 of the EBGL for the establishment and operation of TERRE.

We approved Balancing and Settlement Code (BSC) modification P344 on 24 August 2018.<sup>7</sup> This implemented the TERRE balancing product within GB electricity market arrangements.<sup>8</sup>

In summary, P344 will facilitate, among other things, payments between the ESO and GB Balancing Service Providers (BSPs) for activations issued to GB BSPs. P344 also creates the concept of Secondary Balancing Mechanism Units (BM Units). In addition, it creates a new category of party to the BSC, the Virtual Lead Party (VLP), which does not have to

<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.

<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> ‘Replacement Reserves’ or ‘RR’ means the active power reserves available to restore or support the required level of FRR to be prepared for additional system imbalances, including generation reserves.

<sup>4</sup> [https://eur-lex.europa.eu/legal-content/EN/TXT/?toc=OJ:L:2017:312:TOC&uri=uriserv:OJ.L\\_.2017.312.01.0006.01.ENG](https://eur-lex.europa.eu/legal-content/EN/TXT/?toc=OJ:L:2017:312:TOC&uri=uriserv:OJ.L_.2017.312.01.0006.01.ENG)

<sup>5</sup> TSOs in Great Britain, France, Switzerland, Spain, Portugal, Italy, Czech Republic, Romania, Poland and Hungary – TSOs in Greece, Norway, Sweden, Finland and Denmark are currently observers

<sup>6</sup> ‘Balancing Service Provider’ means a market participant with reserve-providing units or reserve-providing groups able to provide balancing services to TSOs.

<sup>7</sup> A copy of our decision letter can be found here: <https://www.ofgem.gov.uk/publications-and-updates/p344-project-terre-implementation-gb-market-arrangements>

<sup>8</sup> A copy of BSC modification P344 can be found on the Elexon website: [www.elexon.co.uk](http://www.elexon.co.uk). It contains full background to the modification and changes it proposed to the BSC.

hold a supply licence. VLPs will be able to register Secondary BM Units for the sole purpose of providing balancing services to the cross-border RR market (TERRE) as well as the Balancing Mechanism (BM). These Secondary BM Units can be aggregated independently of their supplier, meaning that distributed generation, aggregators, and consumers will be able to register BM Units and participate directly in the BM.

VLPs will not be subject to the same level of charges and obligations as existing BSC Parties. This is on the basis that they participate in the BSC only for the purpose of registering Secondary BM Units to participate in TERRE and/or the BM.

Consequential changes are required to reflect within the CUSC the BSC changes introduced by P344.<sup>9</sup>

### **The modification proposal**

CMP296 proposes to amend Section 14 of the CUSC so that VLPs who hold Secondary BM Units will not be liable for Balancing Services and Use of System (BSUoS) charges.<sup>10</sup> This is on the basis that volumes associated with Secondary BM Units will be chargeable under the Supplier's Base BMU.

Without exempting VLPs and Secondary BM Units the same metered volumes would be double charged BSUoS charges.

The changes proposed by CMP296 interact with CMP297 'Aligning CUSC and BSC post-TERRE (Section 11) – consequential modification to introduce definition of Virtual Lead Party'. CMP297 proposes to amend the CUSC by inserting definitions for 'Virtual Lead Party' and 'Secondary BM Unit'. CMP296 would not be able to take full effect without these changes.

### **CUSC Panel<sup>11</sup> recommendation**

At the CUSC Panel meeting on 29 June 2018, a majority of the CUSC Panel considered that CMP296 would better facilitate the applicable CUSC charging objectives and the Panel therefore recommended its approval.

### **Our decision**

We have considered the issues raised by the modification proposal and the final Modification Report (FMR) dated 12 July 2018. We have considered and taken into account the responses to the Code Administrator consultation on the modification proposal which are attached to the FMRs.<sup>12</sup> We have concluded that:

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<sup>9</sup> CMP297 will introduce the terms 'Virtual Lead Party' and 'Secondary BM Unit' into Section 11 of the CUSC.

<sup>10</sup> Note that on 30 August 2018 NGENSO submitted revised legal text to the Authority which clarified what sections the CUSC CMP296 and 297 will each amend. The changes set out in the revised text are the same as those contained in both modifications FMRs.

<sup>11</sup> The CUSC Panel is established and constituted from time to time pursuant to and in accordance with the section 8 of the CUSC.

<sup>12</sup> CUSC modification proposals, modification reports and representations can be viewed on NGET's website at <http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/amendments/>

1. implementation of the modification proposal will better facilitate the achievement of the relevant charging objectives of the CUSC;<sup>13</sup> and
2. directing that the modification be made is consistent with our principal objective and statutory duties.<sup>14</sup>

### **Reasons for our decision**

We consider this modification proposal will better facilitate CUSC charging objectives (a), (b), and (c) and has a neutral impact on the other applicable charging objectives.

***(a) that compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity;***

A majority of the CUSC Panel agreed CMP296 facilitates objective (a). One Panel member considered the modification has a neutral impact.

The sole respondent to the Code Administrator consultation also considered CMP296 facilitates objective (a). The respondent was mindful that cross subsidisation could occur between suppliers and generators, who pay BSUoS charges, and VLPs who would be exempt from BSUoS charges. They requested analysis on the impact this could have on BSUoS paying parties.

#### Our position on CUSC charging objective (a)

We consider CMP296 will facilitate objective (a). Under P344, VLPs will be able to register Secondary BM Units for the purposes of bidding into the TERRE product. Secondary BM Units will allow VLPs to aggregate a number of sites across multiple Suppliers in order to provide balancing services.

The volumes associated with Secondary BM Units held by VLPs will be subject to BSUoS charges through the relevant Supplier's liability. This means that, without changes, these volumes would be subject to double charging which would be harmful for competition.

CMP296 will amend the CUSC so that volumes associated with Secondary BM Units held by VLPs will be exempt from BSUoS charges. This will avoid double charging for volumes held by VLPs and make sure they can compete in the TERRE product.

We understand the concerns raised by the respondent around the risk of cross subsidisation or other discrepancies occurring between different BSUoS parties. We note any such potential issues are outside the scope of this particular modification proposal.

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<sup>13</sup> As set out in Standard Condition C5(5) of NGET's Transmission Licence, see: <https://epr.ofgem.gov.uk/Content/Documents/Electricity%20transmission%20full%20set%20of%20consolidated%20standard%20licence%20conditions%20-%20Current%20Version.pdf>

<sup>14</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 as amended.

However, if there is evidence which suggests this is an issue, stakeholders could propose further codes changes to address any potential issues, if appropriate.

Within our recent consultation on whether to launch a Significant Code Review (SCR) on electricity network access and forward-looking charges (our "Electricity network access project"), we have said that there would be benefits from further analysis of whether the elements of BSUoS which have a cost-reflective element could be enhanced and hence provide stronger forward-looking signals. We think this would help establish the long-term direction for BSUoS.

We suggested that work could be undertaken through a taskforce led by the ESO. We believe this would provide a forum to discuss these and other issues which may exist within the existing BSUoS methodology. We will make an announcement on our proposed way forward on this work later this year.

***(b) that compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard condition C26 (Requirements of a connect and manage connection);***

A majority of the CUSC Panel agreed CMP296 facilitates objective (b). One Panel member considered CMP296 has a neutral impact against objective (b).

The sole respondent to the Code Administrator consultation also considered CMP296 facilitates objective (b). However, they questioned if any cross subsidisation between BSUoS paying parties and VLPs would be cost reflective.<sup>15</sup>

#### Our position on CUSC charging objective (b)

As explained above, without amending the CUSC, volumes associated with Secondary BM Units held by VLPs would attract BSUoS charges. This would not be cost reflective as these volumes will be subject to BSUoS charges under the relevant Supplier's liability.

CMP296 will exempt VLPs who hold Secondary BM Units from BSUoS charges. This will ensure more cost reflective charging as volumes contained in a Secondary BMU will only be subject to BSUoS charges once.

***(c) that, so far as is consistent with sub-paragraphs (a) and (b), the use of system charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses;***

Two Panel members considered that CMP296 facilitates objective (c). The remaining Panel members considered it has a neutral impact.

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<sup>15</sup> As set out in their response to CMP296.

### Our position on CUSC charging objective (c)

We consider CMP296 facilitates objective (c). The ESO is making changes to the BSC and CUSC to implement the TERRE product into GB arrangements. BSC modification P344 will implement a significant proportion of the changes required by Project TERRE.

CMP296 will support P344 by amending the CUSC so that VLPs who hold Secondary BM Units are exempted from BSUoS charges. This will make sure the TERRE product is implemented fully into GB arrangements.

### **Decision notice**

In accordance with Standard Condition C10 of NGET's Transmission Licence, the Authority, hereby directs that modification proposal CMP 296: Aligning the CUSC to the BSC post-P344 (Project Terre) to exempt Virtual Lead Parties from BSUoS (CMP296) be made.

**Grendon Thompson**  
**Head of SO Regulation**

Signed on behalf of the Authority and authorised for that purpose