

CUSC Alternative Form

CMP361 WACM2:

Fixed BSUoS based on a 9-month notice period and 6-month fixed period

Overview: This alternative proposes to fix BSUoS with 9-month notice and a 6-month fixed period. All other aspects of this alternative are the same as the Original Proposal.

Proposer: Josh Logan, Drax Group

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What is the proposed alternative solution?

The Original proposal is to fix the BSUoS charge on a £/MWh basis for a period of 12 months with a 3-month notice period. The ESO would announce the BSUoS charge in Jan with the charge coming into effect in April through to the following March. The ESO favour a short notice period as it allows them to reduce the level of K factor corrections needed in later periods. When compared to other options, the ESO can fully recover the money quickest with their original.

However, we do not believe this original is in the best interests of market participants. We believe 3-month notice is too short and would still result in a considerable amount of the BSUoS risk being carried by suppliers. To accurately price BSUoS into supply contracts, a longer notice period is required.

With a total combined notice and fix period of 15 month, we prefer giving more weight to the notice period, this will remove the BSUoS risk from a greater proportion of supply contracts. Opting for 9-month notice and 6-month fix provides a good balance between fix and notice timescales.

The analysis by Frontier Economics considered the industry benefit of the different options weighted across different supply contract durations. Figure 47 of the report by Frontier Economics shows that this combination has the highest industry benefit out of the options which have a total fixed and notice period of 14/15 month. This suggests that 9N6F would remove the greatest amount of risk from supply contracts across the sector.

In summary, we believe that 9-month notice and a 6-month fix is the most optimal solution when constrained to a total combined notice and fix period of 15 month.

What is the difference between this and the Original Proposal?

The only difference between this solution and the Original Proposal is that the notice period is 9-month and the fix period is 6-month.

What is the impact of this change?

Proposer's Assessment against CUSC Charging Objectives

| Relevant Objective | Identified impact |
|--|--|
| (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; | <p>Positive:</p> <p>BSUoS charge volatility causes uncertainty for market participants and can have a negative impact on competition. It also increases costs for consumers due to the risk premia priced into contracts.</p> <p>Compared to the Original Proposal and baseline, this alternative</p> |

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| | will enable suppliers to more efficiently price BSUoS into contracts and will have a more positive impact on competition. |
| (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); | None |
| (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; | Positive The ESO forward plan commits to reviewing BSUoS charges and exploring the possibility of fixing BSUoS. This solution would significantly remove the BSUoS risk faced by suppliers. |
| (d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and | None |
| (e) Promoting efficiency in the implementation and administration of the system charging methodology. | Positive Fixing BSUoS simplifies the recovery of BSUoS costs and unlocks process efficiencies for market participants compared to the status quo. |
| *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). | |

When will this change take place?

Implementation date:

April 2023, as per the Original Proposal.

Implementation approach:

Same as the Original Proposal.

Acronyms, key terms and reference material

| Acronym / key term | Meaning |
|--------------------|--|
| BSC | Balancing and Settlement Code |
| BSUoS | Balancing Services Use of System |
| BSUoS Fund | The Original proposal is to place a cap on the ESO's total support via its working capital facility (WCF) and form an industry funded BSUoS Fund to ensure an agreed probability of tariffs being reset is covered. This would be collected as part of the BSUoS tariff. |
| CMP | CUSC Modification Proposal |
| CUSC | Connection and Use of System Code |
| LCCC | Low Carbon Contracts Company |
| SCR | Significant Code Review |
| CVA | Central Volume Allocation |
| DNO | Distribution Network Operator |
| DUoS | Distribution Network Use of System |
| EBR | Electricity Balancing Regulation |
| ESO | Electricity System Operator |
| Ex ante | "before the event" (Latin) |
| LCCC | Low Carbon Contracts Company |
| RCRC | Residual Cashflow Reallocation Cashflow |
| RIIO2 | Price Control Period |
| SCR | Significant Code Review |
| SQSS | Security and Quality of Supply Standards |
| STC | System Operator Transmission Owner Code |
| SVA | Supplier Volume Allocation |
| T&Cs | Terms and Conditions |
| TCR | Targeted Charging Review |

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|-------|------------------------------------|
| TNUoS | Transmission Network Use of System |
| WCF | Working Capital Facility |

Reference material:

- 1. Frontier Economics Report