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| Modification proposal: | Connection and Use of System Code (CUSC) CMP383: Updating recovery of CMP381 deferred costs from 1 April 2022 (CMP383) | | |
| Decision: | The Authority ¹ directs that this modification be made ² | | |
| Target audience: | National Grid Electricity System Operator (NGESO), Parties to the CUSC, the CUSC Panel and other interested parties | | |
| Date of publication: | 25 March 2022 | Implementation date: | 3 May 2022 |

Background

Balancing Services Use of System ('BSUoS') charges are the means by which National Grid Electricity System Operator (NGESO) recovers the costs of balancing the system. BSUoS charges are currently recovered from demand customers and Large Generators³ based on the amount of energy imported from or exported onto the transmission network (in £/MWh) within each half-hour period.⁴

The sustained increase in gas and electricity prices since August 2021 has contributed to significantly higher costs associated with balancing the electricity transmission system.⁵ As a result of the market conditions, BSUoS charges have considerably exceeded NGESO's forecasts for winter 2021/22.

On 14 January 2022, we published our decision⁶ on CMP381⁷ to implement a £20/MWh cap on BSUoS costs in each Settlement Period from 17 January until 31 March 2022 and defer costs above the cap (with a limit of £200m for the cumulative amount of deferred costs) to the following charging year (2022/23). In the decision, we recognised that a licence change may be required to facilitate the recovery of the deferred costs and stated that we would seek to progress any associated licence modification imminently.

¹ References to the "Authority", "Ofgem", "we", "us" 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 Large Generators are those generators that are directly connected to the transmission network and generators that are connected to the distribution network with capacities greater than 100MW. Interconnectors and distribution connected generation smaller than 100MW do not face BSUoS charges.

⁴ The Authority recently published a minded-to decision on CMP308 which would move liability for BSUoS changes solely to Final Demand: [CMP308 – Minded-to decision and draft impact assessment | Ofgem](#) (CMP stands for CUSC Modification Proposal)

⁵ [Rising wholesale energy prices and implications for the regulatory framework | Ofgem](#)

⁶ [Decision on CMP381 | Ofgem](#)

⁷ EDF raised CMP381 on 16 December 2021: [CMP381: Defer exceptionally high Winter 2021/22 BSUoS costs to 2022/2023 | National Grid ESO](#)

Subsequently, on 28 January 2022, we launched a statutory consultation⁸ on our proposal to modify the licence held by NGENSO. Following consideration of the consultation response received, on 4 March 2022, we published our decision⁹ to modify the special conditions of the electricity transmission licence held by NGENSO to facilitate NGENSO's recovery of the 2021/22 BSUoS costs deferred in accordance with our decision on CMP381, in the charging year 2022/23. This change takes effect from 30 April 2022.

The modification proposal

On 7 February 2022, NGENSO (the 'Proposer') raised CMP383.¹⁰ The Proposer requested that CMP383 be treated as an Urgent CUSC Modification Proposal. We granted the request for urgency on 11 February 2022.¹¹

CMP383 (the Modification Proposal) seeks to give industry visibility of the dates over which costs deferred under CMP381 will be recovered in charging year 2022/23. Owing to the pending licence change, the CMP381 deferred costs could not be recovered from 1 April 2022 as had previously been expected by industry. Instead, the Proposer suggested that the CUSC be modified to provide clarity that deferred costs would begin to be recovered from the working day following the licence change taking effect.

The Proposer considers that the Modification Proposal is positive in terms of Applicable CUSC Charging Objective¹² (ACO) (c) as it ensures that the NGENSO can recover the deferred costs under CMP381, as per the licence change decision for NGENSO published on 4 March 2022.

There is no Workgroup Alternative CUSC Modification (WACM) proposed for CMP383.

CUSC Panel¹³ recommendation

At the CUSC Panel meeting on 10 March 2022, the CUSC Panel unanimously considered that CMP383 would better facilitate the CUSC objectives than the baseline. The Panel therefore recommended the implementation of CMP383.

Our decision

We have considered the issues raised by the Modification Proposal and the Final Modification Report (FMR) dated 14 March 2022. We have considered and taken into account the responses to the Code Administrator Consultation on the Modification Proposal which are attached to the FMR.¹⁴ We have also considered the votes of the CUSC Panel. We have concluded that:

⁸ [Statutory consultation on a proposal to modify the licence held by the Electricity System Operator | Ofgem](#)

⁹ [Decision to modify the special conditions of the electricity transmission licence held by National Grid Electricity System Operator Limited | Ofgem](#)

¹⁰ [CMP383: Updating recovery of CMP381 deferred costs from 1 April 2022 | National Grid ESO](#)

¹¹ [CMP383 - Decision on urgency | Ofgem](#)

¹² As set out in Standard Condition C5(5) of NGENSO's Transmission Licence, see:

<https://epr.ofgem.gov.uk/Content/Documents/Electricity%20transmission%20full%20set%20of%20consolidated%20standard%20licence%20conditions%20-%20Current%20Version.pdf>

¹³ The CUSC Panel is established and constituted from time to time pursuant to and in accordance with the section 8 of the CUSC.

¹⁴ CUSC modification proposals, modification reports and representations can be viewed on the ESO's website at <https://www.nationalgrideso.com/industry-information/codes/connection-and-use-system-code-cusc>

- implementation of the Modification Proposal would better facilitate the achievement of the ACOs; ¹⁵ and
- directing that the modification be made is consistent with our principal objective and statutory duties.¹⁶

Reasons for our decision

We consider this Modification Proposal will better facilitate ACOs (c) and (e) and has a neutral impact on ACO (a), (b) and (d).

(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;

The CUSC Panel members unanimously considered that the CMP383 proposal would better facilitate ACO (c). The Panel members highlighted that the proposed modification would better facilitate this objective by ensuring that NGENSO is able to recover deferred BSUoS costs under CMP381 in a manner which is consistent with its licence change approved by the Authority on 4 March 2022.

Our position

We agree that CMP383 is positive against ACO (c) as it supports the implementation of CMP381 by removing ambiguity from the CUSC and ensuring the recovery of the deferred BSUoS costs in line with the associated licence change.

(e) promoting efficiency in the implementation and administration of the system charging methodology.

Two members of the CUSC Panel considered that CMP383 would better facilitate ACO (e) as the proposed modification would provide clarification in CUSC of the deferred cost recovery period under CMP381 for industry and remove potentially contradictory legal obligations between the CUSC and the transmission licence held by NGENSO. The remaining Panel members considered CMP383 to be neutral against this objective.

Our position

We recognise that there has been a discrepancy between industry's expectation and the intended recovery period planned by NGENSO (in line with its licence) for the deferred BSUoS costs under CMP381. Further, we acknowledge that this modification is intended to give industry visibility and notice of the dates over which deferred costs will be recovered. We also recognise that there is ambiguity as to the operation of the current CUSC legal text, and its interaction with the related licence conditions, which could cause confusion as to the legal requirements placed on NGENSO. We therefore consider CMP383 to be positive against this objective.

¹⁵ As set out in Standard Condition C5(5) 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>

¹⁶ 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.

Implementation

The implementation date of CMP383 will be from 00.00 on 3 May 2022, which is the working day following the date on which the associated change to NGESO's licence comes into effect (30 April 2022). This takes account of the public bank holiday on 2 May 2022.

Decision notice

In accordance with Standard Condition C10 of the Transmission Licence, the Authority, hereby directs that Modification Proposal CMP383: *Updating recovery of CMP381 deferred costs from 1 April 2022* be made.



Patrick Cassels
Head of Electricity Network Access

Signed on behalf of the Authority and authorised for that purpose