

Modification proposals:	<b>Connection and Use of System Code (CUSC): 'Introduction of a new Relevant Interruption Type' (CMP235) and 'Clarification of when Disconnection Compensation payments can be expected under a Relevant Interruption' (CMP236)</b>		
Decision:	The Authority <sup>1</sup> directs that WACM3 in respect of these modification proposals be made <sup>2</sup>		
Target audience:	National Grid Electricity Transmission PLC (NGET), Parties to the CUSC, the CUSC Panel and other interested parties		
Date of publication:	15 July 2015	Implementation date:	10 Working Days after the Authority decision

## Background

Under Section 5.10 of the Connection and Use of System Code (CUSC)<sup>3</sup>, generators can claim compensation in the event of a "Relevant Interruption".

Therefore, when a transmission issue, which is not the fault of a generator, results in the disconnection of a Balancing Mechanism Unit<sup>4</sup> (BMU) from the national electricity transmission system (NETS), the generator is able to claim an "Interruption Payment" (financial compensation for having had its service interrupted).

In practice, the affected users request compensation by submitting a claim to the System Operator, National Grid Electricity Transmission (NGET). NGET is responsible for determining if the interruption falls within what is defined as a Relevant Interruption under the CUSC and, if so, the level of compensation appropriate to that interruption. The costs of these payments are passed through Transmission Network Use of System (TNUoS) charges to market participants. NGET is also required to report on the claims process to the CUSC Panel.

Currently, the CUSC does not distinguish between import and export BMUs in respect of Relevant Interruptions, referencing "where a BMU is deenergised" in establishing the criteria for Relevant Interruptions. In addition, it does not consider when a generator disconnects itself for safety reasons when the NETS is being operated by NGET outside of standard conditions (the technical parameters set out in the Grid Code) as a Relevant Interruption.

## The modification proposal

CMP235 and CMP236 (the modification proposals) were raised in September 2014 by EDF Energy (the proposer). In these proposals, the proposer sought to correct what it considered to be a lack of clarity in the CUSC about what constitutes a Relevant Interruption, and therefore when an Interruption Payment can be claimed.

CMP235 proposes to amend the definition of Interruption in the CUSC to include a new form of Relevant Interruption. The proposal would extend how Interruption is currently defined so that if a generator self-disconnects from the NETS, due to the system being

<sup>1</sup> References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

<sup>2</sup> This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

<sup>3</sup> <http://www2.nationalgrid.com/uk/industry-information/electricity-codes/cusc/the-cusc/>

<sup>4</sup> Balancing Mechanism (BM) Units are used as units of trade within the Balancing Mechanism. Each BM Unit accounts for a collection of plant and/or apparatus, and is considered the smallest grouping that can be independently controlled.

operated outside of the technical parameters set out in the Grid Code (Emergency Deenergisation by a User), it would be able to apply for an Interruption Payment.

CMP236 proposes to amend the CUSC to be more specific about the BMU type affected when defining a Relevant Interruption. As the current drafting of the CUSC does not distinguish between import and export BMUs, the proposal would amend the CUSC to specify that if service is interrupted to either an Export BMU<sup>5</sup> or Associated Affected Export BMU<sup>6</sup>, compensation can be claimed.

CMP235 and CMP236 were amalgamated by the CUSC Panel into a single proposal (the Original) due to the similarity in subject matter. The workgroup, which assessed the proposals, considered the individual proposals (CMP235 and CMP236) as Workgroup Alternative CUSC Modifications (CMP235 as WACM1 and CMP236 as WACM2). It also developed further WACM alternatives to each proposal with the aim of adding more specific information in the legal drafting about which events would give rise to a Relevant Interruption claim. This was done by reference to clauses in the Grid Code which would lead to a generator disconnection from the NETS, for example, operation of the NETS outside of specified Frequency ranges and Voltage limits. The alternative to the Original amalgamated proposal was developed as WACM3 and the alternatives to CMP235 (WACM1) and to CMP236 (WACM2) were developed as WACM4 and WACM5 respectively. Therefore there were six options for consideration.

The proposer considered that the Original (the amalgamated CMP235 and CMP236) better facilitates applicable CUSC objectives (a)<sup>7</sup> and (b)<sup>8</sup>. It suggested that it would increase clarity in the CUSC by better defining Relevant Interruptions, which would incentivise NGET to operate an efficient and reliable network in line with its transmission licence, and also reduce the risk of interruption, thereby, reducing the risk to generators and facilitating competition.

The workgroup raised concerns that CMP235 could lead generators to self disconnect in order to claim Interruption Payments. It also raised concerns about CMP236 leading to a perverse incentive for generators to build less robust in feed connections as loss in import connections would be compensated for under the proposals.

### **CUSC Panel<sup>9</sup> recommendation**

At the CUSC Panel meeting on 29 May 2015, the CUSC Panel voted on the CMP235/CMP236 Original and each of the WACMs against the applicable CUSC Objectives. The Panel felt that all alternatives presented were better than the baseline. A majority of the Panel considered that WACM3 would best facilitate achievement of the applicable CUSC objectives and therefore recommended its approval. The Panel members' views are set out in full in the Final Modification Report (FMR).

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<sup>5</sup> A BMU registered in accordance with Section K of the Balancing and Settlement Code (BSC) in respect of Export (flow of electricity from a plant or apparatus to the NETS).

<sup>6</sup> An Export BMU where the Export BMU and Import BMU are comprised in the User's Equipment and the Import BMU is deenergised and as a direct consequence of the deenergisation of the Import Unit the Export BMU is also deenergised.

<sup>7</sup> Objective (a) is the efficient discharge by the licensee of the obligations imposed upon it under the Act and by this licence" and CUSC objective.

<sup>8</sup> Objective (b) is 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.

<sup>9</sup> The CUSC Panel is established and constituted from time to time pursuant to and in accordance with section 8 of the CUSC.

## Our decision

We have considered the issues raised by the modification proposal and the FMR dated 11 June 2015. We have considered and taken into account the responses to the industry consultation on the modification proposal which are attached to the FMR.<sup>10</sup>

We have concluded that:

- implementation of WACM3, the alternative to the Original modification proposal, will better facilitate achieving the applicable CUSC objectives;<sup>11</sup> and
- directing that WACM3 be made is consistent with our principal objective and statutory duties.<sup>12</sup>

## Reasons for our decision

We consider that WACM3 will better facilitate achievement of applicable CUSC objectives (a) and (b) and has a neutral impact on applicable objective (c).

### ***(a) the efficient discharge by the licensee of the obligations imposed upon it under the Act and by this licence***

The majority of the Panel agreed that the Original and all of the WACMs would better facilitate achievement of objective (a). Two panel members felt that the three alternatives, which contain CMP236, would be detrimental against this objective, but did not explicitly express a view on why CMP236 does not facilitate this objective.

The majority Panel view was that the introduction of any of the proposed modifications would add clarity to the CUSC and increase transparency. The Panel felt that reporting would be improved, placing a stronger reputational incentive on NGET to operate within its transmission licence, maintaining and managing the NETS within the expected operational limits. As a result, the proposed modifications would better facilitate this objective.

Two Panel members expressed concerns that the alternative versions of the proposed modifications did not add additional clarity as the Grid Code was not correctly reflected in the modifications.

### *Our Views*

We agree with the views expressed by the majority of the Panel relating to objective (a) with respect to all the proposed modifications. The Original and all of the alternatives increase clarity in the CUSC about the definition of Relevant Interruption, decreasing the level of ambiguity NGET faces when applying the CUSC to make Interruption Payments. In addition, increasing specificity about which events would give rise to a Relevant Interruption claim adds greater transparency for system users. Increasing clarity for both NGET and users of the NETS results in all parties being better able to fulfil their roles pursuant to the required licence conditions.

The safe and reliable operation of the NETS is an important part of NGET's role as System Operator. NGET is required to address Interruption Payment claims and report on

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<sup>10</sup> CUSC modification proposals, modification reports and representations can be viewed on NGET's website at: <http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/>

<sup>11</sup> As set out in Standard Condition C10(1) of the electricity Transmission Licence, see: <https://epr.ofgem.gov.uk//Content/Documents/Electricity%20transmission%20full%20set%20of%20consolidated%20standard%20licence%20conditions%20-%20Current%20Version.pdf>

<sup>12</sup> The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989 as amended.

interruption payments (as a result of CMP212<sup>13</sup>), which places a reputational incentive on it to ensure the NETS is operated within its licence conditions. Implementing these modifications would encourage NGET to further improve its operational standards due to this reporting condition.

Concerning the alternative solutions, and two Panel members' concerns that the Grid Code is not correctly referenced, our view is that the sections of the Grid Code referenced in the alternative solutions do capture the situations where the NETS is operated outside its licence conditions and which conditions would cause a Relevant Interruption. As a result, the alternative solutions reduce ambiguity, making the application of the CUSC more straightforward and transparent.

We are of the view that the alternative solution to the Original proposal (WACM3) adds further clarity compared to the other proposals as well as the current baseline. It directly outlines situations where NGET may operate the NETS outside of its licence requirements, making claiming interruption payments easier and further incentivising NGET to operate the NETS within its obligations, thereby better facilitating objective (a).

***(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***

As with objective (a), the majority of the Panel, with the exception of two members, felt that CMP235 and CMP236 along with all of their alternatives better facilitate objective (b). They believe the modifications reduce generator risk and decrease ambiguity and perceived inconsistencies in the awarding of compensation payments for disconnection, creating greater certainty in the market, which will facilitate competition.

Two Panel members were concerned that CMP236 and any alternative to it, could lead to one-sided mutualisation as Interruption Payments are socialised through TNUoS charges. In their view, it is a commercial decision made by generators to build more robust demand connections. Increasing the redundancy of a system reduces the likelihood that the loss of an import BMU would result in loss of generation. Consequently, they felt generators with more robust connections should not be subsidising those who have not reinforced their systems. This view was shared by some workgroup members.

Further, workgroup members expressed concerns that there is a potential for generators to intentionally self-disconnect from the system, without cause, in order to claim Interruption Payments which then would result in higher TNUoS charges, which ultimately would be passed on to consumers.

*Our Views*

We acknowledge the concerns on potential connection design shortfalls, but we consider that design criteria relating to generation connection should be considered within the appropriate design frameworks and not the CUSC. The CUSC outlines commercial arrangements, whereas design of generators and generator connections should be addressed in planning and operational forums, such as the Grid Code or SQSS.

With regards to generators choosing to disconnect from the system in order to receive an interruption payment, the evidence presented to the workgroup suggests this would be uneconomical. This makes intentional disconnection highly improbable.

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<sup>13</sup> The CMP212 decision is available here: <http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/Concluded-201-250/>

We are of the view that CMP235/CMP236 Original and each of the WACMs have a marginal benefit in improving competition. We agree with the Panel that the proposals increase clarity. In our view, the increased clarity should result in an increased perception of fair treatment of disconnections, which thereby reduces uncertainty in the market and gives generators confidence in the market, encouraging competition.

Given that WACM3 clearly outlines situations where the NETS is operated outside standard voltage and frequency parameters, we believe it is the best of the proposed modifications in assisting to facilitate increased competition. It will reduce ambiguity and perceived inconsistencies in the current arrangement of allocating Interruption Payments. Consequently, it is best placed to encourage competition out of all the possible alternatives and thereby better facilitates objective (b).

### **Decision notice**

In accordance with Standard Condition C10 of NGET's Transmission Licence, the Authority hereby directs that the WACM 3 option to modification proposals CMP235 and CMP236: *'Introduction of a new Relevant Interruption Type'* and *'Clarification of when Disconnection Compensation payments can be expected under a Relevant Interruption'* be made.

**Mark Copley**

**Associate Partner - Markets**

Signed on behalf of the Authority and authorised for that purpose