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Dear Mr Toms

CUSC Modification Panel request for urgency for CMP262 'Removal of SBR/DSBR Costs from BSUoS into a "Demand Security Charge'.

On 10 March 2016, VPI Immingham raised Modification proposal CMP262, with a request for the proposal to be treated as an Urgent CUSC Modification Proposal. The CUSC Modifications Panel ("the Panel") considered CMP262 and the associated request for urgency at the CUSC Modifications Panel meeting held on 18 March 2016. The Panel considered the request for urgency with reference to Ofgem's Guidance on Code Modification Urgency Criteria¹. The majority view of the Panel is that CMP262 should be treated as an 'Urgent CUSC Modification Proposal'. This letter sets out our decision **accepting** the request for urgency.

Background to the proposal

Balancing Service Use of System (BSUoS) charges are the means by which National Grid Electricity Transmission (NGET) as the System Operator (SO) recovers the costs associated with balancing the transmission system. BSUoS charges are levied on both generation and demand on a 50:50 split basis. The value of BSUoS varies in each half hour settlement period reflecting the different costs incurred by the SO in each period.

In December 2013, the Authority approved NGET's application to introduce two new balancing services, the Supplemental Balancing Reserve (SBR) and Demand Side Balancing Reserve (DSBR). These services provide NGET with additional tools to help balance the system in the event that the market is unable to provide sufficient reserves to do so. The relevant licence condition (Special condition (SpC) 4K of NGET's Electricity Transmission Licence) came into effect on 6 June 2014. The cost recovery arrangements allow for both the capacity and utilisation costs of SBR and DSBR to be recouped via BSUoS charges.

The Government is currently consulting on bringing forward the Capacity Market (CM) auction by one year, so that it provides enough generation capacity to meet the Government's reliability standard for winter 17/18. On 1 March 2016 we published an open letter² setting out that we would expect a 2017/18 CM auction to procure enough capacity

¹ https://www.ofgem.gov.uk/system/files/docs/2016/02/160217_urgency_letter_and_amended_criteria_2.pdf

² <https://www.ofgem.gov.uk/publications-and-updates/open-letter-sbr-and-dsbr-201718-given-government-s-consultation-run-ca-delivery-same-year>

to meet the government's reliability standard. Therefore, SBR and DSBR services would not be needed for that year and thus it is possible that cost recovery of SBR and DSBR through BSUoS will only continue for one more winter.

The proposal

CMP262 proposes to amend the CUSC so that all SBR and DSBR costs are removed from BSUoS charges. Instead the proposal is for the money to be recouped from demand side only Balancing Mechanism Units via a "demand security charge". The proposer requests that the modification be treated as urgent because it considers there a strong likelihood that there could be a significant commercial impact on generators. If the modification is not treated urgently, the proposer considers that there would be no prospect of resolving the issue ahead of winter 16/17.

Panel Discussion

The Panel recommends urgency and notes three concerns if urgency was not granted:

- In order to meet the November 2016 deadline for the implementation of this modification it would need to be treated as urgent otherwise there would be little value in establishing a Workgroup.
- The CUSC Panel recognised that although there were many issues that need to be addressed by the Workgroup, many of these could be sourced from existing evidence gathered in current modifications that were being progressed by the industry.
- It would be difficult to fully assess whether CMP262 fully met Urgency Criteria 'a) A significant commercial impact on parties, consumers or other stakeholder(s)' without fully understanding material impact which could only be assessed once the Workgroup is formed and able to articulate this position.

Our Views

In deciding whether this modification proposal should be considered urgently, we have referred to the illustrative, but not exhaustive criteria set out in Ofgem's guidance. Specifically that the modification is linked to an imminent issue or a current issue that if not urgently addressed may cause:

- a) A significant commercial impact on parties, consumers or other stakeholder(s); or
- b) A significant impact on the safety and security of the electricity and/or gas systems; or
- c) A party to be in breach of any relevant legal requirements.³

We agree with the Panel that there is potential for this issue to have significant financial and commercial impact on a number of market participants in the lead up to and during winter 16/17. We also agree it is appropriate to treat this modification as urgent in order that this issue can be considered ahead of winter 16/17.

We are supportive of the Panel setting up a Workgroup to discuss this issue and see a number of challenging issues to resolve. We strongly encourage participation from suppliers in these discussions given the likely impact of the proposal on them.

³ https://www.ofgem.gov.uk/system/files/docs/2016/02/160217_urgency_letter_and_amended_criteria_2.pdf

We note the proposed timetable indicates that the final report will be sent to us by 20 September 2016, and proposes an Ofgem decision is made within 20 working days, ie by 18 October 2016. We accept this proposed timetable in order to allow the Workgroup time to develop the required evidence to inform our decision and we will endeavour to make a decision within the timescales requested.

We have reviewed this proposal on the issue of urgency and not its substantive merits, which will be assessed once the proposal is submitted for a decision on whether or not to approve it. This decision on urgency should not be taken as indicating the conclusions the Authority will reach at that stage.

Yours sincerely

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For and on behalf of the Gas and Electricity Markets Authority