

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 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 or cusc.team@nationalgrideso.com

| Respondent details | Please enter your details |
|-------------------------|--------------------------------------|
| Respondent name: | Jenny Doherty |
| Company name: | NGESO |
| Email address: | Jennifer.doherty@nationalgrideso.com |
| Phone number: | 07771938569 |

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.

| CMP361 Standard Workgroup Consultation questions | | | |
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| 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 type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input checked="" 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>This modification will improve competition between suppliers (objective A) by removing BSUoS cost volatility and therefore the risk associated with over / under recovery through their tariffs.</p> <p>A fixed tariff will also simplify the charging methodology (objective E), by having a single BSUoS tariff throughout the year.</p> | |
| 2 | Do you support the proposed | <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | |

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| | implementation approach? | <p>We support implementation on 1st April 2023 of the first fixed period.</p> <p>We would like to highlight that there are complexities around the first notice period, as this will be relative to the 1st April 2023 date, subject to which notice period is agreed through the modification. The ESO is comfortable that we would be able to give notice for the first fixed tariff in December 2022 (at 3 months notice). We have significant concerns if the first notice period is any longer than 6 months in year 1. This is due to needing to create and implement any solution for setting the tariff for the first time. This is a process which we must scrutinise and ensure that sufficient levels of checks are put in place, so that the tariff itself is robust. We are conscious that the decision on this modification is not due until early 2022, therefore it will be a very quick turn around between a decision and setting the first tariff. For example, should a decision be made in February 2022, and the first notice period commence in April 2022 (in a 12 month notice, 3 month fix option), that would not be sufficient notice for implementation. We would require a minimum of 6 months' notice from Ofgem's decision to implement the modification and begin the first notice period.</p> <p>This is not a reason not to choose a longer notice period should it be found to be the best approach, however an interim approach may need to be found for year one which is feasible to implement. One example of such an interim approach would be, an agreement that in year one the first fixed tariff will be set in December, regardless of the enduring notice period for future years.</p> |
| 3 | Do you have any other comments? | <p>For the ESO to fund a fixed BSUoS methodology it is essential that there is a cap to the financial support that we are able to provide. This is required so that lenders and credit rating agencies can understand our risk profile. This will ensure that we can continue to maintain a strong credit rating to support access to credit facilities. Without this cap, we are unable to implement a fixed BSUoS approach.</p> <p>The inclusion of a cap, where the level of cap is agreed between the ESO and Ofgem, is also a more future-proof solution which allows the cap to be flexed in line with changes to ESO's ability to access credit facilities.</p> <p>In order for a cap to have any weight, the ESO must have the automatic right to re-set tariffs within a fixed period</p> |

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| | | <p>should it be required. We are conscious that should we be required to re-set tariffs within a fixed period, we will need to provide parties with information as to what the new tariff is and why we deemed it as a requirement to do so. This will be done both through the 5 days notice of the new tariff, and through our reasonable endeavours to consult on the level of the new tariff ahead of time. We would like to highlight that although we would aim to provide notice for parties to respond to such a consultation, we have not yet trialled fixed BSUoS, and do not know how short notice this may need to be should an emergency situation arise.</p> |
| 4 | Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider? | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Click or tap here to enter text. |

CMP362 Standard Workgroup Consultation questions

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| 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 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 |
| | | Click or tap here to enter text. | |
| 6 | Do you support the proposed implementation approach? | <input type="checkbox"/> Yes <input type="checkbox"/> No Click or tap here to enter text. | |
| 7 | Do you have any other comments? | We have not provided a response to CMP362 as the detail of this mod has not yet been developed | |
| 8 | Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider? | <input type="checkbox"/> Yes <input type="checkbox"/> No Click or tap here to enter text. | |

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 checked="" type="checkbox"/> 3-month notice period and 12-month fixed period <input type="checkbox"/> 9-month notice period and 6-month fixed period <input type="checkbox"/> 12-month notice period and 3-month fixed period <input type="checkbox"/> Other (please describe below)</p> <p>We believe that it is important for the tariff to be as accurate as possible and setting closer to real time achieves this. It is more likely that the closer to real time the ESO's forecast is made the more accurate it is likely to be.</p> <p>The key cost components which would be better known 3 months out, compared to 6 or 12, are network changes and wholesale costs. The assumption for network changes is made on the basis that network reinforcement projects can change or be delayed within a year of completion, and that this is noticeably less probable within 3 months of completion. Wholesale costs impact the cost of balancing services and so their variability needs to be considered as well, as seen in recent events, this would be much more reliable closer to real time, when more market information is available.</p> <p>Due to having a single tariff across the year, we believe that the over / under recovery process will also be less volatile, as there would not be swings in charges every quarter. In addition, forecasts would be more accurate as they would be set closer to real time, and so we would expect to see a smaller impact of over / under recovery.</p> <p>We also believe that there will be significant benefits to parties for having a 12 month period where there is a single fixed tariff. This will simplify the BSUoS process for many parties and provide a basis for their associated business plans.</p> <p>It also provides greater alignment between TNUoS and BSUoS charges, with both fixed tariffs running between 1st April – 31st March every year.</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 checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Other / Don't know</p> <p>The benefits to consumers, and industry parties, of fixing BSUoS is the certainty that a fixed tariff can provide. The ESO has a limited working capital facility, and therefore without the creation of an industry funded BSUoS fund, it is likely that tariffs would need to be re-set within the fixed period potentially every 1 in 4 years.</p> |

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| | | Without a BSUoS fund, tariff resetting would be a notable risk to parties and hence an additional item to include in risk premia. We therefore believe it is essential to create a BSUoS fund, to deliver the full benefits of fixed BSUoS. | |
| 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 checked="" 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 type="checkbox"/> Other / Don't know |
| | | <p>We believe that P99 is the best approach. This is due to it having the lowest likelihood of tariffs being reset within the fixed period leading to the most benefit to consumers as additional risk does not need to be added in to account for re-setting of tariffs. It should be noted that P99 does not mean that a tariff re-set will never happen, but it makes it significantly less likely than other scenarios. We believe that this satisfies the requirements of suppliers – in that they will see no changes once they have priced consumer contracts – and will lead to consumer benefits compared to the status quo as risk premia for BSUoS will not be necessary when suppliers price consumer contracts.</p> <p>In practice, this does mean that consumers will pay a relatively higher charge over the first two years whilst the fund is created (and at any subsequent point when the fund needs to be “topped up”). However, following this period we consider that charges will then remain lower than would otherwise be the case. We believe this approach provides a long-term benefit to consumers.</p> <p>We are concerned that any approach lower than P90 i.e 1 in 10 year likelihood that tariffs will be reset, will remove any associated benefits with fixing BSUoS as the risk of resetting tariffs would likely be reflected in the risk premia of parties.</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 checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Other / Don't know | |
| | | <p>Yes, we believe that this will reduce the impact on consumers in the first year, whilst the fund is created. It is important to note however that this does mean that P99 (or any such level which is agreed), would not then be fully covered in year 1 as the fund is not “complete”. Therefore, the likelihood of tariffs being re-set within the first fixed period is higher.</p> | |

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| 13 | Do you agree with the proposed data transparency approach set out in the Workgroup consultation? | <div><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Other / Don't know</div> <div>The proposed approach provides a significant level of data transparency. The approach taken aligns with both the TNUoS tariff process where draft tariffs are published within the year. In addition, providing transparency on the levels of WCF and BSUoS fund used, should allow parties to track the likelihood of tariffs needing to be reset should a significant portion of the WCF be used.</div> <div>The proposed approach to data transparency also comes with the additional benefit of allowing industry to get an early view of what future tariffs might look like. This should help challenge and review of tariffs to take place in advance of them being set and so reduce the likelihood of charging disputes related to tariff setting.</div> |
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