

**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)

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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, 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.*

1.1.1.a.i.1.1 *\*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 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 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 type="checkbox"/> E
		<p>Objective a) This modification will create a level playing field amongst all Suppliers, reducing the need to forecast a highly volatile charge or rely on forecasts produced by the ESO which have consistently under forecasted the charge. It will allow Suppliers to provide customers what they want which are fixed tariffs with a reduced risk premia.</p> <p>Objective b) Due to the volatility of BSUoS costs a fixed charge for one year may not accurately represent the underlying BSUoS costs, however with any under or over recovery added to future charges; over time they do. Under the current baseline, charges levied on Suppliers fully reflect the Balancing costs of a particular Settlement Period. However</p>	

		<p>when these are then charged to the users of the system via Electricity bills a risk premia is added to cover forecasting error. Coupled with volatility the charges to the end System User are highly unlikely to match actual costs over a year, with Suppliers or the end consumer having to manage the shortfall. Fixing the charge allows actual costs to be recovered from the end system user albeit over longer timescales. (The current timing of this consultation response is very apt).</p> <p>The BSUoS taskforce concluded that BSUoS should not and does not provide an efficient cost signal. Moving to a fixed charge and the recovery of costs via this charge, supports this view.</p>
2	Do you support the proposed implementation approach?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <p>It is important that this modification is implemented at the same time as CMP308 (without delaying CMP308) as CMP308 will effectively double the charge on Suppliers</p>
3	Do you have any other comments?	<p>It will be interesting to see how this modification aligns with the work regarding the ISO. An ISO, which is part of the government structure could in theory have longer notice and fixed periods as the ability of the ISO to fund under recovery will be greater.</p> <p>The funding of the 'slush fund' to manage under recovery of the BSUoS charges compared to actual costs will come via Suppliers and the end consumer via a higher BSUoS charge. There is also the potential for mid year price changes. This will be built up over a relatively short period of time.</p> <p>In the present climate alternative funding arrangements, such as via government may be more attractive and clearly benefits the end consumer through a reduced risk premia. This approach could deliver a lower cost to customers of managing BSUoS cash flow risk by making use of a lower cost of capital</p>
4	Do you wish to raise a Workgroup	<input type="checkbox"/> Yes <input type="checkbox"/> No

	<p>Consultation Alternative Request for the Workgroup to consider?</p>	<p>There is the need to align the modification with the requirements of the end consumer, which is for fixed tariffs and certainty of costs. With the 3 months notice and 12 months fixed option, the certainty of charges reduces as you move through the 12 month period; as you introduce none fixed periods once you enter the fixed period. For example when setting charges from April t to April t-1, In May t I have 11 months left, however by the time I get to December I have only 3 months left. For the traditional contract round of October you know only half of a 1yr contract will be fixed, A greater notice period but with a smaller fixed period, can actually mean that in any moment in time throughout the year when a new customer is taken on, or a contract renewed, a significant proportion of the BSUoS costs for say a 1 year fixed deal will be known and fixed by the ESO. This is supported in the Frontier Analysis.</p> <p>There is therefore clear merit in creating WACMs aligned to the combinations shown in the Frontier analysis that have the best benefit for the system and for customers.</p>
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#### CMP362 Standard Workgroup Consultation questions

5	<p>Do you believe that the CMP362 Original Proposal better facilitates the Applicable Objectives?</p>	<p><input checked="" type="checkbox"/> Yes, it better facilitates objectives:</p> <p><input type="checkbox"/> A</p> <p><input checked="" type="checkbox"/> B</p> <p><input type="checkbox"/> C</p> <p><input type="checkbox"/> D</p>	<p><input type="checkbox"/> No, it has a negative effect on objectives:</p> <p><input type="checkbox"/> A</p> <p><input type="checkbox"/> B</p> <p><input type="checkbox"/> C</p> <p><input type="checkbox"/> D</p>
		<p>As per CMP361. CMP362 is raised to introduce the required legal text into the sections of the CUSC outside of section 14 so as to allow CMP361 to function and be implemented correctly. As we agreed CMP361 improves competition we therefore also agree that CMP362 does the same as it allows CMP361 to be implemented.</p>	
6	<p>Do you support the proposed implementation approach?</p>	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>Click or tap here to enter text.</p>	
7	<p>Do you have any other comments?</p>	<p>No</p>	
8	<p>Do you wish to raise a Workgroup</p>	<p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p>	

	Consultation Alternative Request for the Workgroup to consider?	Click or tap here to enter text.
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CMP361 & CMP362 Modification Specific Workgroup Consultation questions		
9	The Original solution has 3 months' notice and 12 months fixed, what would your preferred combination of notice period and fixed period be? Please provide your justification.	<input type="checkbox"/> 3-month notice period and 12-month fixed period <input 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 type="checkbox"/> Other (please describe below)  This combination aligns better with contracting rounds allowing all end consumers no matter when they sign a contract to benefit from the modification equally.
10	Do you support the use of an industry-funded BSUoS Fund to reduce the probability of re-setting tariffs?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Other / Don't know  Yes, if there is sufficient notice to build up this fund as it is more preferable than a mid year price change and price shock as Suppliers or the end consumer will bear the brunt of those changes and therefore may have to build in a risk premia which defeats the purpose of the modification.  It is essential that any contributions to the BSUoS fund are financed from an explicit premium on future BSUoS fixed tariff prices. By contrast, if shortfalls in the fund were financed retrospectively via reconciliation invoices, this would nullify the effect of setting a fixed charge and fail to deliver the planned benefits to customers.  Careful consideration needs to be made in the current climate over the size of this fund and how it is packaged and communicated to the Wider Industry and General public.
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	<div> <input type="checkbox"/> P99  <input checked="" type="checkbox"/> P95  <input type="checkbox"/> P90  <input type="checkbox"/> P77           </div> <div> <input type="checkbox"/> P75  <input type="checkbox"/> P65  <input type="checkbox"/> P50  <input type="checkbox"/> Other / Don't know           </div> We agree that a P99 risk profile insulates Industry and the end consumer from a mid year price change, i.e. a risk of a 1 in 100 year event. However in terms of risk premia there will be minimal difference between a 1 in 20 event and a 1 in 100 event. If a 1 in 100 event were to happen we would expect industry and Government to

	set at P99 – see table on pages 15-16)?	respond to that appropriately at the time. It's inefficient to minimise risk to that extent initially, especially as the end consumer ultimately pays for it. Industry operates on a 1 in 20 for many different scenarios when dealing with risk and that seems appropriate as a top end figure. We could be persuaded with a lower P. This is a part of a matrix for a potential WACM
12	Do you agree with the proposed approach to recover half of the BSUoS Fund in the first financial year and the rest in the second financial year?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Other / Don't know <p>As we transition to net zero BSUoS charges are likely to continue to be volatile. It is therefore best to build the fund up fairly quickly to offset the risk of a mid year price change.</p> <p>It is worth investigating the extra costs of funding over and above the proposed overdraft facility with potentially any extra costs such as interest feeding through into BSUoS. This may be preferable to a BSUoS fund essentially funded by customers.</p>
13	Do you agree with the proposed data transparency approach set out in the Workgroup consultation?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Other / Don't know <p>Through the NOA process, the ESO examines likely constraint costs, which trigger actual investment. As a minimum in BSUoS forecasts these processes should be aligned and constraints built into future forecasts. The argument that they will not be accurate cannot be used as they are deemed appropriate for network investment. This could look something like the Condition 5 statement for TNUoS. A commentary alongside any forecasts will be welcome as ultimately Suppliers have to inform the end consumer of any price changes and the ability to say it's more than just a change in forecasts would be most welcome.</p>