

# Initial Written Assessment

## P402 'Enabling reform of residual network charging as directed by the Targeted Charging Review'

Providing data to NETSO for setting and recovering Transmission Network Use of System (TNUoS) demand residual charges. This proposal supports the implementation of Ofgem's Targeted Charging Review Significant Code Review Decision.



ELEXON recommends P402 is progressed to the Assessment Procedure for an assessment by a Workgroup

This Modification is expected to impact:

- LDSOs
- NETSO
- BSCCo

**ELEXON**

Phase

Initial Written Assessment

Definition Procedure

Assessment Procedure

Report Phase

Implementation

300/05

P402  
Initial Written Assessment

5 March 2020

Version 1.0

Page 1 of 23

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## Contents

<b>1</b>	Summary	<b>3</b>
<b>2</b>	Why Change?	<b>5</b>
<b>3</b>	Solution	<b>9</b>
<b>4</b>	Areas to Consider	<b>15</b>
<b>5</b>	Proposed Progression	<b>17</b>
<b>6</b>	Likely Impacts	<b>19</b>
<b>7</b>	Recommendations	<b>21</b>
	Appendix 1: Glossary & References	<b>22</b>



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## About This Document

This document is an Initial Written Assessment (IWA), which ELEXON will present to the Panel on 12 March 2020. The Panel will consider the recommendations and agree how to progress P402.

There are two parts to this document:

- This is the main document. It provides details of the Modification Proposal, an assessment of the potential impacts and a recommendation of how the Modification should progress, including the Workgroup's proposed membership and Terms of Reference.
- Attachment A contains the P402 Proposal Form.

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300/05

P402  
Initial Written Assessment

---

5 March 2020

---

Version 1.0

---

Page 2 of 23

---

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## BSUoS, TNUoS and DUoS charges

The Balancing Services Use of System (BSUoS) charge recovers the cost of day-to-day operation of the transmission system.

TNUoS charges recover the cost of installing and maintaining the transmission system in England, Wales, Scotland and Offshore

DUoS charges Recovers the cost of installing and maintaining the local distribution networks.

## What is the issue?

Following the conclusion of its [Targeted Charging Review](#) (TCR) Significant Code Review (SCR), Ofgem directed the National Electricity Transmission System Operator (NETSO) and certain<sup>1</sup> Licenced Distribution System Operators (LDSOs) to make changes to how residual revenues are recovered through Distribution Use of System (DUoS) and Transmission Network Use of System (TNUoS) demand charges.

The Balancing and Settlement Code (BSC) currently ensures the provision of data that NETSO and LDSOs use to calculate TNUoS, Balancing Services Use of System (BSUoS) and DUoS charges.

ELEXON understands that the LDSOs have or can procure all data necessary to implement the TCR SCR changes in relation to demand residual charging. However, NETSO does not have access to the relevant data. This is because the NETSO relies on BSC processes to ensure it receives data it uses to calculate TNUoS and BSUoS charges. The data currently reported by BSCCo to NETSO is insufficient to enable the changes required for the TCR.

The Proposer believes the BSC must change in order that it ensures the provision of data that enables the NETSO to set and recover TNUoS demand residual charges in accordance with the TCR SCR decision.

## What is the proposed solution?

P402 will introduce new reporting requirements on LDSOs and BSCCo that will ensure the provision of data to enable the NETSO to set TNUoS demand residual tariffs and enable accurate billing of subsequent charges.

In summary this proposal consists of the following new reporting requirements:

- For Tariff Setting and forecasting – a new process requiring LDSOs to report historical 'Final Demand Import' data<sup>2</sup> (and associated losses) and a snapshot 'site'<sup>3</sup> count to BSCCo in October and December each year; BSCCo will then aggregate the LDSO data into a consolidated report and send it to NETSO in October and December each year; aggregated Import data and site counts will be split by GSP Group and by 'Residual Charging Bands'<sup>4</sup>;
- For Billing – a monthly process requiring LDSOs to send BSCCo a report containing a daily count of SVA sites registered to each Supplier, by GSP Group and by Residual Charging Band; BSCCo will then aggregate the LDSO data into consolidated monthly reports and send it to NETSO.

In addition, pending the outcome of [CMP335 'Transmission Demand Residual - Billing and consequential changes to CUSC Section 3 and 11'](#), NETSO may require that Non Half Hourly (NHH) Unmetered Supply (UMS) Imports are separately reported. That is, the

<sup>1</sup> Ofgem's direction only applies to LDSOs who are Distribution Services Providers, i.e. Distribution Network Operators (DNOs) not Independent DNOs (IDNOs).

<sup>2</sup> Final Demand Imports are the Imports to Final Demand Sites, where 'Final Demand Site' will be defined in the CUSC and DCUSA in accordance with [CMP334](#) and [DCP359](#).

<sup>3</sup> 'Site' will be defined in the CUSC and DCUSA in accordance with [CMP334](#) and [DCP359](#).

<sup>4</sup> 'Residual Charging Bands' will be defined in the CUSC and DCUSA in accordance with [CMP332](#) and [DCP358](#).

P0210 TUOS Report currently combines NHH UMS Imports with normal metered NHH Imports and the TCR SCR solution may require that UMS Imports are charged for separately from other activities.

## Impacts

P402 will introduce new requirements on LDSOs to send reports to BSCCo and on BSCCo to aggregate this data and report to NETSO. This will impact LDSO and NETSO systems, and BSC systems and processes. Impact assessments will be conducted during the Assessment Procedure.

## Implementation

To ensure consistent implementation of the TCR SCR across the Distribution Connection and Use of System Agreement (DCUSA), Connection and Use of System Code (CUSC) and BSC, all changes to systems, documentation and supporting processes need to be completed in time to meet the implementation date of the NETSO's Direction, which is **1 April 2021**.

## Recommendation

The Panel is invited to agree that P402 is submitted to the Assessment Procedure for assessment by a Workgroup.

## 2 Why Change?

The BSC describes processes necessary for reporting data to NETSO, which it uses to calculate TNUoS and BSUoS charges.

The BSC does not currently specify how any Party should report data to NETSO which it will require in order to implement CUSC Modification Proposals CMP332, 334, 335 and 336. Collectively these CMPs are intended to make changes to the CUSC to give effect to Ofgem's TCR SCR decision and direction in relation to the setting and billing for TNUoS demand residual (TDR) charges.

The proposer believes that the BSC needs to be changed in order to continue the BSC's central role in providing data to NETSO for network charging purposes.

### Background

ELEXON (as 'BSCCo') is the code manager for the BSC, with responsibility for managing and delivering the end-to-end services set out in the BSC.

In accordance with the BSC, BSC Parties and ELEXON ensure that metered data is collected and aggregated in order to perform imbalance settlement.

Because the BSC clearly sets out the rules for collecting, aggregating and assuring Settlement Data, it is also used to support a variety of other industry arrangements, including the calculation of BSUoS charges and both TNUoS and DUoS network charges.

### How are Network Costs Recovered?

#### Allowed revenue

As network companies (NETSO and the LDSOs) are monopoly businesses Ofgem sets price controls to encourage efficiency, innovation and stakeholder engagement.

Amongst other things, the price control sets a limit on the amount that each network company can earn from charging its customers, otherwise known as 'allowed revenue'.

Allowed revenues are recovered via use of system charges to suppliers (and other users of the networks) who in turn pass these costs through to end-users.

#### Forward-looking charges and residual charges

Ongoing costs of building, maintaining and operating network infrastructure are recovered from users who access and benefit from its operation. Electricity network charges come in two forms, forward-looking charges and residual charges.

Forward-looking charges are cost-reflective and ongoing electricity network charges which signal to users how their actions can either increase or decrease network costs in the future.

Residual charges are designed to recover the rest of the relevant network company's allowed revenues once forward-looking charges have been set. Residual charges are set by working out the difference between the annual revenue expected to be earned from forward-looking charges and the total annual allowed revenue that may be recovered.

Currently, the methods used to recover residual revenues through TNUoS and DUoS charges are different. Also, the methods used to set and recover TNUoS and DUoS demand residual revenues may influence behaviour, which is an unintended outcome.

In its [TCR SCR decision](#) Ofgem noted that 'residual or 'top-up' charges are significant, currently accounting for around £4bn/year across electricity transmission and distribution networks (around 10-15% of a typical electricity bill). '

Overall, '[Ofgem's] analysis indicates that [its TCR SCR] reforms will provide significant savings to consumers of £3.8bn to £5.3bn and system benefit of £0.8bn to £2.9bn over the period to 2040.'

## Targeted Charging Review

The Targeted Charging Review, launched in 2017, is an Ofgem-led project that assessed how residual network charges should be set and recovered in Great Britain. It also sought to keep other 'embedded benefits' (i.e. the differences in charges faced by smaller distributed generators and larger generators) under review. Ofgem set up the TCR in response to the changing role of the networks as more electricity is generated from a wider range of sources and more flexible demand.

The subject matter of the overall TCR is divided between matters which were the subject of the TCR Significant Code Review and certain other matters which were considered outside the scope of the TCR SCR, e.g. changes to the DCUSA and CUSC in relation to how Imports to storage facilities are treated within the TNUoS, BSUoS and DUoS charging arrangements.

The TCR is part of a wider review of network and system charges which includes Ofgem's 'Access and forward looking charges Significant Code Review' and an industry-led review of BSUoS charging arrangements.

As part of its TCR SCR decision, Ofgem directed NETSO and the DNOs to raise industry code modifications to give effect to the TCR SCR decision.

To summarise the findings from the TCR (with greater detail to be found in the [decision document](#)), Ofgem concluded that changes in network use and technology have meant that existing residual charging arrangements have created distortions in the electricity market related to both investment and operational decisions, allowing some consumers to avoid residual charges at the cost of other consumers. In particular:

1. Residual charges increase for consumers unable to avoid these costs to make up for lower overall revenues recovered from those users able to change their behaviour and avoid/minimise the charges; and
2. This encourages consumers to invest in technology or change their behaviour in ways which may increase rather than decrease the total costs of the system.

## Targeted Charging Review Decision and Direction

As communicated in the [TCR final decision](#) on 21st November 2019 in order to reduce the harmful distortions caused by the current residual charging arrangements which encourage some organisations to reduce exposure to residual charges, Ofgem has decided that:



### What is a Significant Code Review?

A Significant Code Review allows Ofgem to initiate wide ranging and holistic change and to implement reform of a code based issue. The Significant Code Review (SCR) process has been added to the licence in order to facilitate significant industry changes in the most efficient manner. Ofgem has the sole right to raise SCRs, but will consult on scope of the review before commencing the SCR. Once commenced the SCR will utilise a number of industry workshops to develop an SCR conclusion. The period between the SCR commencing and SCR closing is known as the "SCR Phase". Further details on the SCR process can be found in the final licence modifications.

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300/05

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P402  
Initial Written Assessment

---

5 March 2020

---

Version 1.0

---

Page 6 of 23

---

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- Residual charges will be levied in the form of fixed charges for all households and businesses; and
- Liability will be removed for the Transmission Generation Residual from Generators and making changes to one of the 'Embedded Benefits' received by Smaller Distributed Generators in relation to balancing services charges.

In accordance with Ofgem's decision and related direction, the new transmission residual charges will be implemented in April 2021 and distribution residual charges in April 2022.

In response to the Direction on the recovery of the TDR, NETSO raised CUSC Modification Proposals (CMP) [CMP332](#), [CMP334](#) and [CMP335/6](#). The table below describes how collectively these CMPs are intended to implement different parts of an overall solution for delivering TCR residual charges changes in the CUSC.

CMP interactions	Element of TCR addressed
CMP334 – Transmission Demand Residual (TDR) Definitions	This will identify who will be liable for the TDR by defining 'Final Demand' and 'Site'.
CMP332 - TDR Methodology	Creation of a methodology to calculate the TDR, determine charging bands and set tariffs for each band.
CMP335/6 – TDR Application	Update all of the of 'post tariff' processes (e.g. billing, band allocation, securitisation etc) to reflect the TDR methodology created under CMP332.

## ELEXON response to previous consultation

On 3 October 2019, [ELEXON responded to Ofgem's consultation](#) entitled 'Future Charging and Access programme - refined residual charging banding in the TCR'. In our response we highlighted the challenge of developing and implementing cross-code modifications by April 2021 – particularly if industry code modification workgroups were expected to develop the explicit and detailed cross-code business requirements.

This Modification Proposal forms part of a programme of proposals raised to develop and implement detailed business requirements across the DCUSA, CUSC and now the BSC. In general these proposals are progressing in accordance with the NETSO and DNOs' plan published by the ENA on 21 December 2019. However, it is only since the beginning of 2020 that ELEXON and industry participants have begun to develop the more detailed requirements and options for reporting data necessary to deliver the TCR SCR. A consequence of this work is that assumptions made during planning have proved not to be practical or possible to progress. Consequently the solution proposed by this proposal became clear in mid-February 2020.

## What is the issue?

The TCR Significant Code Review decision included directions on DNOs and the NETSO to make changes to the way LDSOs and NETSO set and levy DUOS and TNUoS demand residual charges.

300/05

P402

Initial Written Assessment

5 March 2020

Version 1.0

Page 7 of 23

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Whilst ELEXON and the Proposer are led to understand the LDSOs have or may procure all data necessary to implement the TCR SCR changes for demand residual charging, National Grid does not.

NETSO currently relies on data provided to it by BSCCo to calculate TNUoS charges - in particular, the SAA-I014 'Settlement Report' and P0210 'TNUoS Report'. Existing BSC reports will not provide the data necessary to support proposed TNUoS charging arrangements, in particular to set tariffs and bill.

Therefore the Proposer believes a change is required to the BSC that requires LDSOs and BSCCo to provide the necessary data to NETSO to implement the TCR SCR decision and direction.

In particular, this BSC Modification Proposal is intended to provide NETSO with data for:

- Tariff setting and forecasting; and
- Billing.



### Proposed solution

P402 will ensure that the NETSO receives the data it requires to calculate Transmission Demand Residual (TDR) network charges in accordance with Ofgem's TCR SCR decision and directions and the emerging detailed requirements specified by CUSC Modification Proposals CMP332, 334 and 335/6.

This proposal intends to introduce new obligations on LDSOs and BSCCo to produce and send new Tariff Setting Reports and Billing Reports that enable these overall NETSO requirements. The proposer proposes new reports (as opposed to modifying existing files) for the following reasons:

- Effects on Third Parties minimised as existing file transfers unaffected; and
- The requirements of this new file are not captured in any existing reports.

The reports need to provide both SVA and CVA (i.e. embedded non-Supplier BMU) volumes and site counts.

Both the Tariff Setting Reports and Billing Reports will be compiled following these overall steps:

1. LDSOs compile and send reports to BSCCo using a common file format to be specified in the SVA Data Catalogue;
2. BSCCo consolidates each LDSO's report into a single report using the same or a similar file format to the one used by the LDSOs (also specified in the SVA Data Catalogue; and
3. BSCCo sends the consolidated report to NETSO.

### Overall NETSO requirements

#### Tariff setting and forecasting requirements

In order to set residual charge tariffs, NETSO must:

- Allocate its Transmission Demand Residual (TDR)<sup>5</sup> annual allowed revenue between Residual Charging Bands based on each bands' proportional contribution to total gross annual 'final demand' Imports;
- For each band, divide the apportioned allowed revenue by the number of Final Demand Sites in that band to derive a pence per site (p/site) rate; and
- Divide each bands' p/site rate by the number of days in the charging year (365 normally, 366 on leap years) to derive a pence per site per day (p/site/day) residual charging tariff.

As is proposed by CMP332, these steps will be set out in detail in the CUSC.

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<sup>5</sup> TDR is a specific amount of residual revenue that NETSO recovers in relation to the electricity Imported by users of the Transmission System. By comparison, NETSO also determines a Transmission Generation Residual (TGR).

In addition to the new method proposed by CMP332, NETSO has an existing CUSC obligation to provide a five-year forecast of TNUoS tariffs (see CUSC paragraph 14.29). This will apply to any TDR charge introduced by CMP332, 334 and 335/6.

In order to support the annual setting of tariffs (for the forthcoming charging year and forecasts for the forthcoming five years), NETSO requires two annual reports, in October each year to set draft charges and in December each year to set final charges. Each annual report must contain the latest 12 months' sum of gross annual 'final demand' Imports (MWh) and a snap-shot site-count per Residual Charging Band.

'Final Demand Imports', 'Final Demand Sites' and 'Residual Charging Bands' will be new concepts in the CUSC and BSC. Consequently the BSC neither receives data identified or aggregated using these terms, nor does it derive or aggregate data into these categories.

NETSO already receives data from Metering Systems registered in CMRS. Therefore this proposal's defect only applies to data related to sites with Metering Systems registered in SMRS.

### **Billing requirements**

NETSO must calculate a daily bill for each chargeable party. In the context of this Modification chargeable parties are only Suppliers (registrants of Supplier BMUs) – this is because NETSO already receives all necessary data to charge registrants of non-Supplier BM Units.

NETSO calculates a Supplier's daily bill by multiplying the daily number of 'Final Demand' sites registered by each Supplier in each band by the corresponding tariff rate (p/site/day) for the band. NETSO then sums the charges calculated for each day of the relevant month.

In order to calculate each daily charge, NETSO requires a report containing the number of Final Demand Sites per Settlement Day, per Residual Charging Band, per Registrant and per BMU ID. This report must be no less frequent than monthly.

NETSO already receives data from Metering Systems registered in CMRS. Therefore this proposal's defect only applies to data related to sites with Metering Systems registered in SMRS. As of writing, it is to be confirmed if NHH Unmetered Supplies are to be included in this report or separated from other NHH Imports in the P0210 - this will be confirmed by the P402 and CMP332 workgroups.

### **Dependency on LDSOs**

It is not possible to compile Tariff Setting or Billing reports from existing Settlement Data. This is because the emerging solution to implement the TCR SCR decision introduces new defined terms not currently or specifically required in registration details or the collection, aggregation and reporting of Settlement Data – in particular, 'Final Demand', 'Site' and 'Residual Charging Band'.

Unfortunately, because of the limited time to make TCR SCR changes (i.e. by April 2021) and existing commitments to make changes to support other initiatives (e.g. Faster Switching), the LDSOs do not believe it is possible to develop and make changes to existing registration systems, LDSO billing systems or Registration Details or to introduce new Registration Details that would allow any other Party, Party Agent or BSC Agent to be able to accurately identify, collate or derive the data NETSO requires from existing Settlement Data or industry data flows.

Therefore, this proposal relies on LDSOs reporting Import and site-count data to BSCCo. BSCCo will then consolidate each LDSOs' reports into a single report and send this to NETSO.

The following sections describe in more details the requirements for the new Tariff Setting Reports and Billing Reports.

## **New 'Tariff Setting Reports'**

### **LDSO requirements**

At the beginning<sup>6</sup> of October and December each year, LDSOs must send BSCCo a Tariff Setting Report containing the latest 12 months' sum of gross Final Demand Imports (MWh) (and associated losses) and a snap-shot count of Final Demand Sites (at the time of producing the report) per Residual Charging Band and per GSP Group.

The LDSO's Tariff Setting Report will be specified in the SVA Data Catalogue. This specification will describe in further detail the file format, data items, frequency of reporting and means of communication between LDSOs and BSCCo.

DNOs and IDNOs should produce a single report each October and December, irrespective of the number Distribution Services Areas (DSAs) they are responsible for (in the case of DNOs) or the number of DSAs their networks may be connected within (in the cast of IDNOs).

Please see the sub-section below entitled 'Initial and enduring reporting'.

### **BSCCo requirements**

Within [x] days<sup>7</sup> of receiving the LDSOs' Tariff Setting Reports at the beginning of October and again in December, BSCCo must send NETSO a report that consolidates each LDSO's report into a single report. BSCCo's report consolidates each individual LDSO's latest 12 months' sum of gross Final Demand Imports (MWh) (and losses) and snap-shot count of Final Demand Sites (at the time of producing the report) per Residual Charging Band and per GSP Group.

BSCCo's Consolidated Tariff Setting Report will be specified in the SVA Data Catalogue. This specification will describe in further detail the file format, data items, frequency of reporting and means of communication between BSCCo and NETSO. We expect the format and data items to be the same as for the LDSO's Tariff Setting Report.

Please see the sub-section below entitled 'Initial and enduring reporting'.

## **New 'Billing Reports'**

### **LDSO requirements**

Shortly after<sup>8</sup> the end of each calendar month (the reported month), LDSOs must send BSCCo a Billing Report containing the number of Final Demand Sites per calendar day (of

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<sup>6</sup> A specific timing will be defined by the workgroup as part of the Assessment Phase – e.g. on the II/SF Settlement Run for the 30 September.

<sup>7</sup> A specific timing will be defined by the workgroup as part of the Assessment Phase.

<sup>8</sup> A specific timing will be defined by the workgroup as part of the Assessment Phase – e.g. on the II/SF Settlement Run for the last Settlement Day in the 'reported month'.

the reported month), per Residual Charging Band, per Registrant, per BMU ID and per GSP Group.

The LDSO's Billing Report will be specified in the SVA Data Catalogue. This specification will describe in further detail the file format, data items, frequency of reporting and means of communication between LDSOs and BSCCo.

DNOs and IDNOs should produce a single report each calendar month, irrespective of the number DSAs they are responsible for (in the case of DNOs) or the number of DSAs their networks may be connected within (in the case of IDNOs).

### **BSCCo requirements**

Each month, within [x] days<sup>9</sup> of receiving the LDSOs' Billing Reports, BSCCo must send NETSO a report that consolidates each LDSO's Billing Report into a single report. BSCCo's report aggregates the total number of Final Demand Sites per calendar day (of the reported month), per Residual Charging Band, per Registrant, per BMU ID and per GSP Group.

BSCCo's Consolidated Billing Report will be specified in the SVA Data Catalogue. This specification will describe in further detail the file format, data items, frequency of reporting and means of communication between BSCCo and NETSO.

### **Updated reporting of NHH Unmetered Supplies (UMS)**

NETSO's related CUSC modification proposals will specify how the TCR SCR decision will apply to UMS. Depending on the outcome of these modifications, it may be that UMS is charged separately from other metered activities and that it will be charged on a p/kWh basis.

If this is the case, then NETSO may require BSCCo to change the way it reports NHH UMS to NETSO. That is, at present BSCCo combines NHH UMS with other NHH Imports in its P0210 TUOS Report to NETSO.

By specifically aggregating Imports using NHH UMS Consumption Component Classes, BSCCo would be able to include this dedicated NHH UMS value in its new Consolidated Billing Report. Alternatively, the existing P0210 TUOS Report could be updated to include a new line item for the specific NHH UMS volumes.

Please note that HH UMS is already aggregated and reported as a specific value in the P0210. Therefore there is no need to change the way HH UMS is reported to NETSO.

### **Initial and enduring reporting**

Ofgem's Direction to NETSO requires that its TCR SCR decision is implemented and takes effect from 1 April 2021. In order to set new TDR charges to take effect from 1 April 2021, NETSO will require Tariff setting data in October 2020 and December 2020.

ELEXON has highlighted on several occasions to NETSO during the preparatory work to this proposal that changes to BSC Systems would be unlikely to support reporting requirements before April 2021.

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<sup>9</sup> A specific timing will be defined by the workgroup as part of the Assessment Phase.



## What are the Applicable BSC Objectives?

(a) The efficient discharge by the NETSO of the obligations imposed upon it by the Transmission Licence

(b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System

(c) Promoting effective competition in the generation and supply of electricity and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity

(d) Promoting efficiency in the implementation of the balancing and settlement arrangements

(e) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency [for the Co-operation of Energy Regulators]

(f) Implementing and administrating the arrangements for the operation of contracts for difference and arrangements that facilitate the operation of a capacity market pursuant to EMR legislation

(g) Compliance with the Transmission Losses Principle

Consequently, P402 ought to propose that LDSOs provide a one-off set of Tariff Setting Reports directly to NETSO in October and December 2020. However, the Workgroup will need to consider whether such a requirement can be defined and implemented as part of this Modification Proposal. It may be that this requirement is implemented before October 2020 in order for it to have effect. We propose that this point of implementation is an 'Area to consider' – see Section 4, below.

From 1 April 2021, BSCCo will be responsible for reporting Consolidated Tariff Setting Reports and Consolidated Billing Reports to NETSO. BSCCo will provide its first Consolidated Tariff Setting Report to NETSO in October 2021 and its first Consolidated Billing Report to NETSO in May 2021.

## Applicable BSC Objectives

### Applicable BSC Objective (a)

In the opinion of the Proposer, the primary benefit of this Modification Proposal is in relation to Applicable BSC Objective (a): 'The efficient discharge by the NETSO of the obligations imposed upon it by the Transmission Licence'

That is, the Proposer has been directed by Ofgem to give effect to Ofgem's TCR SCR Decision by raising changes to the CUSC and 'any such consequential proposals for modification to ... other industry codes'. P402 is intended to enable CMP332, 334 and 335/6 and therefore for the Proposer to comply with Ofgem's Direction, thereby complying with its license.

We agree with the Proposer that this Proposal has been raised to comply with Ofgem's TCR SCR Direction and will therefore better facilitate Objective (a) by enabling the efficient discharge of the NETSO's licence obligations.

### Applicable BSC Objective (d)

In the opinion of the Proposer, as there are no existing means of providing it with the data it requires to implement CMP332, 334 and 335/336, a co-ordinated pan-industry approach supports Applicable BSC Objective (d): 'Promoting efficiency in the implementation of the balancing and settlement arrangements'.

BSC processes and systems already provide a centralised mechanism for collecting, aggregating and sharing data with NETSO and LDSOs for network charging purposes. This approach has been maintained by industry because it provides a consistent, secure, efficient and cost effective means of enabling both Settlement and non-Settlement processes.

In its Decision, Ofgem recognised 'there could be merit in a centralised approach to setting band thresholds and allocating users to bands, which could involve changes under the BSC or other centralised systems. We think this has strong potential to offer a more efficient solution than a fragmented approach across individual parties and we encourage the industry to thoroughly explore the costs and benefits of such an approach.'

P402 seeks to continue to take advantage of BSC Systems, processes and governance in enabling the calculation of TNUoS charges. The Proposer and ELEXON believe that making best use of existing centralised BSC Systems and processes would deliver an overall more

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300/05

P402  
Initial Written Assessment

---

5 March 2020

Version 1.0

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Page 13 of 23

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efficient outcome than developing potentially duplicative systems and processes, which could further fragment and increase the level of complexity in the industry arrangements.

## Implementation approach

All files, system changes and supporting process need to be implemented with sufficient time to meet the Implementation Date of the Direction which is **1 April 2021**.

We propose that P402 is implemented as part of a standalone release on 1 April 2021.

ELEXON continues to believe that the timetable for achieving the Direction's implementation date is challenging. However, we believe it should still be possible to progress this proposal through an expedited Assessment Phase, thereby allowing a level of industry engagement, and still target implementation on 1 April 2021. However, this is dependent on the Modification Proposal staying to the proposed timetable, does not preclude issues that industry consultation and internal impact assessment may identify, and will require swift decision making by Ofgem.

## 4 Areas to Consider

In this section we highlight areas which we believe the Panel should consider when making its decision on how to progress this Modification Proposal, and which a Workgroup should consider as part of its assessment of P402. We recommend that the areas below form the basis of a Workgroup's Terms of Reference, supplemented with any further areas specified by the Panel.

### **Can LDSOs report the data that NETSO requires?**

As described above, this solution relies on all LDSOs (both DNOs and IDNOs) providing both accurate and timely reporting to BSCCo.

Our current understanding is that LDSOs can access and deliver the necessary data, but it will be necessary to explore and confirm this with the Workgroup.

We also believe that a Workgroup will be best placed to refine the solution to ensure that it best reflects the capabilities of different LDSOs and their systems.

### **What data must be reported?**

As the development of the related DCUSA and CUSC modification proposals is ongoing, a final set of reporting requirements is not yet fully understood. It will be necessary for a Workgroup to use its knowledge of what is currently feasible and the emerging CUSC requirements to finalise detailed requirements for the content, form and timings of data reports and any related provisions.

### **Reconciliation/Corrections**

The Proposer would like the Assessment Procedure to consider how data might be updated/corrected over time. This may be to take account of an identified error in an earlier report, to account for the outcome of any dispute process that may be defined by the related TCR DCUSA and CUSC Modifications, or other existing industry processes, e.g. Erroneous Transfers.

The Settlement process uses a series of Reconciliation Runs to allow for some level of correction over a standard 14 month period. These Reconciliation Runs allow Settlement Data to be re-submitted at specific points in time over, thereby allowing data to be updated or corrected.

A Workgroup should consider whether and how to require/allow LDSOs and/or BSCCo to resubmit Tariff Setting Reports and Billing Reports either in accordance with a defined schedule or on an ad hoc basis.

### **Initial and enduring reporting**

As noted in Section 3, NETSO requires data to set tariffs that take effect from 1 April 2021. This means that it will need Tariff Setting Reports in October 2020 and December 2020.

However, ELEXON has consistently pointed out that BSC System changes would be highly unlikely before 1 April 2021. It is likely to be necessary for LDSOs to provide initial Tariff Setting Reports directly to NETSO. Any requirements to provide a 'one-off' set of reports will need to be considered by the Workgroup, in particular whether such a one-off report

can be defined as part of this Modification and given effect under the BSC as part of this proposal before October 2020.

## Areas to consider

The table below summarises the areas we believe a Modification Workgroup should consider as part of its assessment of P402:

Areas to Consider
Can LDSOs deliver the data that National Grid require?
Specific definition of what needs to be reported and how frequently it needs to be reported
How should the reporting specified by this proposal handle data or process errors and disputes?
Consider whether and if so how a one-off set of Tariff Setting Reports should be provided to NETSO before 1 April 2021, in order to set tariffs to take effect from 1 April 2021.
How will P402 impact the BSC Settlement Risks?
What changes are needed to BSC documents, systems and processes to support P402 and what are the related costs and lead times? When will any required changes to subsidiary documents be developed and consulted on?
Are there any Alternative Modifications?
Should P402 be progressed as a Self-Governance Modification?
Does P402 better facilitate the Applicable BSC Objectives than the current baseline?

300/05

P402  
Initial Written Assessment

5 March 2020

Version 1.0

Page 16 of 23

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### Next steps

The Modification should be assessed by a Workgroup and submitted to the Assessment Procedure.

In order to define a solution that accommodates a range of DNO and IDNO systems, we propose that this proposal is developed by a Workgroup.

### Self-Governance

This Modification Proposal is expected to impact Self-Governance Criterion (iii) 'the operation of the national electricity transmission system' in a material way by introducing a new process for NETSO to monitor and support on a frequent ongoing basis.

This Modification Proposal is necessary to enable the NETSO to calculate TNUoS charges, which is an integral part of its function operating the national electricity transmission system (NETS). Therefore, this Proposal is likely to have a material impact on the operation of the NETSO and should therefore be submitted to Ofgem for decision.

### Workgroup membership

The assessment of this Modification Proposal requires knowledge in:

- The Targeted Charging Review discussions and outcomes;
- Network charging arrangements;
- Knowledge of electricity distribution systems and operations – in particular LDSO billing and registration systems and processes; and
- Membership or knowledge of the associated TCR CUSC and DCUSA modifications.

### Timetable

The timescales set by Ofgem to deliver this solution are challenging, especially when considered against the level of industry engagement via the Modification process that is called for in Ofgem's Decision document.

We have developed the following detailed plan that would allow the delivery of P402 in line with their Direction, without the need for an Urgent timetable to be approved. To allow for the same level of industry engagement with the change process that is afforded by the Assessment Procedure, it has been necessary to **reduce the Assessment Procedure Consultation from 15 Working Days to 10 Working Days** in order for three Workgroups to be held.

In order to accommodate the level of industry engagement envisioned in the TCR decision ELEXON believe this to be achievable by adhering to the following detailed plan. Should the plan slip, it may become necessary to request this Modification to be treated as an Urgent Modification Proposal.

### What are the Self-Governance Criteria?

A Modification that, if implemented:

(a) is unlikely to have a material effect on:  
(i) existing or future electricity consumers; and  
(ii) competition in the generation, distribution, or supply of electricity or any commercial activities connected with the generation, distribution, or supply of electricity; and  
(iii) the operation of the national electricity transmission system; and  
(iv) matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies; and  
(v) the Code's governance procedures or modification procedures; and

(b) is unlikely to discriminate between different classes of Parties.

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300/05

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P402  
Initial Written Assessment

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5 March 2020

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Version 1.0

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Page 17 of 23

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Proposed Progression Timetable	
Event	Date
Present Initial Written Assessment to Panel	12 March 2020
Development of draft Legal Text and Business Requirements	12 March – 23 March
Workgroup review of draft Legal Text and Business Requirements	24 March - 30 March
Workgroup 1	31 March/1 April/2 April
Workgroup review amended Legal Text and Business Requirements	6 April – 9 April
Service Provider Impact Assessments Issued	14 April
Workgroup 2 (initial views)	29April/ 30 April
Assessment Procedure Consultation	04 May – 18 May
Workgroup 3 (final views)	26 May/ 27 May
Workgroup review Assessment Report	28 May – 3 June
Present Assessment Report to Panel	11 June
Report Phase Consultation (Ten Working Days)	15 June – 26 June
Present Draft Modification Report to Panel	9 July
Issue Final Modification Report to Authority	13 July 2020
Development of CSDs	During the Implementation phase (post-decision)

300/05

P402  
Initial Written Assessment

5 March 2020

Version 1.0

Page 18 of 23

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## 6 Likely Impacts

P402 will require changes to systems and data arrangements between LDSOs, ELEXON and National Grid to facilitate the provision of a new file specific for the purposes of residual billing.

This Modification Proposal will require LDSOs to send data to BSCCo, which BSCCo will aggregate and then report to NETSO.

### Impact on BSC Parties and Party Agents

Party/Party Agent	Potential Impact
LDSO	Will be required to report source data under the P402 solution, providing the necessary information to allow BSCCo to meet its obligations.

### Impact on NETSO

Will receive new data from BSCCo under the P402 solution and then process the new file and integrate this into revised TNUoS methodology and billing processes which align with Ofgem's Direction.

### Impact on BSCCo

Area of ELEXON	Potential Impact
Market Operations	May need to oversee the provision of new data to National Grid.

### Impact on BSC Settlement Risks

Potential impact on Risk 034 'SVAA data processing' in form of new requirements on SVAA to receive, aggregate and report new data

### Impact on BSC Systems and processes

BSC System/Process	Potential Impact
SVAA	May be required to receive, collate and report new data

### Impact on BSC Agent/service provider contractual arrangements

BSC Agent/service provider contract	Potential Impact
SVAA	May be required to receive, collate and report new data

300/05

P402

Initial Written Assessment

5 March 2020

Version 1.0

Page 19 of 23

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Impact on Code	
Code Section	Potential Impact
Section V	May require changes to facilitate the P402 solution
Section S	

Impact on Code Subsidiary Documents	
CSD	Potential Impact
BSCP508 BSCP515 SVA Data Catalogue SVAA Service Description SVAA User Requirement Specification	May require changes to facilitate the P402 solution. Changes to CSDs will occur during the implementation phase.

Impact on a Significant Code Review (SCR) or other significant industry change projects
This Modification is supporting the implementation of Ofgem’s Targeted Charging Review SCR. We have requested that Ofgem class P402 as an SCR-exempt Modification.

Impact on Consumers
Whilst this Modification by itself does not provide any consumer impacts, it is supporting the implementation of Ofgem’s Targeted Charging Review SCR, the consumer impacts of which are documented in Ofgem’s decision. Reforms to residual charging should meet the TCR principles of reducing harmful distortions, fairness and proportionality and practical considerations, as outlined

Impact on the Environment
None anticipated

## 7 Recommendations

We invite the Panel to:

- **AGREE** that P402 progresses to the Assessment Procedure;
- **AGREE** the proposed Assessment Procedure timetable;
- **AGREE** the proposed membership for the P402 Workgroup; and
- **AGREE** the Workgroup's Terms of Reference.

## Appendix 1: Glossary & References

### Acronyms

Acronyms used in this document are listed in the table below.

Acronyms	
Acronym	Definition
BSC	Balancing and Settlement Code
BSCCo	Balancing and Settlement Code Company
BMU	Balancing Mechanism Unit
BSUoS	Balancing Services Use of System
BTM	Behind The Meter
CfD	Contracts for Difference
CM	Capacity Market
CMP	CUSC Modification Proposal
CSDs	Code Subsidiary Documents
CUSC	Connection and Use of System Code
CVA	Central Volume Allocation
DUoS	Distribution Use of System
ECOES	Electricity Central Online Enquiry Service
EMR	Electricity Market Reform
HH	Half Hourly
HHDA	Half Hourly Data Aggregators
MSID	Metering System Identifiers
SCR	Significant Code Review
SVA	Supplier Volume Allocation
SVAA	Supplier Volume Allocation Agent
TCR	Targeted Charging Review
TDR	Transmission Demand Residual
TNUoS	Transmission Network Use of System
TUoS	Transmission Use of System
UoS	Use of System Charging

### External links

A summary of all hyperlinks used in this document are listed in the table below.

All external documents and URL links listed are correct as of the date of this document.

300/05

P402

Initial Written Assessment

5 March 2020

Version 1.0

Page 22 of 23

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External Links		
Page(s)	Description	URL
2	Targeted Charging Review Direction	<a href="https://www.ofgem.gov.uk/system/files/docs/2019/11/cusc_direction_1.pdf">https://www.ofgem.gov.uk/system/files/docs/2019/11/cusc_direction_1.pdf</a>
2	Targeted Charging Review: decision and impact assessment	<a href="https://www.ofgem.gov.uk/system/files/docs/2019/12/full_decision_doc_updated.pdf">https://www.ofgem.gov.uk/system/files/docs/2019/12/full_decision_doc_updated.pdf</a>
3	CMP332	<a href="https://www.nationalgrideso.com/codes/connection-and-use-system-code-cusc/modifications/cmp332-transmission-demand-residual">https://www.nationalgrideso.com/codes/connection-and-use-system-code-cusc/modifications/cmp332-transmission-demand-residual</a>
3	CMP334	<a href="https://www.nationalgrideso.com/codes/connection-and-use-system-code-cusc/modifications/cmp334-transmission-demand-residual">https://www.nationalgrideso.com/codes/connection-and-use-system-code-cusc/modifications/cmp334-transmission-demand-residual</a>
3	CMP335/6	<a href="https://www.nationalgrideso.com/codes/connection-and-use-system-code-cusc/modifications/cmp335-transmission-demand-residual-billing">https://www.nationalgrideso.com/codes/connection-and-use-system-code-cusc/modifications/cmp335-transmission-demand-residual-billing</a>
3	DCUSA Change Proposal 359	<a href="https://www.dcusa.co.uk/change/ofgem-targeted-charging-review-implementation-customers-who-should-pay/">https://www.dcusa.co.uk/change/ofgem-targeted-charging-review-implementation-customers-who-should-pay/</a>
7	ELEXON response to Future Charging and Access programme – consultation on refined residual charging banding in the Targeted Charging Review	<a href="https://www.elexon.co.uk/documents/industry-consultations/2019-industry-consultations/elexons-response-to-ofgems-consultation-on-refined-residual-charging-banding-in-the-targeted-charging-review/">https://www.elexon.co.uk/documents/industry-consultations/2019-industry-consultations/elexons-response-to-ofgems-consultation-on-refined-residual-charging-banding-in-the-targeted-charging-review/</a>

300/05

P402

Initial Written Assessment

5 March 2020

Version 1.0

Page 23 of 23

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