

**Workgroup Consultation Response Proforma****CMP361 & CMP362: BSUoS Reform: Introduction of an ex ante fixed BSUoS tariff & Consequential Definition Updates**

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](mailto:cusc.team@nationalgrideso.com) by **5pm on 24 September 2021**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

If you have any queries on the content of this consultation, please contact Jennifer Groome [Jennifer.Groome@nationalgrideso.com](mailto:Jennifer.Groome@nationalgrideso.com) or [cusc.team@nationalgrideso.com](mailto:cusc.team@nationalgrideso.com)

Respondent details	Please enter your details
<b>Respondent name:</b>	George Moran
<b>Company name:</b>	Centrica
<b>Email address:</b>	George.moran@centrica.com
<b>Phone number:</b>	07557611983

**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, the Workgroup or the industry and may therefore not influence the debate to the same extent as a non-confidential response.*

**CMP361****For reference the Applicable CUSC (charging) Objectives 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; and*

- e. *Promoting efficiency in the implementation and administration of the system charging methodology.*

*\*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).*

## **CMP362**

**For reference the Applicable CUSC (non-charging) Objectives are:**

- a) *The efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence;*
- 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;*
- c) *Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency \*; and*
- d) *Promoting efficiency in the implementation and administration of the CUSC arrangements.*

*\*Objective (c) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).*

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

<b>CMP361 Standard Workgroup Consultation questions</b>			
1	Do you believe that the CMP361 Original Proposal better facilitates the Applicable Objectives?	<input checked="" type="checkbox"/> Yes, it better facilitates objectives: <input checked="" type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E	<input checked="" type="checkbox"/> No, it has a negative effect on objectives: <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input checked="" type="checkbox"/> E
		<p><b>Applicable Objective (a): Positive Impact</b></p> <p>BSUoS is increasingly volatile and difficult to forecast. The current ex-post charging approach creates significant risk which suppliers cannot hedge against. To the extent that the proposal improves the predictability of the BSUoS charges that suppliers need to factor into contract offerings, we believe it will improve competition between suppliers. The are two main elements of the proposal that affect the level of the benefit from the modification, the notice period and the BSUoS Fund.</p> <p><b>Notice Period:</b> We believe that the more advance notice that is provided of a fixed charge, the more contracts will be able to benefit from the reduction in risk. Options</p>	

		<p>which provide more notice, even with a shorter fixed period, will therefore increase the benefit of the change and spread it more fairly across the market (and customers). So the original is positive against baseline, but alternatives already discussed could provide for greater possible benefit from this change.</p> <p><b>BSUoS Fund:</b> We believe the BSUoS Fund concept acts to reduce the benefit of the change. The BSUoS fund was not recommended by the Task Force or Ofgem and would represent a shock to industry. The mechanism would require suppliers to be able to forecast changes in the ESOs working capital arrangements and risk modelling to be able to forecast future BSUoS rates, neither of which we believe Suppliers will be well placed to do. The fund itself will therefore add back some of the risk premium that the change seeks to reduce.</p> <p><b>Applicable Objective (b): Positive Impact</b></p> <p>BSUoS is currently a cost recovery charge, providing no useful cost reflective forward-looking signal. It can encourage responses that are inefficient and increase system costs e.g. reducing demand to avoid high BSUoS costs caused by excess Generation in a zone. CMP361 will remove/reduce these distortive signals, making it more cost reflective than the baseline.</p> <p><b>Applicable Objectives (c), (d): Neutral impact.</b></p> <p><b>Applicable Objective (e): Negative Impact</b></p> <p>Moving to an ex-ante approach for BSUoS should simplify the use of system charging methodology, but we believe the introduction of the BSUoS Fund concept in the Original proposal introduces an additional and unnecessary complexity relative to the baseline.</p>
2	Do you support the proposed implementation approach?	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>We would support earlier implementation given the increasingly volatile nature of BSUoS.</p>
3	Do you have any other comments?	<p>We agree with the position set out in the consultation from the Second BSUoS Task Force regarding the impact on the default price cap. If CMP361 is implemented, we believe this would require a change to include the new fixed BSUoS price in the price cap from the point of implementation, including any necessary adjustment to true up allowances for cap periods before the move to an ex-ante approach.</p>

4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No  We would like to raise two alternatives. <b>Alternative 1:</b> As per original, but with no BSUoS Fund and an increased notice period – 9 months' notice and 6 months fixed.  <b>Alternative 2:</b> As per original, but with no BSUoS Fund and an increased notice period – 12 months' notice and 3 months fixed.
---	--	---

### CMP362 Standard Workgroup Consultation questions

5	Do you believe that the CMP362 Original Proposal better facilitates the Applicable Objectives?	<input type="checkbox"/> Yes, it better facilitates objectives:  <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input checked="" type="checkbox"/> D	<input type="checkbox"/> No, it has a negative effect on objectives:  <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D
		<b>Applicable objective (d): Positive Impact</b> This modification improves efficiency by ensuring the required definitions for BSUoS reform are included in CUSC Section 11.	
6	Do you support the proposed implementation approach?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No Click or tap here to enter text.	
7	Do you have any other comments?	No	
8	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No Only to the extent necessary to facilitate the alternatives for CMP361 above.	

### CMP361 & CMP362 Modification Specific Workgroup Consultation questions

9	The Original solution has 3 months' notice and 12 months fixed, what would your	<input type="checkbox"/> 3-month notice period and 12-month fixed period <input checked="" type="checkbox"/> 9-month notice period and 6-month fixed period <input checked="" type="checkbox"/> 12-month notice period and 3-month fixed period <input checked="" type="checkbox"/> Other (please describe below)
---	---	--

	<p>preferred combination of notice period and fixed period be? Please provide your justification.</p>	<p>For this change to provide benefits to all customers it is important that suppliers have notice of the fixed charge to include in customers contracts. 3 months' notice means that a small portion of customers on fixed contracts will benefit from a larger reduction in risk premium, but other customers may see little benefit, depending on when a contract is entered into.</p> <p>In principle, the option that would spread the benefit equally across all customers would be 14 months' notice and a one month fix. However, we recognise there are also questions of practicality to consider. We would prefer options which provide 9 months or more notice.</p>
10	<p>Do you support the use of an industry-funded BSUoS Fund to reduce the probability of re-setting tariffs?</p>	<p> <input type="checkbox"/> Yes  <input checked="" type="checkbox"/> No  <input type="checkbox"/> Other / Don't know         </p> <p>We do not support the BSUoS Fund for a number of reasons:</p> <ul style="list-style-type: none"> <li>• The BSUoS fund was not recommended by the Task Force or Ofgem and would itself represent a unforeseen cost burden on suppliers (not just on implementation but also when it may need to be replenished).</li> <li>• The mechanism would require suppliers to be able to forecast changes in the ESOs working capital arrangements and risk modelling to be able to forecast future BSUoS rates, neither of which we believe Suppliers will be well placed to do, therefore adding back some of the risk premium that the change is seeking to reduce.</li> <li>• Setting the BSUoS Fund to target a P-level is effectively an administratively set (and arbitrarily chosen) risk premium to replace risk premiums based on competitive market pressures and individual party risk appetite. We believe it is conceptually flawed from an economic efficiency perspective and will lead to the inefficient hoarding of working capital.</li> <li>• Setting the fund to recover a P99 level of BSUoS is intergenerationally unfair, since consumers (and suppliers who have already entered into fixed contracts) will be required to fund over two years a level of protection that will benefit consumers for 100 years (theoretically). It is also unfair on existing and future customers who prefer pass-through contracts –</li> </ul>

		<p>who accept increased volatility for a lower cost offering. The BSUoS Fund concept forces these customers to pay for an increase in certainty they have chosen not to pay for.</p> <ul style="list-style-type: none"> <li>The rationale provided by the Proposer for targeting P99 is to provide more certainty of a fixed BSUoS charge to remove or reduce risk premiums. We consider the original proposal to provide only 3 months' notice of the fixed charge is at odds with this logic, since the increased certainty will only be incorporated into a minority of fixed contracts. The majority of fixed contracts will need to include a risk premium to reflect the unpublished ESOs P99 view.</li> </ul>	
11	What would the appropriate balance be between the level of the BSUoS Fund requirement, and the probability of tariffs being reset within the fixed period due to under recovery (in the Original solution is this set at P99 – see table on pages 15-16)?	<input type="checkbox"/> P99 <input type="checkbox"/> P95 <input type="checkbox"/> P90 <input type="checkbox"/> P77	<input type="checkbox"/> P75 <input type="checkbox"/> P65 <input type="checkbox"/> P50 <input checked="" type="checkbox"/> Other / Don't know
		<p>As set out above, we don't support a BSUoS fund for a number of reasons.</p> <p>However, if it is to be maintained, we recommend a mechanism which would mitigate against the concerns raised on cost shock, difficulties in forecasting the level of the fund, economic inefficiency, hoarding of working capital and intergenerational fairness. Potential mitigations could include targeting a lower level of risk and capping the annual contributions to the build up of the fund:</p> <ul style="list-style-type: none"> <li>Targeting a lower level of risk: Setting the fund to recover a reasonably low level of base risk, leaving individual market participants to price in any further premium if desired and allowed by competitive pressures, will help to ensure competition drives an efficient outcome for risk premiums. This would mitigate against an inefficient administratively set level of risk premium and would also reduce the intergenerational impact by requiring less from today's consumers.</li> <li>Capping the annual contribution to the fund: Building the fund more slowly e.g. capping at £25m/yr (c. 1% of BSUoS) would mitigate against the issues of cost shock, ability to forecast and intergenerational equity.</li> </ul>	
12	Do you agree with the proposed approach to recover half of the	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Other / Don't know	

	BSUoS Fund in the first financial year and the rest in the second financial year?	<p>As set out above, we consider that even a two year build up introduces cost shock and intergenerational unfairness. If there is to be a BSUoS fund, there should be a relatively modest cap on annual contributions (£25m/yr or 1% of BSUoS) to allow the fund to build up (and be replenished) over a longer time frame.</p> <p>We also believe the ESO should seek to increase its WCF to reduce probability of tariffs being reset.</p>
13	Do you agree with the proposed data transparency approach set out in the Workgroup consultation?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Other / Don't know
		Click or tap here to enter text.