

Modification proposal:	Connection and Use of System Code (CUSC) Modification Proposal (CMP) CMP362 - BSUoS Reform: Consequential Definition Updates		
Decision:	The Authority ¹ directs that Workgroup Alternative CUSC Modification Proposal (WACM) 3 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:	15 December 2022	Implementation date:	1 April 2023

Background

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

The second Task Force recommended⁴ that BSUoS be paid solely by Final Demand, and also that it should be levied in the form of a flat volumetric £/MWh charge that was known to users in advance and was of a fixed level for a set period.

In December 2020, we published an open letter that supported the second Task Force's recommendations in principle, whilst recognising that quantitative analysis as to the overall impacts of the reforms would be required to inform a final decision.

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 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 <https://www.chargingfutures.com/media/1477/second-balancing-services-charges-task-force-final-report.pdf>

The modification proposal

In February 2021, NGESO raised CMP361 and CMP362 to give practical effect to the Task Force's ex ante BSUoS recommendation.

CMP361 proposes to amend Section 14 of the CUSC to deliver a BSUoS tariff which:

- i) is set prior to the charging period to which it relates;
- ii) is fixed for a period within a charging year, or is fixed for the entire charging year; and
- iii) is set by reference to a specific level of certainty (the 'P Level').

The scope of CMP361⁵ further extends to the funding arrangements required for NGESO to set a BSUoS tariff without undermining its financial stability.

CMP362 proposes to support changes to Section 11 of the CUSC to introduce or amend definitions of terms included within Section 14 and is therefore contingent on CMP361. This Decision relates solely to CMP362. A separate Decision in respect of CMP361 has been published today.

CMP361 resulted in seven Workgroup Alternative CUSC Modifications (WACMs) alongside the Original Proposal, collectively referred to in this decision as 'the options'. Each option under CMP361 is differentiated by its approach to the various components of the calculations underpinning the fixed BSUoS tariff. CMP362 takes a similar approach, matching new defined terms to those CMP361 options. The CMP361 and CMP362 combined options are displayed below.

CMP362 Reference	CMP361 Reference	Notice Period	Fixed Period	P level	BSUoS Fund	BSUoS Fund recovery
Original	Original	3 months	12 months	P99	Yes	2 years
WACM1	WACM1	12 months	3 months	P99	Yes	2 years
WACM2	WACM2	9 months	6 months	P99	Yes	2 years
WACM3	WACM3	9 months	6 months	P77	No	N/A
WACM4	WACM4	12 months	3 months	P77	No	N/A
[Original]	WACM5	3 months	12 months	P99	Yes	5 years

⁵ For further information please see our CMP361 Decision letter or our previous two consultations <https://www.ofgem.gov.uk/sites/default/files/2022-09/CMP361%20Minded-to%20final%20PDF%20-%20Publication.pdf> and <https://www.ofgem.gov.uk/sites/default/files/2022-11/CMP361%20nd%20consultation.pdf>

CMP362 Reference	CMP361 Reference	Notice Period	Fixed Period	P level	BSUoS Fund	BSUoS Fund recovery
WACM5	WACM6	9 months	6 months	P90	Yes	Capped at £25m per year
WACM6	WACM7	12 months	3 months	P90	Yes	Capped at £25m per year

CUSC Panel⁶ recommendation

The CUSC Panel met and voted on CMP362 on 25 February 2022. All CMP362 options received majority support as better facilitating the Applicable CUSC Objectives (ACOs) than the Baseline (i.e. the existing provisions of the CUSC). The CUSC Panel further considered that the Original proposal and WACM2 were the best options available.

Our decision

We have considered the issues raised by CMP362 and the Final Modification Report (FMR) dated 8 March 2022. We have considered and taken into account the responses to the Workgroup Consultation and the Code Administrator Consultation on the Modification Proposal which were attached to the FMR.⁷ We have also considered the votes of the Workgroup and the CUSC Panel, as well as the responses to our two previous consultations. We have concluded that:

- CMP362 WACM3 would best facilitate the achievement of the ACOs;⁸ and
- directing that CMP362 WACM3 be made is consistent with our principal objective and statutory duties.⁹

Reasons for our decision

As we have set out in our CMP361 Decision, we consider that the implementation of any option would be an improvement when assessed against the Baseline (i.e with no fixed ex ante BSUoS charging). We consider that although WACM3 does not provide a longer-term fixed period, it is better than the Baseline and likely provides some degree of

⁶ The CUSC Panel is established and constituted from time to time pursuant to and in accordance with section 8 of the CUSC.

⁷ 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>

⁸ 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>

⁹ 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.

industry certainty around BSUoS arrangements from April 2023, (noting the interaction with the Default Tariff Cap¹⁰ and CMP308).

WACM3 in practice provides a fixed period of 6 months, which we consider to be both reasonable, and an improvement on the Baseline. We expect this will likely lead to a substantial reduction in risk premia values utilised in consumer contracts with suppliers, but will not increase the overall BSUoS charge faced by consumers through reliance on a BSUoS Fund (thereby potentially negating the benefit derived from the risk premia reduction).

Our assessment against Applicable CUSC Objectives

For the reasons set out below, we believe that CMP362 WACM3 better facilitates ACO (b) and (d), but does not otherwise affect facilitation of ACOs (a), or (c).

(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;

We consider CMP362 to be positive against this ACO. WACM3 sets out a six-month fixed period, which, as we have outlined in our CMP361 decision, we consider to be the most appropriate option available to us in delivering an ex ante BSUoS tariff which does not serve to significantly add to consumer cost. The combination of this CMP362 and CMP361 approval should enable suppliers to reduce (rather than effectively compete on) the risk premia they use in consumer contracts to mitigate the risk of variance between forecast and outturn BSUoS values. We do not consider it efficient for suppliers to compete on their ability to forecast cost-recovery charges, and therefore any form of fixed BSUoS will likely improve competition to at least that extent.

(d) Promoting efficiency in the implementation and administration of the CUSC arrangements.

Although we believe that the overall combination of CMP361 and CMP362 would increase the administrative processes conducted by NGENSO, and would therefore likely be overall negative to efficiency in CUSC arrangements, we do consider this CMP362 WACM3 to be

¹⁰ We have set out our view that we are minded to reflect CMP361 or equivalent modifications in the 'Price Cap' methodology: [Price cap: Consultation on reflecting potential changes to BSUoS charges in the price cap | Ofgem](#)

positive against ACO (d). Without CMP362, CMP361 could not take proper effect and therefore this proposal would improve efficiency as compared a situation where only CMP361 were approved, by ensuring market participants received unambiguous CUSC terms.

We do note however that the legal text for CMP362 WACM3 creates and then defines the term, "Balancing Services Use of System Working Capital Facility". This term is not used in its counterpart CMP361 WACM3 legal text for Section 14. The term relied upon within the charging methodology is, "BSUoS Working Capital Facility".

This difference in legal text (an acronym in lieu of the expanded wording) does not affect our assessment of either CMP361 or CMP362 but we do consider that the two terms should be consistent and therefore believe NGENSO should make an appropriate, and minor change to the legal text at its next available opportunity.

Impact Assessment

Section 5A of the Utilities Act 2000 imposes a duty on the Authority (its "Section 5A duty") to undertake an impact assessment where it appears to the Authority that a proposal is important. A proposal is important if its implementation would be likely to, among other things, "have a significant impact on persons engaged in commercial activities connected with the ... generation, transmission, distribution or supply of electricity." Where this applies, the Authority is obliged to carry out an impact assessment.

We consider that CMP362 does not in and of itself have a significant impact on persons engaged in the market, but that in any event and as outlined in our CMP361 Decision, our minded-to decision and draft Impact Assessment published 21 September 2022 satisfies the requirement under Section 5A, and is appropriate to utilise for this CMP362 decision.

Assessment against the Authority's principal objective and statutory duties

For the reasons outlined above, we consider that implementation of this CUSC Modification Proposal is consistent with our Principal Objective and statutory duties.

Decision notice

In accordance with Standard Condition C10 of the Transmission Licence, the Authority, hereby directs that WACM3 of modification proposal CMP362 'BSUoS Reform: Consequential Definition Updates' be made.

Charlotte Friel

Deputy Director - Market Operations and Signals

Signed on behalf of the Authority and authorised for that purpose