

Modification proposal:	Connection and Use of System Code (CUSC): Contractual Arrangements for Virtual Lead Parties (Project TERRE) (CMP295)		
Decision:	The Authority ¹ directs that this modification be made ²		
Target audience:	National Grid Electricity System Owner (NGESO), Parties to the CUSC, the CUSC Panel and other interested parties		
Date of publication:	22 November 2019	Implementation date:	6 December 2019

Background

The Electricity System Operator (ESO) is currently working to implement changes to the GB markets for electricity balancing that will enable balancing service providers³ (BSPs) to participate in the Trans-European Replacement Reserves Exchange (TERRE) platform. These changes also mean that distributed generation, aggregators, and consumers will have a simpler route to participate in the Balancing Mechanism (BM).⁴

The TERRE project is the implementation project of the European platform for the exchange of balancing energy from Replacement Reserves⁵ (RR) pursuant to Article 19 of the Commission Regulation (EU) 2017/2195 establishing a guideline on electricity balancing (the EBGL Regulation).⁶ The goal of the TERRE project is to develop a platform that allows the Transmission System Operators (TSOs) that use the RR process⁷ to exchange balancing energy from this type of reserve. The TERRE platform will allow Balancing Service Providers (BSP) in GB to provide balancing services to the ESO and interconnected TSOs. The ESO will also be able to procure balancing energy from BSPs in other markets.

BSC modification P344⁸ was raised to implement the TSO-BSP settlement solution⁹ of the TERRE balancing platform within the GB electricity market arrangements. P344 also created the concept of secondary Balancing Mechanism Units (BMUs) and a new category of party to the BSC, the Virtual Lead Party (VLP) to facilitate access to both the BM and

¹ 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.

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

³ In accordance with Article 2(6) of the EBGL Regulation, 'Balancing Service Provider' means a market participant with reserve-providing units or reserve-providing groups able to provide balancing services to TSOs

⁴ The BM is a GB platform that is used to ensure electricity supply and demand is balanced and allows the ESO to manage any differences close to real time.

⁵ '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.

⁶ The EBGL Regulation is available at: https://eur-lex.europa.eu/legalcontent/EN/TXT/?toc=OJ:L:2017:312:TOC&uri=uriserv:OJ.L_.2017.312.01.0006.01.ENG

⁷ At the time of this decision, the TSOs using the RR process in Europe are the TSOs of Great Britain, France, Switzerland, Spain, Portugal, Italy, Czech Republic. The TSOs in Greece, Norway, Sweden, Finland and Denmark are currently observers

⁸ Ofgem decision to approve P344 is available at: <https://www.ofgem.gov.uk/publications-and-updates/p344-project-terre-implementation-gb-market-arrangements>

⁹ P344 allows TERRE to be included in the BSC calculations of imbalance prices and volumes. It also enables the payments associated with TERRE to be made between the ESO and GB BSPs, including any non-delivery charges.

the TERRE platform for parties that are currently not participating in the BM. VLPs can register secondary BMUs for the sole purpose of providing balancing services to the cross-border RR market (TERRE) as well as the BM. These secondary BMUs can be aggregated independently of their supplier, meaning that distributed generation, aggregators, and consumers will be able to register BMUs and participate directly in the TERRE platform and the BM.

The modification proposal

In order for market participants to be able to participate in the BM and TERRE balancing platform as a BMU, they will need to become a CUSC party by signing a Bilateral Agreement¹⁰ with the ESO. This contract sets out the requirements that these parties will need to comply with, including the relevant provisions of the BSC and the Grid Code. Templates for these Bilateral Agreements can be found in the schedule 2 of the CUSC.

Those templates however do not allow VLPs to become a CUSC party as VLPs are not currently defined within the CUSC. In addition, these template Bilateral Agreements require BMUs to own or operate individual stations, which is not the case of VLPs. There is therefore a need to amend sections of the CUSC and the template Bilateral Agreements to introduce the concept of VLPs and allow VLPs to conclude Bilateral Agreements and become CUSC parties. This will make the provisions of the BSC applicable to VLPs and allow them to participate in the BM.

The legal text of the modification proposal proposes to deliver a new Bilateral Agreement for VLPs by making the following changes:

- a) Section 1 – Introduce VLPs as a User Category and update application process accordingly;
- b) Section 3 – Amend the existing text to include VLPs
- c) Section 11 – Define VLPs and the new Bilateral Agreement;
- d) Exhibit F (application form) - Include VLPs as a market participant;
- e) Schedule 2 (Exhibit 7) - create a new Bilateral Agreement reflecting the unique nature of the VLPs' relationship to the generating units. This agreement utilises the existing Appendix F and is a "Use of System" which has been modified to remove unnecessary provisions and reflect the aggregated nature of VLPs.

CUSC Panel¹¹ recommendation

At the CUSC Panel meeting on 12 September 2019, the Panel members agreed by majority that the modification proposal better facilitated the applicable objectives of the CUSC than the baseline and recommended that it should be implemented.

Our decision

We have considered the issues raised by the modification proposal and the final Modification Report (FMR) dated 4 October 2019. We have considered and taken into account the responses to the industry consultation on the modification proposal which are attached to the FMR.¹² We have concluded that:

¹⁰ A Bilateral Agreement is currently defined in the CUSC as: "in relation to a User, a Bilateral Connection Agreement or a Bilateral Embedded Generation Agreement, or a BELLA between The Company and the User"

¹¹ The CUSC Panel is established and constituted from time to time pursuant to and in accordance with Section 8 of the CUSC.

¹² CUSC modification proposals, modification reports and representations can be viewed on the ESO's website at: <http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/>

- implementation of the modification proposal will better facilitate the achievement of the applicable objectives of the CUSC;¹³ and
- directing that the modification be made is consistent with our principal objective and statutory duties.¹⁴

Reasons for our decision

We consider this modification proposal will better facilitate CUSC objectives (b) and (c) 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

This modification will ensure that there is a process to put an appropriate CUSC contract in place between the VLP and the ESO, thus allowing the participation of VLPs in the TERRE platform and the BM.

As a result of this modification, smaller BSPs and secondary BMUs aggregated through VLPs will be able to actively participate in both the TERRE and BM balancing markets. This should increase the number of BSPs that are able to provide balancing energy to these markets, and, in turn, increase competition in the procurement of replacement reserve in both platforms. We therefore consider that the proposal better facilitates objective (b).

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

Article 25(6)(b) of the EBGL Regulation requires that the standard products facilitate the participation of demand facility owners, third parties, and owners of power generating facilities from renewable energy sources as well as owners of energy storage units as balancing service providers.

CMP295 will ensure that there is a process to put a CUSC contract in place to facilitate access to the TERRE platform for third parties, aggregators, renewable energy sources and storage units through the VLPs. We therefore consider that by facilitating VLPs entry into TERRE, the ESO is ensuring that the GB arrangements for the standard balancing energy products for RR are compliant with Article 25(6)(b) of the EBGL Regulation. We therefore consider that CMP295 better facilitates objective (c).

Decision notice

In accordance with Standard Condition C10 of the Transmission Licence, the Authority, hereby directs that modification proposal CMP 295: Connection and Use of System Code (CUSC): Contractual Arrangements for Virtual Lead Parties (Project TERRE) be made.

Leonardo Costa
Senior Manager – ESO/DSO

Signed on behalf of the Authority and authorised for that purpose

¹³ 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>

¹⁴ 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.