

CUSC Modification Proposal Form

CMP420: Treatment of BSUoS Revenue Recovery, and creation of a BSUoS Fund

Overview: Currently the CUSC is silent over the treatment of BSUoS revenues which are recovered in excess of the actual BSUoS costs for a given period ‘Over recovery’. This modification will codify the treatment of Over recovery and allow the potential use of Over recovery to reduce the risk of reopening prices during a future Fixed Period

Modification process & timetable



Status summary: The Proposer has raised a modification and is seeking a decision from the Panel on the governance route to be taken.

This modification is expected to have a: Medium impact

Suppliers

Proposer’s recommendation of governance route	Standard Governance modification with assessment by a Workgroup	
Who can I talk to about the change?	<p>Proposer: Damian Clough Damian.Clough@sse.com 01738 456000</p>	<p>Code Administrator Contact: Jon Whitaker Jonathan.Whitaker@nationalgrideso.com 07354901925</p>

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What is the issue?

Currently the CUSC is silent over the treatment of Over recovery of Balancing Services Use of System (BSUoS) costs. This is unusual when compared to other Industry and Network Charges such as Transmission Network Use of System (TNUoS) and Distribution Use of System (DUoS) which are charged on an ex-ante basis.

Industry Users therefore have no certainty over when or how this Over recovery will affect future BSUoS charges, and whether the Over recovery will be adjusted by inflation when it is offset similar to other charges (e.g., TNUoS and K). There is also a similar defect with Under recovery and the use of the ESO's Working Capital Fund (WCF) and the impact on future BSUoS charges.

As BSUoS charges may fluctuate the ESO WCF may not cover sufficient forecasting risk thus increasing the chances of reopening BSUoS charges within a Fixed Price Period.

This therefore increases the Supplier risk premia applied to charges.

Why change?

The ESO or the Future System Operator (FSO) should be financially benefit nor be penalised for Under or Over Recovery which is not the case currently.

The ESO WCF may not be large enough if BSUoS costs increase, thus increasing the risk of reopening BSUoS charges once Industry have been notified. Which will also lead to increased risk premia applied to prices by Suppliers.

By allowing Over recovering to create a BSUoS Fund over and above the WCF this would allow the ESO to manage risk more affectively.

What is the proposer's solution?

Codify Over and Under recovery in terms of when this will be returned to or recovered from Industry and any inflation applied to the Over or Under recovery to leave appropriate Parties whole.

This could be achieved by applying Barclays base rate to the difference between actual daily costs and actual revenue recovery, up until the start of the next Fixed Period.

In terms of legal text there is nothing currently in the CUSC which defines the period in which actual and forecast over recovery will offset BSUoS costs thus reducing a future BSUoS charge (i.e., returned to Industry), or actual and forecast under recovery which is added to BSUoS costs thus increasing a future BSUoS charge (i.e. recovered from Industry). There is the assumption that this will be done at the first possible opportunity, but there is no certainty. Due to the Notice Period, there is an element of forecasting of potential over and under recovery. The solution will specify exactly how over and under recovery is calculated and forecasted and how it will affect future BSUoS charges and which ones it will affect.

Allow future and existing over recovery to be used as a BSUoS fund which can be utilised by the ESO in the event that BSUoS costs are in excess of credit facilities. Which without the BSUoS fund would result in the need to reopen and reset BSUoS charges within a Fixed Notice Period.

If it is forecasted that over recovery for a period is £200m. The solution will allow all or part of that £200m to be placed into a BSUoS fund instead of offsetting future BSUoS

charges. That fund will further reduce the risk of BSUoS charges being reopened thus further reducing the need for any risk premia.

Any use of Over recovery would require justification and approval by the Authority. For example, the WCF may cover sufficient risk if BSUoS costs are forecasted to be high. However, if BSUoS costs increase then the WCF covers less risk, thus increasing the risk of reopening prices. Therefore, the ESO may seek permission to utilise all or part of the over recovery as BSUoS funds. The BSUoS fund will be utilised after the WCF. If the BSUoS fund and the WCF combined covers too much risk the BSUoS fund can be used to offset a future fixed BSUoS charge.

The solutions above may vary after discussion within the Workgroup.

Draft legal text

Legal text will be developed within the Workgroup

What is the impact of this change?

Proposer’s assessment against CUSC Charging Objectives	
Relevant Objective	Identified impact
(a) That compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity;	<p>Positive</p> <p>By reducing the risk of reopening BSUoS prices within a Fixed Period this levels competition amongst Suppliers, as it lessens the need to forecast BSUoS, and manage the risk that prices may be reopened. The ability to forecast and manage risk is different amongst parties.</p> <p>Codifying how Over recovery is dealt with allows all Parties to fully understand how future charges may be impacted</p>
(b) That compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard licence condition C26 requirements of a connect and manage connection);	<p>Positive</p> <p>By applying inflation to over and under recovery this brings the recovery of costs in line with other network charges.</p> <p>By removing the risk of reopening prices this reduces the risk of reopening prices thus reducing the risk premia.</p> <p>The combination of the two above means that end charges to customers over time reflect the actual costs and not actual costs plus risk less any inflationary impact.</p>
(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	<p>Neutral</p>

transmission licensees' transmission businesses;	
(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and	Neutral
(e) Promoting efficiency in the implementation and administration of the system charging methodology.	Neutral
<p>**The Electricity Regulation referred to in objective (d) 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.</p>	

Proposer's assessment of the impact of the modification on the stakeholder / consumer benefit categories	
Stakeholder / consumer benefit categories	Identified impact
Improved safety and reliability of the system	Neutral
Lower bills than would otherwise be the case	<ul style="list-style-type: none"> Reduces risk premia
Benefits for society as a whole	Neutral
Improved quality of service	Neutral

When will this change take place?

Implementation date

This will apply for the first BSUoS Fixed Period in which the prices have not already been fixed due to the Notice Period.

Date decision required by

Ideally limited workgroups to allow for this to apply to the next Fixed BSUoS notice period.

Implementation approach

BSUoS charge setting process

Proposer's justification for governance route

Governance route: Standard Governance modification with assessment by a Workgroup

There may be more than one solution which rules out self-governance but due to this being discussed extensively within the TCMF subgroup this should have a very tight and accelerated timescale to allow it to apply to the next BSUoS Fixed Period.

Interactions

- Grid Code
- European Network Codes
- BSC
- EBR Article 18 T&Cs¹
- STC
- Other modifications
- SQSS
- Other

Acronyms, key terms, and reference material

Acronym / key term	Meaning
BSC	Balancing and Settlement Code
BSUoS	Balancing Services Use of System
CMP	CUSC Modification Proposal
CUSC	Connection and Use of System Code
DUoS	Distribution Use of System
EBR	Electricity Balancing Regulation
SQSS	Security and Quality of Supply Standards
STC	System Operator Transmission Owner Code
T&Cs	Terms and Conditions
TNUoS	Transmission Network Use of System
WCF	Working Capital Fund

¹ If your modification amends any of the clauses mapped out in Exhibit Y to the CUSC, it will change the Terms & Conditions relating to Balancing Service Providers. The modification will need to follow the process set out in Article 18 of the Electricity Balancing Guideline (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.