

Workgroup Consultation Response Proforma**CMP408: Allowing consideration of a different notice period for BSUoS tariff settings**

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 22 May 2023**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration.

If you have any queries on the content of this consultation, please contact Claire Goult claire.goult@nationalgrideso.com or cusc.team@nationalgrideso.com

Respondent details	Please enter your details
Respondent name:	Niall Coyle
Company name:	E.ON UK
Email address:	Niall.Coyle@eonenergy.com
Phone number:	07824369037

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

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.

**The Electricity Regulation referred to in objective (d) is Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity (recast) as it has effect immediately before IP completion day as read with the modifications set out in the SI 2020/1006.*

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

Standard Workgroup Consultation questions		
1	Do you believe that CMP408 Original Proposal better facilitates the Applicable Objectives?	<p>Mark the Objectives which you believe the original solution better facilitates:</p> <p>Original <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E</p> <p>Click or tap here to enter text.</p>
2	Do you support the proposed implementation approach?	<p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>One of the main benefits of fixing BSUoS charges in advance is that it allows suppliers to reduce (or even remove) risk premia that must be added to the tariff to insure the supplier against higher than forecasted BSUoS charges. The BSUoS task force agreed that a combined 15 months fix/notice period is required for a fixed BSUoS tariff to have the required effect of reducing supplier risk premia.</p> <p>Shortening the notice period without extending the fixed period seriously erodes the benefits of CMP361/2, leading to suppliers building in risk premia to all fixed contracts to minimise BSUoS risk exposure.</p>
3	Do you have any other comments?	<p>While we recognise that National Grid ESO BSUoS forecasts will be more accurate closer to delivery, we believe the risk associated with BSUoS revenue recovery and balancing cost cashflow can be better managed through other methods, whether that be an industry BSUoS fund of an appropriate size, or another proposal developed by the TCMF subgroup. The means by which CMP408 proposes to reduce the risk for National Grid ESO (by shortening the combined fix/notice period) will lead to additional cost for the end consumer via supplier risk premia.</p>
4	Do you wish to raise a Workgroup Consultation Alternative Request for	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>We believe that a longer notice period, such as the CUSC baseline of 9N6F, is the optimum fixed/notice period to allow suppliers to reduce risk premia in fixed contract</p>

	the Workgroup to consider?	offerings. However, we also recognise that Ofgem have stated their preference for 3 months' notice period in their minded-to and final decision for CMP361/2. Therefore, we would like to propose an alternate with 3 months' notice, 12 months fixed (3N12F).
--	----------------------------	--

Specific Workgroup Consultation questions

5	What notice period for the BSUoS tariff do you feel is appropriate? Please provide the rationale for your response.	<p>Our view is that the current CUSC baseline of 9 months' notice is appropriate as it provides optimal certainty for suppliers and end consumers of the fixed BSUoS tariff and therefore leads to the greatest reduction in supplier risk premia when compared against the previous ex-post tariff charging methodology.</p> <p>Annex 4 to the Workgroup consultation demonstrates suppliers risk exposure under different combinations of fixed and notice periods for a one-year fixed tariff (starting in April or October and agreed 3 months in advance of the contract start date – typical of our I&C business).</p> <ul style="list-style-type: none"> - For the CUSC baseline (9N6F) 100% of the contract duration is covered by a fixed tariff therefore no supplier risk premia required - For the original proposal (3N6F) only 50% of the contract duration is covered by a fixed tariff for both start dates – increased supplier risk premia likely in both cases. - For our alternate proposal (3N12F), 100% of the contract starting in April is covered by a fixed tariff, but only 50% of the contract starting in October is covered – increased supplier risk premia likely, but to a lesser extent than the original proposal. <p>The baseline offers the best coverage for the most common contract length of 12 months and reduces the need for suppliers to factor in risk premia to reduce their BSUoS risk exposure.</p> <p>While this example focuses on contracts starting in April or October, the pattern also translates to domestic contracts that can start in any month.</p>
6	Do you believe that the 15-month combined fixed and notice period remains appropriate and that the fixed period of the BSUoS tariff also needs to be changed? Please	<p>The BSUoS task force agreed that a combined 15-month fix/notice period is required for a fixed BSUoS tariff to have the required effect of reducing supplier risk premia. We believe this is still true today, and that maintaining the 15-month combined fixed and notice period is paramount to the success of the ex-ante fixed BSUoS charging methodology. Shortening this duration means that the % of a fixed supply contract covered by a published BSUoS tariff is reduced. This will lead to suppliers building in risk</p>

	provide the rationale for your response.	<p>premium to fixed contracts to cover this increased risk exposure – See answer to question 5 (RE: Annex 4 analysis) for rationale.</p> <p>We believe the CUSC baseline is the optimum solution as it reduces the need for suppliers to include risk premium in fixed price contracts. However, if Ofgem feel a shorter notice period is necessary then we strongly urge that it is done so while maintaining the 15-months combined period so as not to completely erode the benefits of CMP361/2.</p>
7	Do you agree that the implementation of the tariff introduced by CMP408 (if approved for implementation on 1 st April 2024) should supersede any prior tariff set in the current 9-month notice period? Please provide the rationale for your response.	We do not agree that the tariff should be superseded if CMP408 were to be approved after the next tariff setting with 9 months' notice. This leaves suppliers pricing strategies in limbo and risks sending mixed signals to end consumers, with BSUoS tariffs "fixed" but without suppliers reducing risk premium for the period.