CUSC Modification Proposal Form

CMP425: Billing Demand Transmission Residual By Site

Overview: The current charging of the Transmission Residuals is done by the Lead Party of a BMU. This means multiple customers at one transmission connection point who choose different Suppliers get multiple charges, discouraging competition in supply and leading to undue discrimination between different system users.

Modification process & timetable

1. **Proposal Form**
   24 October 2023
2. **Code Administrator Consultation**
   03 November 2023 - 10 November 2023
3. **Draft Final Modification Report**
   15 November 2023
4. **Final Modification Report**
   17 November 2023
5. **Implementation**
   01 April 2025

Status summary: The proposer is requesting this change is treated as urgent or via an accelerated timetable.

This modification is expected to have a:

High impact to parties on demand sites with multiple TO points that may wish to have separate Suppliers. **Low impact** on ESO's billing.

Proposer's recommendation of governance route	Urgent modification to proceed under a timetable agreed by the Authority (with an Authority decision)

Who can I talk to about the change?	**Proposer:** Andy Marsh Andrew.Marsh@nissan-nmuk.co.uk 0191 415 0000	**Code Administrator Contact:** Milly Lewis Milly.Lewis@nationalgrideso.com 07811036380

Contents

Contents **2**
What is the issue? **3**
Why change? 3
What is the proposer's solution? **4**
Draft legal text 4
What is the impact of this change? **4**
Proposer's assessment against CUSC Charging Objectives 4
Proposer's assessment of the impact of the modification on the stakeholder / consumer benefit categories 7
When will this change take place? **8**
Implementation date 8
Date decision required by 8
Implementation approach 8
Proposer's justification for governance route 8
Interactions **9**
Acronyms, key terms and reference material **9**
Reference material 9

What is the issue?

Under Section 14.17 of the CUSC Demand Charges are billed to the Lead Party of a Supplier BM Unit. Most TO connected demand sites only have one Supplier, so are effectively charged per site.

However, where a number of customers using the same connection capacity want to all have different Supplier they are each charged rather than the site being charged. For customers this incentivises them to have only one Supplier, reducing competition in supply to the detriment of customers. The intent of the Ofgem Targeted Charging Review was that the residual was charged per site.

Why change?

TO connected demand sites with multiple users at a given boundary point wish to choose their own Suppliers without being penalised and discriminated against by the CUSC charging arrangements.

At the current time 2 large customers connected at the same connection point will pay 2 x TD4 residual band, when if they share a Supplier, they only pay 1 x TD4 residual band. If they happened to be DNO connected they would pay EHV4 residual band. This means customers that are TO connected are charged more than DNO connected parties, despite using the same capacity, and are incentivised to have the same Supplier to keep costs down, limiting customer choice.

This has some further impacts, such as forcing the customers to compromise over the type of Supplier they must agree to. For example one customer may want green energy and another may not, but they forced to compromise with their neighbours to keep their total cost of supply down. For large energy users such as Nissan and AESC UK this is a critical cost in maintaining our competitiveness in international markets.

For larger customers there is often a very limited choice of Suppliers due to few being able to take on the risk of such demand. By allowing the parties to choose their own Suppliers this is likely to make it easier for each customer to find the right supplier to meet their business needs.

Nissan and AESC UK do not believe that bandings are meant to distort competition in the manner identified, as historically most TO connected customers have been interrelated customers, such as industrial gases and chemical, often located behind the meter of generation that provides secure supplies to critical UK manufactures. However, for Nissan and AESC UK new connection, that will not be the case, and the new customers on the site want to be able to choose their own Suppliers to best meet their own business needs.

Further, we suspect, now that the Energy Intensive Industries (EIIs) are no longer facing Final Consumption Levies (FCLs) and may benefit from transmission charges discounts, some of them may also now wish to seek third party supplies and have been discouraged by the transmission charging regime. This proposed rule change would therefore see them pay no more than their current proportion of transmission charges than they already face if they choose to move their demand into a Supplier BMU in their own right.

Were Nissan and AESC UK'S new site to be classed as an IDNO Nissan would be charged at EHV4 (as now), as would AESC UK, and in the longer term potentially other customers on our site. This would give - an aggregate charge of c.£2.5m between Nissan and AESC UK. However, the proposer believes that Ofgem is not comfortable

that TO connected sites can be IDNOs, so the sites will be on private network and will therefore have non-standard BSC metering aggregated up into a number of Supplier BMUs.

Nissan and AESC UK note that the current charging regime does create a significant distortion in competition by charging DNO and TO connected sites materially different residual charges despite the customer demand, and therefore use of the TO system, being identical. Nissan and AESC UK 's site operates 24/7 for all but 2 weeks in the year. They have never been able to do Triad management, DSR, etc. due to the nature of their business. Therefore the proposer struggles to understand why they are charged such different amounts for use of the same transmission capacity based on either their point of connection or their choice of Suppliers.

This change will have no impact on the total revenue ESO collects on behalf of the TOs, as each "site" will remain paying the same total charges. In fact a new site connecting, will reduce charges on customers, though not impacting the bandings for some years.

What is the proposer's solution?

The proposal is to alter section 14.17 Parties Liable for Demand Charges

Draft legal text

14.17.13 A Supplier BM Unit charges will be the sum of its energy, demand locational, Transmission Demand Residual and embedded export liabilities where:

- The Chargeable Demand Locational Capacity will be the average of the Supplier BM Unit's half-hourly metered gross demand during the Triad (and the £/kW tariff), and
- The Chargeable Embedded Export Capacity will be the average of the Supplier BM Unit's half-hourly metered embedded export during the Triad (and the £/kW tariff), and
- The Chargeable Energy Capacity will be the Supplier BM Unit's non half-hourly metered energy consumption over the period 16:00 hrs to 19:00 hrs inclusive every day over the Financial Year (and the p/kWh tariff).
- The Transmission Demand Residual charge for Final Demand Sites will be the sum of the number of sites per Charging Band as served by that Supplier BM Unit multiplied by the number of days the sites were served by that Supplier BM Unit and multiplied by the applicable Transmission Demand Residual Tariff £/site/day as determined in 14.15.141. Where a connection point has more than one Supplier BMU the charges will be divided between the relevant Supplier BMUs in proportion to their capacity usage, and
- The Transmission Demand Residual charge for Unmetered Supplies will be the sum of the forecast monthly volume of Unmetered Supplies per Charging Band as served by that Supplier BM Unit multiplied by the applicable UMS Tariff (p/kWh) as determined in 14.15.141.

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;	**Positive** By changing the way demand charges are levied customers will be no worse off by choosing their own suppliers. This will therefore add to competition for customers that are TO connected. It may also make it easier for them to get a good supply deal as they can then be specific to the customer type and also smaller, as getting quotes for very large demand sites is, in our experience, quite difficult.
(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);	**Positive** The initial intent of the residual charging arrangement was that each site paid for its capacity. This will ensure the site still pays, but that charge can be divided by multiple Suppliers.
(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;	**Positive** Given the changing nature of the transmission system users, it would appear to be of benefit to the TOs if more demand were to locate on the transmission system. Addressing this defect may help with that development in the longer term.
(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.	**Positive** The charging methodology will be improved by not distorting competition, though we appreciate that

	there may be systems changes required by ESO.
**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.	

Whilst acknowledging that there will be no formal assessment against the CUSC Non-Charging Objectives, the Proposer's considered there to have the following impacts	
Relevant Objective	**Identified impact**
(a) The efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence;	**Positive** All monopolies have a duty to act in such a manner as to facilitate competition and this mod would do that. They also have to construct and operate and efficient network and not discourage parties to connect to the TO may improve network usage and development in future.
(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;	**Positive** As explained, without this change Nissan and AESC UK will be forced to share a Supplier to save c.£4m per year. This is a barrier to competition that the mod would remove.
(c) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and	**Neutral**
(d) Promoting efficiency in the implementation and administration of the CUSC arrangements.	**Neutral**
*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.	

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	**Positive** Both AESC UK and Nissan would have a lower bill than if they choose to have their own Suppliers under the current arrangements. This does not mean that any other customers lose, but that the CUSC recognises that the residual was meant to be a "per site" charge and was not meant to penalise parties for choosing different Suppliers. The theoretical saving is c£4m, but the reality is that they would share a Supplier to avoid this cost. If Nissan and AESC UK are forced to share a Supplier, they will both faced increased costs as they will need to negotiate with each other and a Supplier. This seems to us likely to result in a suboptimal solution as they may have very different supply priorities and needs.
Benefits for society as a whole	**Positive** Nissan and AESC UK want to invest in the UK and will deliver 100s of skilled jobs in the North East, adding wealth to the local economy. The site will be building EVs that will be critical in meeting not only the UK's net zero ambitions, but also lowering global emissions as we export to other countries. Those exports also add billions of pounds to the UK balance of trade. The UK Government sees this site as critical to the expansion of the UK's green manufacturing base, as does the local authority, both of whom have been critical in supporting Nissan and AESC UK plans. Nissan and AESC UK would note that Ofgem's primary duty is to protect the interests of customers wherever possible by promoting competition in, amongst other things, supply of electricity. This modification would help fulfil this duty.
Reduced environmental damage	**Positive** By allowing Nissan and AESC UK to choose their own energy Suppliers we can work independently to develop energy arrangements that best meet the individual needs of our businesses. We both fully expect to be investing in on-site renewables, EV charging for car deliveries,

	potential purchases of renewable electricity supplies, etc. However, the companies would like to do this to best meet each companies' individual needs and timetables, not be forced into sharing a Supplier and all the associated costs of doing so.
Improved quality of service	**Positive** As noted above, Nissan and AESC UK expect that their business needs are different. Both parties will therefore get a better quality of service, to meet our business needs, if each of us can negotiate our own supply arrangements. This may mean different billing, longer or shorter contracts, investing with a supplier in on-site generation, etc. This is fundamentally about customer choice and economic theory is clear that competition delivers better value to customers than regulated markets, a fact the Energy Act 1989 reflects in its drafting.

When will this change take place?

Implementation date
The decision date is the urgency driver, however the implementation date should be as soon as practical, 01 April 2025

Date decision required by
Commercial considerations mean that a decision is needed in the coming weeks – more detail on timing is noted below.

Implementation approach
This may need to be a manual process for ESO's billing team. The proposer did seek their views before drafting the change and they indicated that this may be necessary, but possible given the limited number of TO connected demand sites that will be in this position.

Proposer's justification for governance route

Governance route: Urgent modification to proceed under a timetable agreed by the Authority (with an Authority decision)

Nissan and AESC UK are asking that the modification be treated as urgent. Our investments decisions are not yet finalised and transmission charges are now on the critical path. Our senior management teams therefore would ideally like to see this issue resolved before finalising their plans. As Ofgem is aware, Nissan and AESC UK had thought that the IDNO route would address our concerns, but Ofgem has been helpful in indicating that they were not comfortable that an IDNO is appropriate for a TO connected site. This has therefore become an urgent issue for these manufactures seeking to invest in the UK. This is therefore an imminent issue to Nissan and AESC UK with a significant commercial impact on our business plans.

An accelerated timetable is unlikely to provide the comfort required to the negotiating parties, either with Workgroups or if progressing straight to Code Administrator

Consultation. While we recognise that implementing the modification could come at a later date, the urgency of this modification is in the decision and understanding the direction of travel from relevant stakeholders, i.e. the Authority, CUSC Panel and industry parties (through consultation responses).

Ideally, the modification would be progress as Urgent Straight to Code Administrator Consultation, as this would enable the views of industry parties to be publicly available by 15 November 2023.

Note that the proposer has confirmed with Elexon that this mod does not impact the BSC. Further, it is not expected that this mod affects any other codes.

Interactions

☐Grid Code	☐BSC	☐STC	☐SQSS
☐European Network Codes	☐ EBR Article 18 T&Cs[1]	☐Other modifications	☐Other

Note that the proposer has confirmed with Elexon that this modification does not impact the BSC. Further, it is not expected that this modification affects any other codes.

Acronyms, key terms and reference material

Acronym / key term	Meaning
BSC	Balancing and Settlement Code
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
T&Cs	Terms and Conditions
BMU	Balancing Mechanism Unit
ESO	Electricity System Operator
TO	Transmission Operator
DNO	Distribution Network Operator
EII	Energy Intensive Industries
FCL	Final Consumption Levies
IDNO	Independent Distribution Network Operator
DSR	Demand Side Response
EV	Electric Vehicle

Reference material

- Add links to reference material

[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.