

Modification proposal:	<b>Connection and Use of System Code (CUSC) CMP297: "Aligning CUSC and BSC post-TERRE (Section 11) – consequential modification to introduce definition of Virtual Lead Party" (CMP297)</b>		
Decision:	The Authority <sup>1</sup> directs that this modification 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

<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.

new category of party to the BSC, the Virtual Lead Party (VLP), which does not have to hold a supply licence. VLPs will be able to register Secondary BM Units for the sole purpose of providing balancing services to the TERRE market 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.

P344 introduces concepts such as VLPs and Secondary BM Units into the BSC, as described above. Consequential changes are required to the CUSC to also reflect these changes.

### **The modification proposal**

CMP297 was proposed by NGET and was submitted to the CUSC Modifications Panel for its consideration on 19 April 2018.

CMP297 seeks to amend Section 11 of the CUSC to introduce a definition of “Virtual Lead Party” and “Secondary BM Unit”, as the CUSC does not as yet recognise Secondary BM Units or VLPs as a category of Market Participant. For both terms, the proposed definitions will cross reference to the definitions that are contained within the BSC.

The changes proposed by CMP297 interact with CMP296 ‘Aligning the CUSC to the BSC post-P344 (Project Terre) to exempt Virtual Lead Parties from BSUoS’. The introduction of a definition of “Virtual Lead Party” and “Secondary BM Unit” will enable CMP296 to take full effect and avoid double charging of BSUoS charges.

### **CUSC Panel<sup>9</sup> recommendation**

At the CUSC Panel meeting on 29 June 2018, the CUSC Panel unanimously considered that CMP297 would better facilitate the BSC 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 industry consultation on the modification proposal which are attached to the FMR.<sup>10</sup> We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the applicable objectives of the CUSC;<sup>11</sup> and
- directing that the modification be made is consistent with our principal objective and statutory duties.<sup>12</sup>

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<sup>9</sup> The CUSC Panel is established and constituted from time to time pursuant to and in accordance with section 8 of the CUSC.

<sup>10</sup> CUSC modification proposals, modification reports and representations can be viewed on NGET’s website at: <http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/>

<sup>11</sup> As set out in Standard Condition C10(1) of the Electricity Transmission Licence, see: <https://epr.ofgem.gov.uk//Content/Documents/Electricity%20transmission%20full%20set%20of%20consolidated%20standard%20licence%20conditions%20-%20Current%20Version.pdf>

## Reasons for our decision

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

### ***(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***

CUSC modification CMP296 will 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>13</sup> This is on the basis that volumes associated with Secondary BMUs will be chargeable under the Supplier's Base BMU. Without exempting VLPs and Secondary BMUs the same metered volumes would be double charged BSUoS charges.

CMP296 will not be able to proceed without VLPs being defined within the CUSC. This would therefore lead to a situation where BSUoS charges are recovered from the same BM Unit twice, thus inhibiting competition.

As CMP297 will introduce the definition of VLPs within the CUSC, we therefore consider that CMP297 better facilitates objective (b).

### ***(c) compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency***

The EBGL entered into force on 18 December 2017. Article 19 of the EBGL mandates those TSOs using the RR products to develop a European platform for the exchange of balancing energy from RR.

CMP297 is a consequential change to the CUSC that is required to facilitate the implementation of Article 19 of the EBGL and it therefore better facilitates objective (c).

### ***(d) promoting efficiency in the implementation and administration of the CUSC arrangements***

The introduction of VLPs is being managed through BSC arrangements and it is important that definitions across codes are the same. CMP297 proposes to introduce the same definition into the CUSC as it will be found in the BSC. We consider that CMP297 better facilitates efficiency in CUSC arrangements, and therefore objective (d), by removing the potential for duplication of effort in attempting to separately define VLPs.

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<sup>12</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.

<sup>13</sup> Note that on 30 August 2018 NGESO 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.

## **Decision notice**

In accordance with Standard Condition C10 of NGET's Transmission Licence, the Authority, hereby directs that modification proposal CMP 297: "Aligning CUSC and BSC post-TERRE (Section 11) – consequential modification to introduce definition of Virtual Lead Party" be made.

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

Signed on behalf of the Authority and authorised for that purpose