

Workgroup Report

# CMP415: Amending the Fixed Price Period from 6 to 12 months

**Overview:** This modification is a result of [CMP408](#), and looks to amend the Fixed Price Period definition from 6 months to 12 months.

## Modification process & timetable



**Have 5 minutes?** Read our [Executive summary](#)

**Have 20 minutes?** Read the full [Workgroup Report](#)

**Have 90 minutes?** Read the full Workgroup Report and Annexes.

**Status summary:** The Workgroup have finalised the proposer’s solution. They are now seeking approval from the Panel that the Workgroup have met their Terms of Reference and can proceed to Code Administrator Consultation.

**This modification is expected to have a:** **High impact** on Final Demand Users, Suppliers, ESO

**Governance route** Standard Governance modification with assessment by a Workgroup

<b>Who can I talk to about the change?</b>	<b>Proposer:</b> Alice Taylor, ESO <a href="mailto:Alice.Taylor@nationalgrideso.com">Alice.Taylor@nationalgrideso.com</a>	<b>Code Administrator Contact:</b> Deborah Spencer <a href="mailto:Deborah.Spencer@nationalgrideso.com">Deborah.Spencer@nationalgrideso.com</a>
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**Executive summary**

**What is the issue?**

[CMP408: Allowing consideration of a different notice period for BSUoS tariff settings](#) required, as part of its terms of reference, consideration of an amendment to the Fixed Price Period of BSUoS in which the definition falls under Section 11 of the CUSC. This modification proposes to change the definition of the Fixed Price Period from 6 months to 12 months and should only be considered for implementation and approval in conjunction with CMP408.

**What is the solution and when will it come into effect?**

<b>Fixed Price Period :</b> Change from 6 months to 12 months	<b>Implementation Approach:</b> From 1 April to 31 March
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**Implementation date:** 1 April 2024

**Summary of alternative solution and implementation date:**

*WACM1 - Amending the Fixed Price Period from 6 to 12 months with two seasonal tariffs*  
Seeks to amend the definition of the Fixed Price Period from 6 months to 12 months but with two seasonal tariffs: a spring summer tariff (1 April to 30 September) and an autumn winter tariff (1 October to 31 March). The split tariff would prevent excessive under-recovery of costs in the summer in comparison to the winter. An under-recovery would mean a tariff reset is needed which would mean increased costs to suppliers and end consumers.

**Workgroup conclusions:** The Workgroup concluded unanimously that the Original solution, and by majority that WACM1 did not better facilitate the Applicable Objectives than the Baseline.

The Workgroup concluded unanimously that WACM1, and by majority the Original solution, would better facilitate the Applicable Objectives than the Baseline were the change to Section 14 as proposed in CMP408 to be implemented.

**What is the impact if this change is made?**

The shorter notice period combined with the longer fixed period, allows for suppliers to price longer contracts with more price certainty. A longer fixed period allows for suppliers to reduce the risk premia being built into BSUoS prices due to a longer period of certainty. By increasing the fixed period and reducing the notice period this falls in line with the results from the Second BSUoS Taskforce of a 15 month overall combined period.

The shorter notice period allows for more accurate forecasting for BSUoS costs with less risk of tariff reset during the fixed period, or even during the notice period. The Proposer believes this should allow a reduction in risks premia being charged to customers.

**Interactions**

CMP415 and WACM1 are the result of CMP408 Workgroup discussions, however, as a charging proposal CMP408 could not modify Section 11 of the CUSC.

This modification should only be considered in conjunction with [CMP408](#) in terms of approval and implementation.

## What is the issue?

BSUoS charges are how the ESO recovers the costs associated with balancing the electricity system. [CMP361 and CMP362](#) were raised to implement the recommendation of the second Balancing services Taskforce to recover BSUoS charges as a flat volumetric charge set on an ex-ante basis. This is in addition to [CMP308](#), which following its [approval in April 2022](#) will move BSUoS charges to final demand only. All were implemented 1 April 2023.

In October 2022, Ofgem consulted on their position for [CMP361 and CMP362](#) and received consultation responses indicating that BSUoS certainty is important, particularly avoiding mid-period tariff resets.

In December 2022, Ofgem approved the [CMP361 WACM 3](#), which identifies a 9-month notice and 6-month fix for BSUoS tariffs. Ofgem also noted in their [CMP361 decision letter](#):

*“As per our minded-to decision, we continue to believe that a 3-month Notice Period strikes the appropriate balance between providing Suppliers with sufficient advance notice of charges and mitigating the risk of inaccuracy in a forecast set in advance of the timeframe to which it relates”.*

Therefore, [CMP408: Allowing consideration of a different notice period for BSUoS tariff settings](#) was raised as a charging modification to amend the Notice Period from 9 months to 3 months for the Fixed BSUoS tariffs within Section 14.

Under the terms of reference there is consideration of an amendment to the Fixed Price Period of BSUoS in which the definition falls under Section 11, which is a non- charging section, of the CUSC.

This modification proposes change the definition of the Fixed Price Period from 6 months to 12 months.

### **Why change?**

[CMP408](#) modification proposal will be assessed under the CUSC Charging Applicable Objectives (applicable to Section 14 only).

Discussions within [CMP408](#) led to this modification being raised due to an additional change falling outside of Section 14. The proposed change is being made to Section 11 amending the definition of the Fixed Price Period from 6 months to 12 months.

This modification should only be considered in conjunction with [CMP408](#) in terms of approval and implementation.

## What is the solution?

### **Proposer’s solution**

This modification should be considered in conjunction with [CMP408](#) in terms of approval and implementation.

This change relates to a definition of Fixed Price Period in Section 11.

<b>Fixed Price Period :</b> Change from 6 months to 12 months	<b>Implementation Approach:</b> From 1 April to 31 March
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## Workgroup considerations

The Workgroup convened once on 02 August 2023 as part of a reconvened CMP408 Workgroup to discuss the perceived issue, detail the scope of the proposed defect, devise potential solutions, and assess the proposal in terms of the Applicable Objectives.

### **Output of CMP408: Allowing consideration of a different notice period for BSUoS tariff settings**

The CMP415 Original solution and WACM1 were initially raised as Alternates through discussions within CMP408: Allowing consideration of a different notice period for BSUoS tariff settings modification (see [CMP408 Workgroup Report](#) for full details).

CMP415 Original solution and WACM1 relate to the duration of the Fixed Price Period, to retain the overall 15 months of certainty, as a proposed change to CUSC (non-charging) Section 11 whereas CMP408 proposes to change the Notice Period is within (charging) Section 14.

Therefore, CMP415 should only be considered in conjunction with [CMP408](#) in terms of approval and implementation.

### **Consideration of the proposer's Original solution**

Through the CMP408 Workgroup Consultation some responses indicated a preference for a longer fixed period with several members referencing 12 months. The CMP408 Proposer raised the potential issue of seasonality explaining a single tariff set within a year, under some forecast scenarios, is not always guaranteed. The ESO could significantly under recover during the summer months then recover this shortfall during the winter. It was suggested, given the significant increase in BSUoS costs from 2022 to 2023, there is a risk ESO's Working Capital would be fully utilised in summer before it is rebuilt up over the winter leading to increased likelihood of a mid-year tariff reset. The Proposer indicated this was the reason why ESO have stayed with the six months fixed period.

A CMP408 Workgroup member questioned if the 12-month fixed period could have a summer and winter tariff, or does it have to be the same rate for each month? The Proposer clarified a summer and winter tariff is forecast at the beginning of the twelve months and stays the same throughout the year explaining this is different from having two six-month tariffs.

The Proposer explained this had been raised to shorten the notice period and extend the fixed period. This proposal will maintain the 15-months combined period recommended by the second BSUoS Taskforce.

During a CMP408 Workgroup, the Authority Representative indicated that Ofgem are open to different combinations of notice/fixed periods, but most importantly the benefit to consumers for this combination needs to be clear. The Ofgem Rep stated it was essential to have evidence on how the 12-month fixed term is more beneficial than the current 6-month baseline and an understanding of why increasing the risk of a tariff reset would be more beneficial than including risk premia. CMP408 Workgroup Members agreed to share information with Ofgem offline.

### **Workgroup Alternative CUSC Modification (WACM) Overview**

Alternative 1 was voted by (7 out of 7) to become WACM1 and proposes a 3 month notice period, followed by 12 months fixed, including a separate summer and winter tariff.

The split tariffs over a 12 month fixed period provides increased accuracy to suppliers when setting BSUoS related costs over that of one tariff within a 12 month fixed period, while still providing the sufficient notice of these tariffs for suppliers to price contracts.

This change differs to Original as it allows for a better risk management method of the ESO Working Capital Facility (WCF). The allowance of two tariffs within a 12 month Fixed Period, can reduce the likelihood of the ESO's working capital fund being depleted, reducing the likelihood of tariff resets within a fixed period while still providing the certainty to suppliers of BSUoS costs. The impact is that suppliers can further reduce risk premia being built into their prices which lowers costs to end consumers.

#### Why is Seasonality important?

A fixed BSUoS charge applied on a £/MWH basis means the value of BSUoS recovered across a financial year by the ESO is directly related to the total BSUoS volume across that same year. However, the BSUoS costs incurred are not related to this and can be relatively flat across the year. With a single fixed £/MWh charge (one tariff), the natural annual volume curve across the year means that we would always recover less revenue in the April to September period than we would in the October to March period.

Given the higher BSUoS costs that have been seen in 2022/2023 there is a risk that the ESO's WCF fund is significantly depleted, increasing the risk of a mid-year tariff change being needed, which erodes the benefits of fixed BSUoS to suppliers and end consumers on price certainty. This solution is therefore proactive in preventing this from happening by allowing a spring summer tariff (1 April to 30 September) and an autumn winter tariff (1 October to 31 March).

With a 12-month fixed tariff and all other things being equal, you would most likely be under recovered during the first 6 months of the scheme, then as the higher demand volume was seen in the second 6 months that shortfall would be caught up, ideally revenue and costs equalling each other at the end of March. With the financial year split into two 6 month tariffs, the effects of any under recovery due to volume are halved because you get to that point where revenue and costs equal each other twice a year, at the end of each fixed tariff period.

This change would help support the ESO's working capital and market mechanisms while ensuring that the result will be cash neutral across the whole of the financial year so that there is no additional cost to suppliers and end consumers.

This therefore offers suppliers the longer fixed period, whilst providing additional certainty over BSUoS costs via the two tariffs which not only reduces the need for risk premia but also reduces the likelihood of the ESO working capital fund being depleted within a fixed period, subsequently reducing the likelihood of tariff resets within a fixed period.

Full seasonality analysis can be found in Annex 5.

#### Difference in Risk to the ESO WCF

- **CMP408** looks at a **9 month total combined period** for Fixed BSUoS (3 month notice, 6 month fixed)

- This lowers the risk of the ESO WCF being depleted due to the shorter fixed period meaning there is less time for the ESO WCF to be fully utilised. This therefore aids in a reduction in risk of a tariff reset mid fixed period.
- **CMP415** looks at a **15 month total combined period** for Fixed BSUoS (3 month notice, 12 month fixed)
  - With a longer fixed period, this increases the risk of the ESO WCF being fully utilised, compared to that of CMP408, which subsequently increases the risk of tariff resets within a fixed period.
- **WACM 1** in CMP415 looks at a **15 month total combined period** for Fixed BSUoS (3 month notice, 12 months fixed with **two seasonal tariffs**)
  - Although this also has the same longer fixed period as CMP415, the two tariffs reduce the risk of the ESO WCF being utilised as the two seasonal tariffs can take into account the issue of seasonality which is not addressed in CMP415. This can reduce the risk seen in CMP415 of tariff resets within a fixed period.

### Workgroup Vote Rationale

The CMP415 Original solution and WACM1 update the Fixed Price Period definition (see Annex 3) within Section 11 of the CUSC. When providing their assessment for the proposed solutions, the Workgroup is required to vote against the current Section 11 CUSC baseline (Annex 6).

However, as the CMP415 Original solution and WACM1 have been developed alongside the proposed change to the Notice Period from 9 months to 3 months for the Fixed BSUoS tariffs within Section 14 (via CMP408).

The Workgroup held a second illustrative vote to reflect their assessment for the proposed solutions were the CMP408 change approved (Annex 7).

### Legal text

The legal text for this change can be found in Annex 3.

Original (Page 32)

#### “Fixed Price Period”

the period of time during which the **Fixed BSUoS Price** applies. Each **Fixed Price Period** shall apply for ~~six~~ twelve months, from 1<sup>st</sup> April to ~~30<sup>th</sup> September and 1<sup>st</sup> October to~~ 31<sup>st</sup> March;

WACM1 (Page 32)

#### “Fixed Price Period”

the period of time during which the **Fixed BSUoS Price** applies. Each **Fixed Price Period** shall apply for ~~six~~ twelve months, from 1<sup>st</sup> April to ~~30<sup>th</sup> September and 1<sup>st</sup> October to~~ 31<sup>st</sup> March, comprising:  
 (a) the Spring Summer Tariff (1<sup>st</sup> April to 30<sup>th</sup> September); and  
 (b) the Autumn Winter Tariff (1<sup>st</sup> October to 31<sup>st</sup> March).

## What is the impact of this change?

Proposer's assessment against CUSC Non-Charging Objectives	
Relevant Objective	Identified impact
(a) The efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence;	<b>Neutral</b>
(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;	<b>Positive</b> A longer fixed period allows for suppliers to reduce the risk premia being built into BSUoS prices due to a longer period of certainty. By increasing the fixed period and reducing the notice period this falls in line with the results from the Second BSUoS Taskforce of a 15 month overall combined period.
(c) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and	<b>Neutral</b>
(d) Promoting efficiency in the implementation and administration of the CUSC arrangements.	<b>Neutral</b>
*The Electricity Regulation referred to in objective (c) is Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity (recast) as it has effect immediately before IP completion day as read with the modifications set out in the SI 2020/1006.	

**Workgroup vote**

The workgroup met on 02 August 2023 to carry out their workgroup vote. The full Workgroup vote can be found in Annex 6 and Annex 7. The table below provides a summary of the Workgroup members view on the best option to implement this change. The Applicable non-charging CUSC Objectives are:

**CUSC non-charging objectives**

- a) The efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence;
- 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;
- c) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency \*; and
- d) Promoting efficiency in the implementation and administration of the CUSC arrangements.

\*The Electricity Regulation referred to in objective (c) is Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for



electricity (recast) as it has effect immediately before IP completion day as read with the modifications set out in the SI 2020/1006.

The Workgroup concluded unanimously that the Original solution, and by majority that WACM1 did not better facilitate the Applicable Objectives than the Baseline.

Option	Number of voters that voted this option as better than the Baseline
Original	0
WACM1	2

The Workgroup concluded unanimously that WACM1, and by majority the Original solution, would better facilitate the Applicable Objectives than the Baseline were the change to Section 14 as proposed in CMP408 to be implemented.

Option	Number of voters that voted this option as better than the Baseline
Original	6
WACM1	7

### When will this change take place?

**Implementation date**

Implementation of CMP415 will be aligned with CMP408 which is 1 April 2024.

**Date decision required by**

End of November 2023.

**Implementation approach**

The modification can only be approved and implemented in conjunction with CMP408.

### Interactions

- Grid Code
- BSC
- STC
- SQSS
- European Network Codes
- EBR Article 18 T&Cs<sup>1</sup>
- Other modifications
- Other

This modification is a consequence of the modification [CMP408](#). The Workgroup do not believe there are any EBR implication.

### Acronyms, key terms and reference material

Acronym / key term	Meaning
BSC	Balancing and Settlement Code
BSUoS	Balancing Services Use of System charges
CMP	CUSC Modification Proposal
CUSC	Connection and Use of System Code
EBR	Electricity Balancing Regulation
STC	System Operator Transmission Owner Code
SQSS	Security and Quality of Supply Standards

<sup>1</sup> If the modification has an impact on Article 18 T&Cs, it will need to follow the process set out in Article 18 of the Electricity Balancing Regulation (EBR – EU Regulation 2017/2195) – the main aspect of this is that the modification will need to be consulted on for 1 month in the Code Administrator Consultation phase. N.B. This will also satisfy the requirements of the NCER process.

T&Cs	Terms and Conditions
WACM	Workgroup Alternative Code Modification
WCF	Working Capital Facility

### Reference material

- [CMP408: Allowing consideration of a different notice period for BSUoS tariff settings](#)

### Annexes

Annex	Information
Annex 1	Proposal form
Annex 2	Terms of reference
Annex 3	Legal Text
Annex 4	Alternative Request Form
Annex 5	CMP415 WACM1 Seasonality Analysis
Annex 6	Workgroup vote
Annex 7	Illustrative Workgroup vote
Annex 8	Workgroup Attendance Log