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| Workgroup Consultation | | | |
| **CMP425:**  **Billing Demand Transmission Residual By Site**  **Overview:** This is to provide clarity where multiple customers at one transmission connection point who choose different Suppliers are each charged by get multiple charges, discouraging competition in supply and leading to undue discrimination between different system users. | | **Modification process & timetable**    **Proposal Form**  24 October 2023  **Workgroup Consultation**  10 November 2023- 15 November 2023  **Workgroup Report**  22 November 2023  **Code Administrator Consultation**  24 November 2023 – 29 November 2023  **Draft Final Modification Report**  17 November 2023  **Final Modification Report**  06 December 2023  **Implementation**  01 April 2025  **1**  **2**  **3**  **4**  **5**  **6**  **7** | |
| **Have 5 minutes?** Read our [Executive summary](#_Executive_summary_1)  **Have 20 minutes?** Read the full [Workgroup Consultation](#_Why_change?)  **Have 60 minutes?** Read the full Workgroup Consultation and Annexes. | | | |
| **Status summary:** The Workgroup are seeking your views on the work completed to date to form the final solution to the issue raised. | | | |
| **This modification is expected to have a: High Impact** to parties on demand sites with - TO connection(s) that may wish to have separate Suppliers.  **Low impact** on ESO’s billing. | | | |
| **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](mailto:Andrew.Marsh@nissan-nmuk.co.uk)  0191 415 0000 | | **Code Administrator** **Chair**:  Milly Lewis  [Milly.Lewis@nationalgrideso.com](mailto:Milly.Lewis@nationalgrideso.com)  07811036380 |
| **How do I respond?** | Send your response proforma to[cusc.team@nationalgrideso.com](mailto:cusc.team@nationalgrideso.com) **by 5pm on 15 November 2023.** | | |

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# Executive summary

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.

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.

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

**Proposer’s solution:** To amend 14.17.13 of the CUSC, and other minor consequential amendments.

**Implementation date:** 01 April 2025.

**Summary of potential alternative solution(s) and implementation date(s):**

*Summary of any alternatives that have been discussed/raised (1-3 sentences).*

What is the impact if this change is made?

This modification is expected to have a high impact to parties on demand sites with TO connection(s) that may wish to have separate Suppliers and a low impact on ESO’s billing.

Interactions

This modification has no interaction with other modifications or industry wide work.

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, the specific 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 manufacturers. 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, the Proposer suspects, now that 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 solution?

## Proposer’s solution

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

The Proposer’s initial solution was to amend 14.17.1 of the CUSC, however at the CUSC Panel on 27 October 2023, the Panel provided feedback to the Proposer that proposed change would be better reflected within 14.17.13. The Proposer took this feedback and subsequently amended their proposed legal text ahead of being submitted to Ofgem as part of the request for urgency. Both Proposal forms can be found in Annex 1.

Workgroup considerations

The Workgroup convened two times to discuss the perceived issue, detail the scope of the proposed defect, devise potential solutions, and assess the proposal in terms of the Applicable Code Objectives.

**Transmission Charging Review (TCR) and CMP425 Scoping**

The Workgroup discussed the link between the [Targeted Charging Review (TCR)](https://www.ofgem.gov.uk/sites/default/files/docs/2019/11/cusc_direction_1.pdf), published by the Authority in November 2021. Where the Authority directed the ESO to bring forward modification proposals around Residual Charges and confirmed that Transmission Demand Residual (TDR) charges should be levied on a ‘per site’ basis.

The subsequent TDR modifications were implemented into the CUSC on 1 April 2023[[1]](#footnote-2).

The Workgroup noted that the Distribution Connection and Use of System Agreement (DCUSA) DCP328 – Use of system charges for private networks with competition in supply modification took 5 years to progress and was rejected by the Authority due to too many complex issues trying to be addressed within one modification.

The Workgroup agreed that whilst CMP425 was looks to address a similar issue, the difference between the modifications, is that with CMP425 has Urgency status and that to meet the approved timeline the solution needs to be precise and as unconvoluted as possible.

**Connection Point versus Connection Site**

Initially the Proposer’s solution referred to where a connection point has more than one Supplier Balancing Mechanism Unit (BMU), through Workgroup discussion it was agreed to be changed to ‘Connection Site’ as this is a defined term within the CUSC and better represented the Proposer’s intent.

**Capacity Usage versus Consumption Usage**

The Proposer was clear that the intent of the modification was to promote competition and that the charges should be split proportionally based on the consumption data supplied via the Balancing Settlement Code (BSC). However, the solution initially referred to dividing between the relevant Supplier BMUs in proportion to their capacity usage.

Due to this a Workgroup member questioned what parameters were being proposed to split the proportions of capacity usage. They explained that on distribution, there is a maximum demand value which is expressed in the Connection Agreement, meaning there can only be one site to per Connection Agreement. Therefore, the split would need to be done in ratios of capacities and if so, there would need to be a way of identifying the capacities.

A Workgroup member explained that the T bands are set by consumption, not capacity, so the consumption value is the ratio that would be used, and it was agreed that the solution should be based on consumption usage rather than capacity.

The Workgroup noted that to allocate the charges of the overall band to a site, the idea of proportioning by volume is a pragmatic approach but this would need to be an annual exercise to proportion the Connection Site residual according to the User's consumption.

**Codifying the Proportionality of Consumption Usage**

The Workgroup discussed, baring the learnings from DCP328 in mind, whether codifying how charges should be divided was practical within the Urgent timeline.

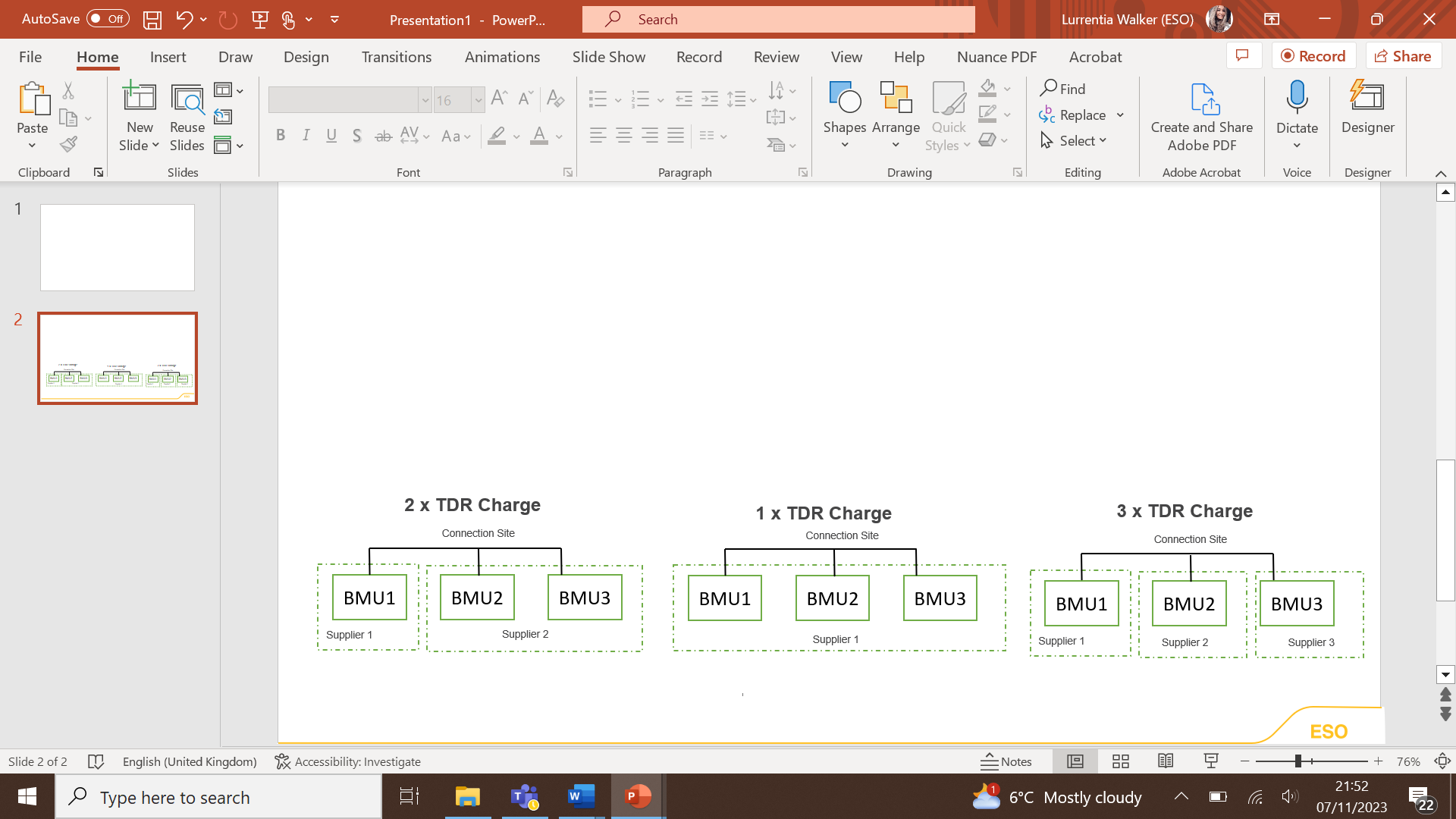
Some Workgroup members suggested that the proportionality of charges should be left to be part of contracting between the Supplier and relevant parties; and that this had commonality with Bilateral Contract Agreements (BCAs) and not doing so would remove the flexibility for customers.

However, the Proposer disagreed, stating that the proportionality should be based on consumption data as the likelihood of Suppliers openly sharing info with their Users was slim. Where suppliers are willing to share data, the Proposer suggested other commercial arrangements could be made separate to the charging by the ESO. Confirming that this modification has arisen from where two customers on the same Connection Site want different types of supply deals and therefore want very clear rules on how the connection will work and how they will each be billed.

And that in most cases the differences between Generator owned sites and TO connected Demand sites are that the former has a separate connections company and are managed as network companies, so parties can share a Supplier.

**ESO Views**

The ESO representative provided the Workgroup with an explanation on the current processes in relation to TDR charges.



The ESO representative explained that, where there are multiple Balancing Mechanism Units (BMU) behind one “connection site” there is one charge, with the TDR being billed to the Supplier and not by BMU.

They stated that introducing multiple Suppliers at the same site introduces practical issues with how the charge is levied, and as they are unaware of any of these sites currently the billing system is only set up to operate as shown in the middle diagram above.

Any change to this would, in the short term need to be a manual workaround and longer-term be a system change. However, the ESO questioned if doing this would set any precedent or wider implications. The ESO representative confirmed there is currently no example of this, but they were concerned that parties would use any change to game the system. Workgroup members disputed this stating that this the risk exists with the current system, which had been considered in the previous TDR modifications.

**Residual Banding and Allocation of charges**

[Insert information and provide examples]

**ESO Billing System Impacts and Potential Workarounds**

The Proposer confirmed that the ESO receives meter data associated with BMUs from the Balancing Settlement Code (BSC). Where BMUs at a Connection Site have different Suppliers, these could be flagged (manually or otherwise) to have the TDR shared across them.

The cost of any change to the ESO billing system and the time required to implement this is believed to be dependent on whether the charges are variably shared (i.e., based on consumption per BMU), a shared average (i.e., divisible by the number of affected BMUs on a Connection Site) or Supplier allocated (i.e., Suppliers to decide the split). The Proposer reiterated that their solution was based on consumption per BMU.

[Insert estimates]

**Complex Sites**

The Ofgem Urgency letter comments that the extent of the impact of this modification at proposal stage was uncertain, particularly for complex sites.

Within the Workgroup it was confirmed that complex sites should be considered as sites that do not sit within one category, for example, factory and battery would be a complex site as battery demand would not contribute towards their TDR band.

The Proposer stated that by this definition all TO connected sites could be classed as complex as there will be variations of categories on sites, therefore the modification offers the ability to have more options when tendering for Suppliers.

**Additional Stakeholder Engagement**

To raise CMP425, the Authority agreed that Nissan Motor Manufacturing (UK) Limited (NMUK) and AESC (UK) were materially affected parties. As it is likely that most parties impacted by this modification are similarly not Schedule 1 CUSC Users, additional efforts have been made by the Proposer and the Code Administrator to proactively engage with interested parties to ensure that the consultation stages are effective as possible.

These include Octopus, Conrad, Centrica, Tees Works, Dragon LGN, INEOS Chlor Energy Ltd, Energy Intensive User’s Group (EIUG), ICoSS, Government Procurement Office

Chemical Industries Association (CIA), Utility Consumers Consortium, Tata Steel Europe,

Scottish Government Procurement Directorate, Major Energy Users’ Council, and Utilities Intermediaries Association (UIA).

**Workgroup consultation question: Do you consider your organisation to be impacted by this modification?**

## Draft legal text

The draft legal text for this change can be found in Annex 4.

What is the impact of this change?

## Proposer’s assessment against Code Objectives

|  |  |
| --- | --- |
| 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. | |

**Standard Workgroup consultation question:** Do you believe that CMP425 Original proposal better facilitates the Applicable Objectives?

When will this change take place?

### Implementation date

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.

**Standard Workgroup consultation question:** Do you support the implementation approach?

Interactions

|  |  |  |  |
| --- | --- | --- | --- |
| ☐Grid Code | ☐BSC | ☐STC | ☐SQSS |
| ☐European Network Codes | ☐ EBR Article 18 T&Cs[[2]](#footnote-3) | ☐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.

The Workgroup discussed if CMP425 has any impacts on the Electricity Balancing Regulation (EBR) and agreed unanimously that this modification has no impacts.

How to respond

## Standard Workgroup consultation questions

1. Do you believe that the Original Proposal and/or any potential alternatives better facilitate the Applicable Objectives?
2. Do you support the proposed implementation approach?
3. Do you have any other comments?
4. Do you wish to raise a Workgroup Consultation Alternative request for the Workgroup to consider?

## Specific Workgroup consultation questions

1. Do you consider your organisation to be impacted by this modification?

The Workgroup is seeking the views of CUSC Users and other interested parties in relation to the issues noted in this document and specifically in response to the questions above.

Please send your response to [cusc.team@nationalgrideso.com](mailto:cusc.team@nationalgrideso.com) using the response pro-forma which can be found on the [CMP425 modification page.](https://www.nationalgrideso.com/industry-information/codes/cusc/modifications/cmp425-billing-demand-transmission-residual-site)

In accordance with Governance Rules if you wish to raise a Workgroup Consultation Alternative Request, please fill in the form which you can find at the above link.

*If you wish to submit a confidential response, mark the relevant box on your consultation proforma. Confidential responses will be disclosed to the Authority in full but, unless agreed otherwise, will not be shared with the Panel, Workgroup, or the industry, and may therefore not influence the debate to the same extent as a non-confidential response.*

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

* [www.ofgem.gov.uk/publications/decision-dcusa-modification-proposal-dcp328](http://www.ofgem.gov.uk/publications/decision-dcusa-modification-proposal-dcp328)
* [Transmission connected sites residual charging bands](https://www.nationalgrideso.com/document/292631/download)
* [CUSC Direction (ofgem.gov.uk)](https://www.ofgem.gov.uk/sites/default/files/docs/2019/11/cusc_direction_1.pdf)
* [CMP335&CMP336: Transmission Demand Residual - Billing and consequential changes to CUSC Section 3 and 11 (TCR)’ & CMP336 'Transmission Demand Residual - Billing and consequential changes to CUSC Section 14 (TCR)](https://www.nationalgrideso.com/industry-information/codes/cusc/modifications/cmp335cmp336-transmission-demand-residual-billing-and)
* [CMP343 and CMP340: 'Transmission Demand Residual bandings and allocation for 1 April 2022 implementation (CMP343)' and 'Consequential changes for CMP343 (CMP340)'](https://www.nationalgrideso.com/industry-information/codes/cusc/modifications/cmp343-and-cmp340-transmission-demand-residual)
* [CMP363 & CMP364: TNUoS Demand Residual charges for transmission connected sites with a mix of Final and non-Final Demand & Definition changes for CMP363](https://www.nationalgrideso.com/industry-information/codes/cusc/modifications/cmp363-cmp364-tnuos-demand-residual-charges)
* [CMP388: Transmission Demand Residual (TDR) Minor Clarifications](https://www.nationalgrideso.com/industry-information/codes/cusc/modifications/cmp388-transmission-demand-residual-tdr-minor)
* [CMP389: Transmission Demand Residual (TDR) band boundaries updates](https://www.nationalgrideso.com/industry-information/codes/cusc/modifications/cmp389-transmission-demand-residual-tdr-band)

Annexes

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| --- | --- |
| **Annex** | **Information** |
| Annex 1 | Proposal forms |
| Annex 2 | Urgency letters |
| Annex 3 | Terms of reference |
| Annex 4 | Draft Legal Text |
| Annex X |  |
| Annex X |  |
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1. See ‘Reference Material’ for the suite of the Transmission Demand Residual modifications. [↑](#footnote-ref-2)
2. 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. [↑](#footnote-ref-3)