

Code Administrator Consultation Response Proforma**CMP308: Removal of BSUoS charges from Generation**

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 to cusc.team@nationalgrideso.com by **5pm on 31 August 2021**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration.

If you have any queries on the content of this consultation, please contact Joseph Henry at joseph.henry2@nationalgrideso.com or cusc.team@nationalgrideso.com

Respondent details	Please enter your details
Respondent name:	Joshua Logan
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I wish my response to be:

(Please mark the relevant box)

☒ Non-Confidential☐ Confidential

Note: A confidential response will be disclosed to the Authority in full but, unless agreed otherwise, will not be shared with the Panel or the industry and may therefore not influence the debate to the same extent as a non-confidential response.

For reference the Applicable CUSC (charging) Objectives are:

- 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;*
- 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);*
- 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;*
- Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and*
- Promoting efficiency in the implementation and administration of the system charging methodology.*

Please express your views in the right-hand side of the table below, including your rationale.

Standard Code Administrator Consultation questions		
1	Do you believe that the CMP308 Original Proposal better facilitates the Applicable Objectives?	<p>Yes, CMP308 will implement part of the recommendations from the BSUoS Task Force and will better facilitate the Applicable CUSC Charging objectives.</p> <p>Applicable Objective (a) – Positive</p> <p>Currently, BSUoS charges are not paid by generators in many interconnected countries or by embedded generators in GB. This results in a market distortion and uneven playing field. The removal of this distortion will promote competition and reduce costs for end consumers.</p> <p>As illustrated in Figure 3 of the report, the majority of European countries do not levy “Balancing Charges” on generators. The removal of BSUoS charges from GB generation would enable GB and continental generation to compete on a more equal basis and remove the potential for BSUoS to distort cross border trade. Analysis done by the proposer using 2017 data suggested that removing BSUoS from GB generation would have resulted in changes in interconnector flows throughout the year. In particular, had CMP308 been in place there would have been times where GB generation was cheaper than imports from Europe, resulting in reduced costs for consumers.</p> <p>Applicable Objective (c) – Positive</p> <p>The growth in interconnection capacity increases the importance of removing BSUoS charges from GB generation. As interconnection capacity increases, the current market distortion between GB and continental generators will increase. CMP308 takes account of this development and will prevent the existing distortion from becoming exacerbated.</p> <p>Applicable Objective (e) – Positive</p>

		<p>BSUoS costs are passed through various markets and mechanisms before ultimately being recovered from the end consumer. Whilst difficult to quantify, economic theory would suggest that this is inefficient as it unnecessarily increases the number of transaction costs. Given BSUoS should be treated as purely a cost recovery mechanism and considering Ofgem's TCR principles, BSUoS should be recovered from final demand only to promote efficiency and reduce whole system costs.</p> <p>Frontier Analysis – Positive impact on end consumers</p> <p>The Analysis concluded that “recovering BSUoS costs entirely from demand is likely to reduce overall system costs and customer costs”.</p>
2	Do you support the proposed implementation approach?	<p>Yes, we support an April 2023 implementation. This provides sufficient time for suppliers to price BSUoS into customer contracts, and for the wholesale market price to adjust reflecting the removal of BSUoS from a generators cost stack.</p> <p>We would support Ofgem making a decision on CMP308 ahead of CMP361, to provide industry with clarity on CMP308 as soon as possible.</p>
3	Do you have any other comments?	No.