

**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> | Matthew Cullen               |
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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.*

*\*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:<br><input checked="" type="checkbox"/> A<br><input type="checkbox"/> B<br><input type="checkbox"/> C<br><input type="checkbox"/> D<br><input checked="" type="checkbox"/> E                                                                                                                                                                                                                  | <input type="checkbox"/> No, it has a negative effect on objectives:<br><input type="checkbox"/> A<br><input type="checkbox"/> B<br><input type="checkbox"/> C<br><input type="checkbox"/> D<br><input type="checkbox"/> E |
|                                                         |                                                                                                | <p>The main benefit to customers of fixing BSUoS is that this allows suppliers to reduce (or even remove) risk premia that have to be added to the tariff to insure the supplier against higher than forecasted BSUoS charges. By fixing BSUoS charges, this allows all suppliers to compete on an even footing and competition is not compromised by volatile charges that cannot be factored into tariffs (as recommended by the 1<sup>st</sup> BSUoS taskforce).</p> |                                                                                                                                                                                                                            |
| 2                                                       | Do you support the proposed implementation approach?                                           | <input checked="" type="checkbox"/> Yes<br><input type="checkbox"/> No                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                            |
|                                                         |                                                                                                | <p>Implementation should ensure that there is a sufficient period after the announcement of Ofgem's decision</p>                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                            |

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|   |                                                                                                  | regarding this code modification and its start date. This will allow existing multi-year fixed price supply contracts (common in the I&C market) to factor in the change and new pricing models to adapt. We believe that the implementation should also allow for a long notice period between announcement of the fixed BSUoS charge and its implementation (our preferred option is 12 months). This gives suppliers more certainty of future BSUoS charges and therefore allows them to more accurately charge customers (the original proposal of a 3-month notice period leaves the latter proportion of multi-year fixed price tariffs exposed and in some circumstances in as bad a position in terms of cost reflectiveness as today). |
| 3 | Do you have any other comments?                                                                  | <a href="#">Click or tap here to enter text.</a>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| 4 | Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider? | <input checked="" type="checkbox"/> Yes<br><input type="checkbox"/> No<br><br>We have already raised an alternative (12 month notice period, 3 month fixed period)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |

### CMP362 Standard Workgroup Consultation questions

|   |                                                                                                |                                                                                                                                                                                                                  |                                                                                                                                                                                              |
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| 5 | Do you believe that the CMP362 Original Proposal better facilitates the Applicable Objectives? | <input checked="" type="checkbox"/> Yes, it better facilitates objectives:<br><input type="checkbox"/> A<br><input type="checkbox"/> B<br><input type="checkbox"/> C<br><input checked="" type="checkbox"/> D    | <input type="checkbox"/> No, it has a negative effect on objectives:<br><input type="checkbox"/> A<br><input type="checkbox"/> B<br><input type="checkbox"/> C<br><input type="checkbox"/> D |
|   |                                                                                                | The introduction and updating of definitions will mean that all parties have a clearer understanding of the process and will therefore reduce industry challenge                                                 |                                                                                                                                                                                              |
| 6 | Do you support the proposed implementation approach?                                           | <input checked="" type="checkbox"/> Yes<br><input type="checkbox"/> No<br>All such definitions must align with other related code modifications that are currently live (such as the definition of final demand) |                                                                                                                                                                                              |
| 7 | Do you have any other comments?                                                                | No                                                                                                                                                                                                               |                                                                                                                                                                                              |
| 8 | Do you wish to raise a Workgroup                                                               | <input type="checkbox"/> Yes<br><input checked="" type="checkbox"/> No                                                                                                                                           |                                                                                                                                                                                              |

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| <p>Consultation<br/>Alternative Request for<br/>the Workgroup to<br/>consider?</p> | <p>Click or tap here to enter text.</p> |
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### CMP361 & CMP362 Modification Specific Workgroup Consultation questions

|   |                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
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| 9 | <p>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.</p> | <p> <input type="checkbox"/> 3-month notice period and 12-month fixed period<br/> <input type="checkbox"/> 9-month notice period and 6-month fixed period<br/> <input checked="" type="checkbox"/> 12-month notice period and 3-month fixed period<br/> <input type="checkbox"/> Other (please describe below)         </p> <p>As stated above, we believe that the Original proposal of 3-month notice period, 12-month fixed period (3N12F) is sub-optimal as it leaves significant proportions of the latter parts of multi-year fixed price tariffs exposed. These types of tariff are very popular in the I&amp;C market.</p> <p>A good example of this exposure can be seen in an example. Consider the 3N12F which 'announces' the 12-month fixed BSUoS in Jan 24 with the application of this tariff running from Apr 24 - Mar 25. For a supplier selling a 2-year fixed price contract in Jul 23 but starting in Oct 23 (which therefore runs until Nov 25), they will know the BSUoS charge for the period Oct 23 – Apr 24 with certainty (from the previous year's fixed BSUoS charge). This amounts to 6 months of BSUoS charge certainty. They will then be able to use the NGENO 2-year forecast of BSUoS charges (which is published every month) to estimate the coming Apr 24 – Mar 25 charge. This is 12 months with a degree of confidence in the BSUoS charge. However, the final 6 months of the tariff Apr 25 – Sept 25 needs to know the BSUoS charge for the period Apr 25 – Mar 26 and the supplier has no forecast information for BSUoS beyond Jun 25. Therefore, they are having to set a tariff with 6 months at the end of that tariff estimated using a partial forecast. Suppliers will have to incorporate risk premia to cover this uncertainty which reduces the effectiveness of the modification significantly.</p> <p>If the fixing of BSUoS is based on a 12 month notice period, 3 month fixed period (12N3F) such that the period Oct 23 – Dec 23 is announced in Oct 22, the period Jan 24 – Mar 24 is announced in Jan 23, the period Apr 24 – Jun 24 is announced in Apr 23 and the period Jul 24 – Sep 24 is announced in Jul 23, then the same example means that when the supplier is selling the two year fixed price tariff in Jul 23 (starting in Oct 23), the first 12 months</p> |
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|    |                                                                                                                                                                                                                                                           | <p>of BSUoS charge are certain (from previous announcements), the next 9 months can be completely estimated from the 2 year forecast and it is only the last 3 months that an estimate is needed for which the 2 year forecast is incomplete. Therefore, there is clearly less risk in the 12N3F option compared to the 3N12F one and therefore less cost to the customer through risk premia.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                             |
| 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<br><input type="checkbox"/> No<br><input type="checkbox"/> Other / Don't know                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                             |
|    |                                                                                                                                                                                                                                                           | <p>We do support the use of an industry funded 'pot' to ensure tariffs are not reopened. Even the possibility of re-opening may lead suppliers to incorporate risk premia to insure against this possibility.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                             |
| 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<br><input type="checkbox"/> P95<br><input checked="" type="checkbox"/> P90<br><input type="checkbox"/> P77                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | <input type="checkbox"/> P75<br><input type="checkbox"/> P65<br><input type="checkbox"/> P50<br><input type="checkbox"/> Other / Don't know |
|    |                                                                                                                                                                                                                                                           | <p>We believe that it is reasonable to develop a fund of money that can be used <u>if and only if</u> the ESO's working capital facility is exceeded. We were shocked to learn that the ESO cannot access all of the working capital needed for fixing BSUoS (current estimates given by the ESO suggest that they can raise ~£300m p.a.) for what is a very low cashflow risk only. It is our belief that the correct balance (between removing the risk of re-opening BSUoS charges and 'locking up' capital that could be usefully invested in other Net Zero initiatives) is best placed at ~£100m p.a. for the entire industry and a 1 in 10 chance of BSUoS charges needing to be re-opened. We believe that targeting anything less than a 1 in 10 chance is introducing a spurious level of accuracy. It suggests that BSUoS charges would be extremely unlikely to be re-opened, but the ability of NGESO to predict what those charges will be today (and therefore what level the insurance premia needs to be) is exceedingly difficult, giving the industry no confidence that the insurance premia will not just continue to rise as BSUoS costs increase (as is forecasted by NGESO).</p> |                                                                                                                                             |
| 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 type="checkbox"/> Yes<br><input type="checkbox"/> No<br><input checked="" type="checkbox"/> Other / Don't know                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                             |
|    |                                                                                                                                                                                                                                                           | <p>Whilst we are not opposed to collecting the BSUoS fund in two blocks, we would like to see further investigation into collecting the charges over an even longer period. For the 1 in 10 chance of reopening BSUoS charges, this implies that the chance of having to reopen charges</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                                                                                             |

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|    |                                                                                                  | <p>before the fund is full (for the two year option) is 19% (<math>1 - 0.9^2</math>). If the fund was collected over 3 years, this risk only rises to <math>(1 - 0.9^3) = 27\%</math>. For 4 years it is 34% and it is only after 7 years that the probability of needing the fund before it is full drops below 50%.</p> <p>Moving from a two year collection period to a five year collection period would save customers ~£5m based on a discount rate of 3.5% but would increase the risk of BSUoS charges needing to be re-opened to ~40%.</p> <p>Therefore, if the cost of reopening BSUoS charges to the industry exceeds £12.5m then extending the period to five years is not worth the risk. We would like to see more detailed analysis of this risk-reward problem.</p> |
| 13 | Do you agree with the proposed data transparency approach set out in the Workgroup consultation? | <p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p><input type="checkbox"/> Other / Don't know</p> <p>We believe that the approach set out by NGESO would give the industry sufficient warning of issues around the fixed BSUoS charge and the likelihood/severity of needing to reopen charges.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                              |