CMP295 'Contractual Arrangements for Virtual Lead Parties (Project TERRE)'

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses by **8 February 2019** to cusc.team@nationalgrid.com. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup

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Respondent:	Rick Parfett, 0203 031 875, rick.parfett@theade.co.uk
Company Name:	The Association for Decentralised Energy (ADE)
Do you believe that the proposed original better facilitate the Applicable CUSC Objectives? Please include your reasoning.	The original better facilitates Applicable CUSC Objectives (a), (d) and (e) than the baseline. It facilitates (a) because it allows implementation of TERRE and independent BM access, which will facilitate competition. It facilitates (d) by implementing TERRE in the UK, ensuring consistency with the EBGL. It facilitates (e) by providing a means of ensuring that VLPs are compliant with their obligations under the CUSC.
Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.	The ADE supports the proposed implementation approach and highlights the importance of ensuring that VLPs have enough time to accede to the CUSC in advance of TERRE's go-live data of Q4 2019.
Do you have any other comments?	The Workgroup should ensure that potential VLPs are represented at any future workgroups.
Do you wish to raise a Workgroup Consultation Alternative request for the Workgroup to consider?	No

Specific questions for CMP295

Q	Question	Response

Q	Question	Response
5	Do you have any specific comments on the proposed wording of the bi-lateral agreements	It is important that the wording takes into account any implications of the potential implementation of BSC modifications P375 and P376
		It is unclear why there is a requirement to be manned and ready for communication with National Grid on a 24/7 basis, given that some VLPs are likely to only offering balancing services for part of the day. It may be more appropriate for the requirement to be altered to being manned and ready for communication at any time that they are offering balancing services
		The specification that operators must use PSTN facilitates for voice communication with National Grid fails to take into account that this network is expected to shut down in the coming years. It may make sense to specify an alternative to this requirement.
		The requirement that meters have 1% accuracy is disproportionate for operational metering accuracy, meaning that it will be higher accuracy than settlement metering in many cases. Aligning the accuracy requirements with those in the metering codes of practice is a more appropriate solution.

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Respondent:	Andrew Colley andrew.colley@sse.com 01189534276	
Company Name:	SSE plc	
Do you believe that the proposed original better facilitate the Applicable CUSC Objectives? Please include your reasoning.	Yes. SSE agree that a modification is required to support the introduction of Project TERRE within GB Trading Arrangements, complementary to approved modifications P344 and GC0097.	
	SSE agree that there is a need for the GBESO to introduce a contractual mechanism that binds VLPs to Grid Code obligations introduced by GC0097 that allows GBESO to take effective action in the event of non-compliance.	
	SSE agree, in line with P344 and GC0097, that it is appropriate that a lighter touch approach be applied to VLPs acceding to the CUSC, which ensures that only relevant parts of the Code become applicable.	
	In principle, SSE would prefer to see the Terms & Conditions required to bind VLPs to the CUSC, and their obligations under the Grid Code, wholly set out within the body of the Code itself rather than set out in a bilateral contract/exhibit to the CUSC.	
	Notwithstanding this preference, the new exhibit for VLPs should not allow any bilateral/negotiated agreement to vary terms and conditions, in line with EBGL requirements. All terms and conditions must remain standard and transparent (we highlight some concerns in this respect in response to Q5 below). Any variance should be limited to the list of technical assets	

	Comprising the Secondary BM Unit. On balance, SSE believes that the original proposal better facilitates ACOs (b), (c) and (d) for the reasons set out by the Proposer.
Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.	Yes.
Do you have any other comments?	Given that this Modification concerns the terms and conditions related to balancing, we would remind the TSO of their legal obligations in respect of Articles 4, 5, 6 and 10 of EBGL and in particular the need for them to follow the procedure set out in Article 6(3). In regard to associated CUSC changes we would remind the TSO of the legal certainty that they have identified with the Option 1 and Option 2 approach in the paper, concerning Grid Code and CUSC changes, produced last Autumn.
Do you wish to raise a Workgroup Consultation Alternative request for the Workgroup to consider?	

Specific questions for CMP295

Q	Question	Response
5	Do you have any specific comments on the proposed wording of the bi-lateral agreements	Yes *** [SEE BELOW]

The proposed wording of the 'bi-lateral' agreement is incompatible with EBGL and in particular the terms and conditions related to balancing required in accordance with Article 18 (and the approval / amendment procedures set out in Articles 4, 5, 6 and 10) for balancing service providers (BSPs) and balance responsible parties (BRPs). For the avoidance of doubt, this includes Users who, according to CMP295, would be VLPs.

The proposed VLPA relates to a 'Standard Product' within the meaning given to that in EU law – Article 2(28) of EBGL.

As Annex 1 to the TSO's proposal of 18th June 2018 submitted to the NRA set outs, Project TERRE related matters fall wholly within the vires of the terms and conditions related to balancing which the TSO is legally required to produce and operate to and, if appropriate, it can only seek amendment to via the explicit procedure set out in Article 6(3) of EBGL.

The TSO (or the VLP) does not have the vires to amend such terms and conditions related to balancing (and neither does the NRA have the power itself to delegate its – NRA – powers in this matter to the TSO) without following the amendment procedure in Articles, 4, 5, 6 and 10 of EBGL.

By way of evidence for this we would refer the Workgroup to Ofgem's letters of 11th December 2018 to the BSC Panel and 4th February 2019 (concerning amending the TSO's 18th June 2018 proposal) – see for example:

"once we are confident that the Article 18 submission is robust that we [Ofgem] would approve it and that the existing provisions in the current regulatory framework would become the official terms and conditions related to balancing as referred to in Article 18 EBGL. At this stage, we expect that any amendment to those terms and conditions would comply with the amendment processes set in the EBGL." [emphasis added]

and

"The relevant provisions required for compliance with Article 18, need to be transposed into the GB network codes so that we [Ofgem] can have a clear and transparent role in approving and amending them in the future." [emphasis added]

Therefore, the proposed wording will need to be changed to ensure legal compliance. Failure to do so will render the TSO vulnerable to acting in a way that is incompatible with EU law. In this regard we are mindful that even if the current wording in CMP295 were to be approved by the NRA (which, for the legal reasons we here note, is highly unlikely) this would not prevent the risk of legal action, on the ground of non-compliance with the primary law (namely in this case EU law) being taken against the TSO.

In particular, we would note the following seven specific items in the proposed legal text:

Firstly

"2.1.1 **The Company** and / or the **User** as appropriate having received the derogations (if any) required in respect of the Grid Code."

We would remind the Workgroup of the statement from the Authority in it's 11th December 2018 letter¹, in answering question 2, namely:

"Article 62 EBGL does not provide the ability to derogate from the obligation set in Article 18."

¹ https://www.elexon.co.uk/documents/change/modifications/p351-p400/auto-draft-5/

Therefore we do not believe that it is legally possible for either the TSO or the User to seek, or obtain, any derogation(s) from the Grid Code in respect of any requirements associated with the terms and conditions related to balancing.

Secondly

"3.2The data fields, format, frequency and method of submission from the **User** to **The Company** shall be agreed between the parties acting cooperatively and reasonabily."

For the reasons noted elsewhere in this response, it is not possible for the TSO and the User to agree different data fields, format, frequency and method of submission than the harmonised and transparent requirements that all providers of the Project TERRE Standard Product are; in accordance with the obligations set out in the terms and conditions related to balancing; required to comply with.

Furthermore, allowing the TSO and the User to agree differences would be granting those parties the power to derogate from the EBGL Article 18 requirements which, as we have noted above, is not permitted by any party – even the NRA cannot grant a derogation in respect of Article 18 matters.

Notwithstanding the above, allowing the TSO and the User to agree such differences would also affect cross border trade (which would be incompatible with Article 8(7) of Regulation 714/2009) and be determinantal to competition (in contravention of the Treaties of the Union) as it would place the User in an advantageous (or, less likely, disadvantageous) position compared to other market participants that are all providing Project TERRE bids both within GB but, just as importantly, also within other Member States.

In addition to the above, as this proposed wording relates to data provision for balancing services under EBGL this means that the requirements of SOGL are relevant to this CMP295 proposal. In this respect we would reiterate the need to fully comply with the obligations, in SOGL, as regards the TSO having to apply a common minimum requirement for data. Variations to the common minimum requirements for data, as proposed by CMP295, could be said therefore to be incompatible with SOGL.

Finally, given that the TSO and / or NRA can be considered to be emanations of the state, the provision of such an advantage to one (or more) User(s) could amount to State Aid.

In this regard, we refer the Workgroup to the European Commission's webpage² on State Aid and in particular we would bring to the Workgroup's attention:

"A company which receives government support gains an advantage over its competitors."

And

² http://ec.europa.eu/competition/state_aid/overview/index_en.html

"State aid is defined as <u>an advantage in any form whatsoever conferred on a selective basis</u> to undertakings by national public authorities." [emphasis added]

For the avoidance of doubt, allowing an undertaking (such as a VLP) an advantage in the form of the data fields, format, frequency and method of submission, when compared to other undertakings, would clearly fall within this State Aid definition.

As an aside, we would also remind the TSO of it's Licence obligations to comply with the CUSC and in particular, as it relates to them exercising Good Industry Practice³. Why as a "skilled and experienced operator engaged in the same type of undertaking under the same or similar circumstances" would the TSO place different requirements on different Users where they are all engaged in providing the same balancing service, namely the Project TERRE Standard Product, under the same or similar circumstances?

Thirdly

"4.2where **The Company** reasonably requires such compliance and has specified such a requirement in respect of such **Generating Units** and/or **Demand Control** in this **VLPA**."

We note that the TSO is obliged by Article 18 of EBGL to set out all the necessary requirements concerning balancing in the context of Standard (and Specific) Products in the terms and conditions related to balancing in it's Article 18 EBGL proposal to the Authority (which it did on 18th June 2018).

It is not possible for the TSO to apply (or dis-apply) secret, special requirements (in a discriminatory manner) on one (or more) User(s) without this being part of the terms and conditions related to balancing. Therefore the TSO will need, in the CMP295 proposal, to ensure that the requirements in respect of Generating Units and / or Demand Control Users are applied to all.

Fourthly

"5.4 Subject to clause 7.1, if the **User** or **The Company** wishes to modify alter or otherwise change the technical conditions or the manner of their operation under Appendix F5 to this **VLPA** this shall be deemed to be a **Modification** for the purposes of the **CUSC**."

For the detailed reasons we have already provided under the first, second and third points above, it is not possible for the User or the TSO to modify, alter, or otherwise change the technical (or other, non-technical) requirements or the manner of their operation as they form the terms and conditions related to balancing.

To do otherwise (as this wording in 5.4 suggests) would mean that the TSO would be acting in a non-harmonised, non-transparent and discriminatory manner.

³ Defined in Section 11 of the CUSC as "in relation to any undertaking and any circumstances, the exercise of that degree of skill, diligence, prudence and foresight which would reasonably and ordinarily be expected from a skilled and experienced operator engaged in the same type of undertaking under the same or similar circumstances"

Furthermore, it would also leave the User who relied on any such 'Modification' with no legal certainty.

That having been said, we would remind the Workgroup that amendments to the terms and conditions related to balancing are, of course, permitted as long as they comply with the procedure noted in Article 6(3) EBGL; which Ofgem also referred to in a number of places in its letters of 11th December 2018 and 4th February 2019⁴.

Fifthly

"7.2 **The Company** and the **User** shall effect any amendment required to be made to this **VLPA** by the **Authority** as a result of a change in the **CUSC** or the **Transmission Licence**, an order or direction made pursuant to the **Act** or a **Licence**, or as a result of settling any of the terms hereof. The **User** hereby authorises and instructs **The Company** to make any such amendment on its behalf and undertakes not to withdraw, qualify or revoke such authority or instruction at any time."

Whilst we have sympathy with the principle of this proposed wording, we would remind the TSO that amendments to the terms and conditions related to balancing have to follow the procedure set out in Article 6(3) of EBGL. This cannot be circumvented via any bi-lateral agreement even if (which we do not believe will happen) Ofgem were to somehow agree to this by approving the currently proposed wording of the VLPA in this consultation.

On a related matter, we are mindful that such amendments may have arisen from, for example, a CUSC or Transmission Licence change and; as we detailed in our reasoning⁵ concerning the Option 1 and Option 2 approach in our P374 submission; there are options as to how this can be legally achieved in a way that complies with the procedure set out in Article 6(3) of EBGL.

Sixthly

"7.3 **The Company** has the right to vary Appendix F5 to this **VLPA** to reflect any changes necessary in the event of change to the documents or standards referred to in Appendices F5."

For the reasons detailed in the five points above, it is not legally possible for the TSO to unilaterally vary the conditions or requirements in respect of terms and conditions related to balancing. The only way this can be achieved is by way of the procedure set out in Article 6(3) of EBGL.

Seventh

https://www.ofgem.gov.uk/system/files/docs/2019/02/article_18_request_for_amendment -___04.02.19__0.pdf

⁵ https://www.elexon.co.uk/documents/change/modifications/p351-p400/article-10-ebgl-and-bsc-modification-procedures-approaches/

In light of the detailed comments made in the preceding six points, the wording in 7.1. of the proposed legal text needs to be amended and we have provided appropriate changes below:

"7.1 Subject to 7.2 and 7.3, n No variation to the terms and conditions in this VLPA is permitted. Variations to the list of the Users' site(s) / location(s) covered by this VLPA shall not be effective unless made in writing and signed by or on behalf of both The Company and the User."

[end]

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Respondent:	Graeme Dawson	
	m: 07713 332952 e: graeme.dawson@npower.com	
Company Name:	npower Business Solutions	
Do you believe that the proposed original better facilitate the Applicable CUSC Objectives? Please include your reasoning.	 We believe that the proposed original better facilitates Applicable CUSC Objectives (a), (d) and (e) than the baseline: Facilitating (a) because it allows implementation of TERRE and independent BM access, which will facilitate competition. Facilitating (d) by implementing TERRE in GB, ensuring consistency with the requirements of the European Balancing Guideline (EBGL). Facilitating (e) by providing a means of ensuring that Virtual Lead Parties (VLPs) are compliant with their obligations under the CUSC. 	
	For reference, the Applicable CUSC Objectives for the Use of System Charging Methodology are:	
	((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;	
	(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); (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;	
	(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency. These are defined within the National Grid Electricity Transmission plc Licence under Standard Condition C10, paragraph 1*; and	
	(e) Promoting efficiency in the implementation and administration of the CUSC arrangements.	
	*Objective (d) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).	
Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.	npower Business Solutions supports the implementation approach proposed and note that we recognise that VLPs have adequate time to accede to the CUSC in advance of the expected TERRE go-live date in December 2019. We would encourage the Code Administrator to consider the make-up of this (and other) working group(s) to ensure that there is appropriate representation from across the industry – extending invitations beyond the conventional thermal generators, to include suppliers and also the independent aggregators (or their representative Trade Associations i.e. the ADE and Energy-UK).	
Do you have any other comments?		
Do you wish to raise a Workgroup Consultation Alternative request for the Workgroup to consider?	-	

Specific questions for CMP295

Q	Question	Re	sponse
5	Do you have any specific comments on the proposed wording of the bi-lateral agreements	1.	We would emphasise the importance that the content takes account of the potential implementation of BSC modifications P375 and P376
		2.	We note the requirement for DSR operators to be manned and ready for communication with National Grid on a 24/7 basis, given that several entities operating in this space intend only to offer balancing services for part of the day we would suggest that it would be more appropriate for the requirement to reflect the need to manned and ready for communication during any periods that providers are offering balancing services
		3.	We would request further information as to why there is a requirement for +/-1% metering accuracy which appears to be at a higher accuracy than settlement metering.

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Respondent:	Saskia Barker, 0131 221 2241, saskia.barker@flexitricity.com	
Respondent.	Saskia barker, 0131 221 2241, Saskia.barker @ilexitricity.com	
Company Name:	Flexitricity Limited	
Do you believe that the proposed original better facilitate the Applicable CUSC Objectives? Please include your reasoning.	Yes, the original better facilitates Applicable CUSC Objectives (b) – because implementing the TERRE solution will open the BM to new parties, facilitating competition. It also better facilitates objective (c) as it implements TERRE in GB, which is part of the EBGL.	
Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.	Yes. It is important that implementation is aligned with the BSC introduction of VLPs and TERRE go-live in late 2019. The implementation should ensure that VLPs have enough time to accede to the CUSC before TERRE go-live.	
Do you have any other comments?	As noted in the consultation report, it would improve the solution if the Workgroup looked to make sure that in future some members of the workgroup were potential VLPs or at least non-BM balancing services providers.	
Do you wish to raise a Workgroup Consultation Alternative request for the Workgroup to consider?	No	

Specific questions for CMP295

Q	Question	Response
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Q	Question	Response
5	Do you have any specific comments on the proposed wording of the bi-lateral agreements	In Appendix F5 – Schedule 2, the reference to 1% meter accuracy will mean in some cases that the operational metering accuracy requirement is greater than that of the settlement metering. That doesn't seem proportionate for small sites. I would suggest aligning the accuracy requirements with those in the metering codes of practice.
		In Appendix F5 - Schedule 1, it says the operator must use PTSN facilities. BT looks to be shutting down the PTSN network in the next few years, asking providers to use a communication network that is soon to be discontinued is not practical or future proof.
		Since VLPs may offer balancing services during parts of the day, rather than being required to offer the services 24/7 is the requirement that the VLP be manned and ready for communication from National Grid 24/7 necessary? Would a requirement that the VLP be manned and ready for communication at any time they are offering balancing services make more sense?

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Respondent:	Paul Troughton 07470 430018 paul.troughton@enel.com	
Company Name:	Enel X	
Do you believe that the proposed original better facilitate the Applicable CUSC Objectives? Please include your reasoning.	We believe that CMP295 is better than the baseline at facilitating objectives (a), (c), and (d), to the extent that it is necessary to allow participation by Virtual Lead Parties (VLPs) in the Balancing Mechanism and Project TERRE.	
Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.	Yes. If this modification is necessary to allow VLPs to participal then it should be implemented as soon as possible, so that potential VLPs can complete all the necessary processes in time for the go-live of Project TERRE.	
Do you have any other comments?	This process was not well publicised amongst potential VLPs – many of whom do not have regulatory staff sufficiently large to follow all CUSC, Grid Code, and BSC activity. We recommend that more intensive outreach efforts be undertaken for future modifications that are similarly important to parties who are not yet participants.	
Do you wish to raise a Workgroup Consultation Alternative request for the Workgroup to consider?	No.	

Q	Question	Response
5	Do you have any specific	Clause 3.2: There is no mention in this
	comments on the proposed	agreement of the process for the User to
	wording of the bi-lateral	maintain their portfolio by adding or removing
	agreements	Boundary Point Metering Systems. This is a
		routine part of the business of an aggregator as
		customers' capabilities change, or different
		aggregators succeed in competing for their
		business. To be practicable, this must be a
		quick and simple process – not something that
		requires a variation to the agreement.
		Clause 4.1: The word "relevant" is mis-spelled.
		Appendix F5, Item 5 and Schedule 1: In this day
		and age, is it really appropriate to require the
		provision and maintenance of fax machines? If
		an additional mode of communication besides
		EDL, System Telephony, and Control
		Telephony, then email would seem an obvious
		choice.
		 Appendix F5, Schedule 2: It may be worth
		considering whether 1.0% accuracy is actually
		necessary for operational metering. We cannot
		see any justification for requiring operational
		metering to be more accurate than settlement
		metering.
		It would be prudent to consider what degree of
		metering error could actually make a material
		difference to the ESO's dispatch decisions, and
		to set the accuracy requirements to be just
		slightly better than that. Any tighter accuracy
		requirements would be needlessly expensive,
		undermining efficiency. We suspect that this
		exercise would find that 2.5% accuracy would
		suffice, particularly when dealing with small sites.
		วแฮง.
		 It would be prudent to carry out the final drafting
		with BSC modifications P375 and P376 in mind,
		to avoid having to revise the agreements to
		accommodate submetering and baselining.
<u> </u>		