Stage 03: Workgroup Report

Connection and Use of System Code (CUSC)

CMP201 Removal of BSUoS Charges from Generation

Workgroup Consultation Responses

What stage is this document at?

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About this document

This document contains the responses to the Workgroup Consultation which took place between 29 February 2012 and 28 March 2012.

Document Control

Version	Date	Author	Change Reference
2.0	14 February 2013	Code Administrator	Version for CUSC Modifications Panel

Any Questions?

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1 Workgroup Consultation Responses

CMP201 – Removal of BSUoS charges from Generation

Respondent:	Sarah Owen 01753 431052
Company Name:	The Centrica Group of companies excluding Centrica Storage Ltd.
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	We do not support the implementation of this modification. We suggest that if this modification was to be implemented, end users within Great Britain would be adversely impacted by around £150m per annum (analysis undertaken by National Grid). Although the wholesale power price should reduce to exclude BSUoS charging to generators, the corresponding increase in flows across interconnectors would increase the power price resulting in a negative impact to GB end consumers. In light of this, we believe National Grid should consider withdrawing this modification as the original proposal was premised on the basis that there would be no adverse impacts on GB consumers. Additionally, this change will bring additional risk to suppliers due to the inherent volatility of BSUoS. We suggest this increase in risk is greater than the decrease in risk to generators (from no longer having to pay BSUoS), as generators are generally the beneficiaries of increased spending (implied by increased BSUoS). Furthermore, this proposal results in a dis-connect between the industry players that are subject to RCRC and BSUoS charges, Therefore, we believe the proposal is flawed and should not be adopted in its current form. We do not agree that a future change to the charging or cash out arrangements should be left to be considered as part of Ofgem's cash out review. Any potential disconnect should be resolved as part of this modification proposal. Notwithstanding, if this modification is accepted, we suggest that a time delay of at least two years before implementation is adopted to prevent windfall gains or losses. Windfall losses will occur if this is modification is implemented ahead of this two year period, as Suppliers hedge out their position and also offer fixed priced deals to consumers. In these situations, the Supplier would incur the increase in BSUoS charges but would be unable to pass this on, impacting margins which may already be very low. If a sufficient delay of at least two years is given, most of these contracts and hedges will have lapsed and new contracts can be negotiated with the relevant charges duly considered.

Do you believe that the proposed original or any of the alternatives better facilitate the Applicable CUSC Objectives? Please include your reasoning.	We do not believe that this modification betters any of the relevant objectives. We suggest that the detrimental impact to GB end consumers negates any positive impacts to GB generators. We believe that the proposal potentially has a detrimental impact on Applicable CUSC Objective (a) as the increased BSUoS risk will adversely affect competition in supply, as smaller suppliers are less able to manage uncertain cash-flows. We would note that this means Applicable CUSC Objective (c) may not be relevant as it is required to be consistent with Objectives (a) & (b). i.e. better facilitation cannot be considered if in conflict with either of the other objectives,

Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.	As stated above, we suggest that there should be at least a two year implementation delay to ensure that no parties incur windfall losses or gains. We do not support a phased approach as we consider this would complicate and add further risk to an already unpredictable charge and could impact system costs of implementation.
Do you have any other comments?	
Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	*If yes, please complete a Workgroup Consultation Alternative Request form, available on National Grid's website, and return to the above email address with your completed Workgroup Consultation response proforma.*

Specific questions for CMP201

Q	Question	Response
1	**Do you have any views on how the risk from CMP201 can be quantified?**	We suggest that further investigation could be undertaken by Ofgem as part of their impact assessments for this modification proposal.
2	**What are your views on the credit risk on Suppliers, either i) the under-securing of BSUoS for a short period following implementation of CMP201; (should special changes be made to ameliorate this time-limited risk, or is it bearable); and ii) the enduring increase?**	We suggest that if this modification is implemented, there will need to be a temporary change to the volume of credit posted to ensure that sufficient credit cover is posted. If this is not achieved then the Supplier community will become liable for this uncovered risk, should a liable party default.

Q	Question	Response
3	**Do you have any conflicting information or understandings as to how other EU Member States charge for BSUoS?**	No.
4	**Are there any further pros or cons that should be highlighted in the assessment and if so, how they might be demonstrated / quantified?**	Within Table 1, a con should be added to end consumers as they will incur additional costs for their power. The analysis of this was included in a report by National Grid.
5	**Do you have any additional views on the issue of BSUoS and RCRC interaction in the context of this proposal, and if so, any proposals for how it can be addressed?**	We suggest that the dis-connect between RCRC and BSUOS should be addressed under this modification or a linked modification should be raised. We do not agree that a future change to the charging or cash out arrangements should be left to be considered as part of Ofgem's cash out review. As a minimum, guidance should be sought as to whether this proposal is capable of being approved.
6	**Will the proposed change have any impact on User IS systems, please provide details, timing and likely costs?**	No.

CMP201 – Removal of BSUoS charges from Generation

Respondent:	*Duncan Carter* *Duncan.carter@consumerfocus.org.uk* *020 7799 8041*
Company Name:	*Consumer Focus*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	The working group have identified a number of risks from the implementation of CMP201 that must be carefully balanced with the potential benefits from the Mod. If it is unclear whether the Mod provides overall benefit then the presumption should be for the status quo to prevail as this represents the overall lowest risk and cost. While the Mod may offer some benefits in terms of meeting the likely future direction of EU energy policy, it is necessary to question whether now is the right time to consider this Mod, or whether deferral might represent a less risky option. Setting an arbitrary timeline for introducing a Mod that is contingent on as yet poorly defined EU policy seems unhelpful. The benefits from the Mod are premised on a successful, pan European liberalised energy market. We are some way from this being realised. Rather than implementing CMP201 now, it would be better to wait until a sufficient degree of maturity exists in the liberalisation of the European energy market to drive significant improvements in competition and consumer benefit. The UK's has one of the most liberalised energy markets in Europe and there is some evidence that consumers to date have benefited from this through energy prices that compare favourably with other member states. In many regards, the UK model is at the vanguard of European energy liberalisation. Many countries lag far behind the UK: the European Commission has recently issued statements urging eight countries to liberalise their energy market (Spain, Bulgaria, Cyprus, Slovakia, Luxembourg, the Netherlands, Romania and Slovenia) and to implement the measures necessary to transpose the third energy package into national legislation before 3 March this year. These measures include the separation of networks, the independence of national regulators and improvements in the operation of the retail markets; these are measures the UK has already realised. It will take some years before these countries have taken the important steps towards a liberalised energy market. Set in this context, CMP201 seems premature and peripheral to the fundamental changes that are still required in many EU member states before UK consumers will benefit from increased liberalisation in the European energy market. Furthermore, there is a risk that consumers will be subject to material disbenefit if generators do not pass on savings from BSUoS to suppliers. Despite a lack of transparency in transfer pricing and the role of trading arms, there is some evidence in

	the wholesale energy market that generators pass increases in wholesale energy costs quickly onto consumers, while they are slower to lower prices when wholesale prices fall, resulting in consumer detriment. In the absence of evidence to the contrary within the Working Group Consultation, it is reasonable to conclude that there is a high degree of risk that generators will not pass through savings from the removal of BSUoS to suppliers. In addition the risk of transitional windfall gains and losses, and the degree to which these can be mitigated by delaying the implementation of CMP201, provides further reason to postpone its implementation.
Do you believe that the proposed original or any of the alternatives better facilitate the Applicable CUSC Objectives? Please include your reasoning.	*For reference, the Applicable CUSC 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;* The proposal is likely to adversely impact upon ability of new suppliers to enter the market (4.12). This is not currently offset by the possible future and as yet unquantified advantages from a pan European liberalised energy market. At this time the impact of CMP201 on competition in the UK electricity market is likely to be negative. CMP201 will increase a Suppliers credit holding requirement (4.30). This is likely to make it harder for new entrants to enter the market. ENTSO-E's cited paper suggests that in Europe most TSOs charge network operators' charges to Demand/Load. Ignoring the acknowledged difficulties in comparing network charges across Europe for the time being, we think the greatest impact of EU on the UK electricity market in the short to medium term will be from counties with interconnects, or planned interconnects, with the UK. The UK has interconnects with France, Northern Ireland, Ireland, Netherlands and Belgium with planned interconnects with Norway. The G:D split is 2:98; 25:75; 25:75; 0:100; 0:100 respectively. Thus a move to 100% BSUoS on Demand in the UK would have the immediate effect of *decreasing* harmonisation, the short to medium term at least, with those countries the UK is interconnected – or likely to interconnect with. *(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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard condition C26 (Requirements of a connect and manage*

	connection); It also likely that the risk from BSUoS variability are asymmetrical and Generators are better able to manage the risk; the market will work most effectively when those who are better able to manage risk are effectively rewarded or penalised. A transfer of BSUoS to demand thus seems likely to increase the total risk premium which will have a negative impact upon consumer bills. *(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* Neutral

Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.	No. The proposal has merits when other member states are more advanced in liberalising their energy markets. At the moments, the UK is already “leading the pack”. Going faster and further than other member states given the risks involved in implementation, both transitional windfalls and enduring risks. We suggest that CMP201 is postponed and reconsidered when other EU member states are more advanced in the liberalising of their energy markets. We would welcome the opinion of working group members on what might represent appropriate triggers. Furthermore there is a real risk of consumer detriment if generators do not pass BSUoS savings onto suppliers.
Do you have any other comments?	
Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	*If yes, please complete a Workgroup Consultation Alternative Request form, available on National Grid's website, and return to the above email address with your completed Workgroup Consultation response proforma.*

Specific questions for CMP201

Q	Question	Response

Q	Question	Response
1	**Do you have any views on how the risk from CMP201 can be quantified?**	We would welcome an assessment of the total annual value of the current BSUoS payments by generators. Figure 1 in the Working Group paper suggests this will be under £100m. This would help assess the materiality of the "worst case" scenario in which generators fail to pass on savings to wholesale market/suppliers. In this worst case, consumers could end up effectively "double paying" BSUoS charges. Under the proposals they would be paying 100% of BSUoS and could also be paying the 50% of BSUoS formerly paid by generators. An estimate of the size of transitional risk posed by existing contracts would also be helpful to further understand possible detriment.
2	**What are your views on the credit risk on Suppliers, either i) the under-securing of BSUoS for a short period following implementation of CMP201; (should special changes be made to ameliorate this time-limited risk, or is it bearable); and ii) the enduring increase?**	Greater competition in the supply market is vital for improving competition in the UK's energy market. CMP201 will increase barriers to entry by requiring increased credit holding. Smaller suppliers in particular already find it harder to secure credit at favourable rates than larger suppliers; CMP201 will further exacerbate this barrier to entry reducing competition in the energy market, contrary to condition (a) of the CUSC. We do not think this will be offset by the reduction in risk for smaller generators. Generators are better positioned to manage the BSUoS variability risk compared to suppliers. Generators are also naturally hedged for variability in BSUoS by other payments they receive eg constraint revenues. We do not accept the view in 4.19 that the wholesale electricity market is competitive and so generators cannot price the cost of constraints any more easily than suppliers. We agree with the Ofgem view that the competition in the electricity market requires improvement. Also iii) in 4.16 suggests that individual generators could not simply inflate the cost of services. Ofgem's recent consultation on Transmission Constraint Licence Conditions would suggest that some generators are able to inflate the cost of service.
3	**Do you have any conflicting information or understandings as to how other EU Member States charge for BSUoS?**	No comment.
4	**Are there any further pros or cons that should be highlighted in the assessment and if so, how they might be demonstrated / quantified?**	No comment.

Q	Question	Response
5	**Do you have any additional views on the issue of BSUoS and RCRC interaction in the context of this proposal, and if so, any proposals for how it can be addressed?**	No comment.
6	**Will the proposed change have any impact on User IS systems, please provide details, timing and likely costs?**	No comment.

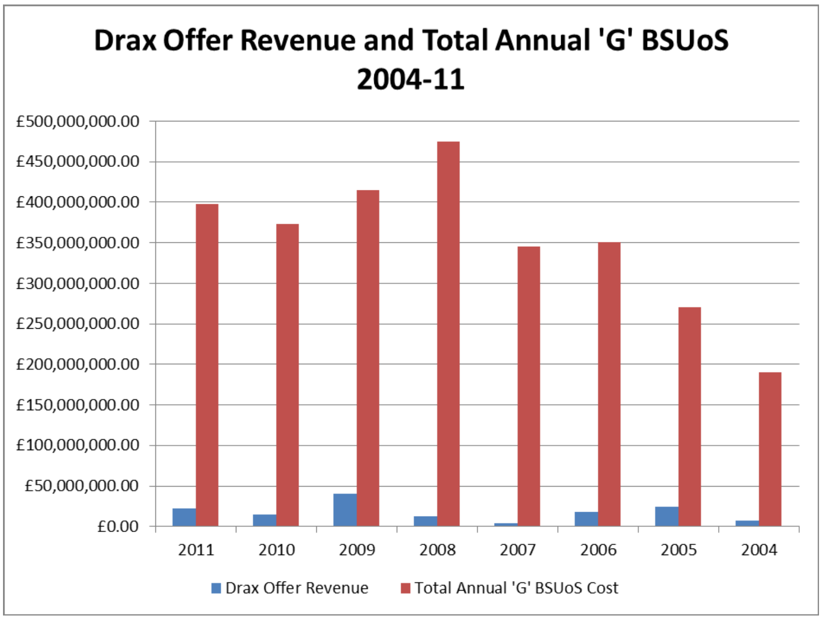
CMP201 – Removal of BSUoS charges from Generation

Respondent:	Cem Suleyman – cem.suleyman@draxpower.com
Company Name:	*Drax Power Limited and Haven Power Limited*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	The Problem The evidence presented to date suggests that the majority of European electricity markets place BSUoS (equivalent) charges exclusively on demand. As a result, the wholesale electricity price in these markets will not include the cost of balancing services. Consequently, GB generators are placed at a disadvantage when trading in other European markets via interconnectors when compared with equivalent generation (assuming generation costs are identical in each market). This is because GB generators must factor in BSUoS costs as part of their Short Run Marginal Cost. The Objective of the Modification We agree with the intentions underpinning CMP201. These are to: • facilitate efficient competition between European generators, which maximises allocative EU efficiency for the benefit of end consumers; and • be consistent with the spirit of the Third Package, i.e. facilitate cross-border trade. We believe CMP201 achieves these objectives, because it will better align GB Balancing Services charging arrangements with those prevalent in other EU Member States. By levying all BSUoS costs on demand, this will align the GB „generation stack" with those located in other European markets by removing the BSUoS element from generation prices offered to the market. This change will provide a level playing field in the GB market and in those EU markets to which GB is interconnected. However, to achieve the benefits listed above CMP201 must be implemented alongside CMP202. Implementing both CMP201 and CMP202 as a package will: • Facilitate efficient cross border trade, enhancing GB electricity market competition and security of supply, benefitting end consumers; • Align the GB electricity market arrangements with those predominately operating in other European markets, thereby furthering the EU Third Package objective to implement a single EU electricity market; • Remove the existing barrier to GB exports that occurs due to the differential in treatment of BSUoS (equivalent) costs across European electricity markets (CMP202 on its own only partially removes this distortion); and • Avoid subsiding electricity imports to GB from continental Europe (this distortion will occur if CMP202 is implemented on its own). The distortion highlighted in the latter bullet point would occur because GB power will continue to be subject to BSUoS whilst

	imports will not be liable to equivalent balancing costs. This may result in „higher total cost" power being imported due to the different treatment of balancing costs across the value chain in differing European Member States. This would result in the inefficient trade of wholesale electricity, which could be easily avoided by implementing CMP201 and CMP202 together. <u>BSUoS cost reductions and the wholesale power price</u> We agree that removing the 50% BSUoS share from generation will allow generators to offer lower wholesale electricity prices (net of the BSUoS element). In a competitive generation market, this will offset the corresponding increase in the BSUoS charge to suppliers. As such, retail electricity prices will not differ due to levying all BSUoS costs on suppliers (assuming adequate time is allowed to transition to the new arrangements). Any subsequent changes in retail prices will be related to changes in market fundamentals, e.g. changes in the balance of exports and imports. A key measure of the competitiveness of markets is the level of market concentration. The primary measure of market concentration is the Herfindahl-Hirschman Index (HHI). The latest HHI data for the GB generation market (based on metered volume) available to us is for 2010[1]. The Ofgem report indicates an HHI of 1,238 for the generation market. This is way below the threshold of >1,800 which indicates a highly concentrated market. This demonstrates that generators will have little scope to withhold the cost savings associated with lowering their BSUoS cost. As such any cost savings will filter through to retail prices. <u>Supplier tools to pass on BSUoS costs</u> We note that suppliers have a number of tools at their disposal to pass through any increase in BSUoS costs to their customers. These include: re-openers, specific pass through elements, contract renewals, etc. To ensure that suppliers can reasonably pass through their increased BSUoS liability, it is important that reasonable time is provided to transition to the new arrangements. It is our understanding that the majority of customer contracts are set no longer than three years forward. Therefore a minimum three year notice period would best allow market participants to transition effectively. We discuss our views on transition in more detail below. <u>The risk premiums applied by generators and suppliers are the same</u> We believe that the risk premium generators and suppliers apply to BSUoS costs (due to the fact BSUoS charges are volatile and determined ex-post) are the same. Therefore, levying BSUoS 100% on demand will result in a transfer of risk rather than an increase or decrease in risk (which would either benefit or disadvantage end consumers). It has been suggested in the Workgroup consultation that the risk premium applied by generators is lower relative to that applied by suppliers. It has been suggested that this is the case due to

generators receiving a proportion of constraint payments that can then use to hedge against BSUoS costs. This will then allow generators to levy a lower risk premium relative to a situation where they receive no BOA income. We do not believe this to be the case. This is primarily because generators cannot predict when and how much they will receive from BOA payments. In fact, some generators (for example nuclear power stations) are unlikely to receive any BOA income.

To illustrate how unpredictable BOA revenue for specific generators can be, we have produced data demonstrating the level of Offer revenue Drax Power Station has earned each year between 2004 and 2011. In addition, to illustrate the lack of correlation between the level of BSUoS and BOA income, the total BSUoS cost for generators between 2004 and 2011 is shown on the same graph.



The above graph shows that there are significant fluctuations in Offer revenue received year on year. Moreover there is a high point of approximately £40m and low point of less than £5m. There is additionally, a large degree of income fluctuation within month as well as inter year.

Finally, even if it were the case that BOA income was steady and predictable (which it is not), there is no relationship between BSUoS fluctuations and the level of income received by specific generators. For example, the peak amount of Offer revenue in 2009 does not correspond with peak total BSUoS costs. Therefore, we do not believe that the achievement of BOA revenue can do used to hedge BSUoS costs.

<u>BSUoS is a cost recovery mechanism</u>

It has been suggested in the Workgroup Consultation that the removal of BSUoS charges from generation might dull signals provided to generators to operate efficiently. We do not believe this to be the case. BSUoS costs are not levied according to specific generator behaviour and it is levied ex post; as such, it is not useful as a signal to influence the behaviour of generators. Therefore placing all BSUoS costs on demand will not remove any signals encouraging generators to perform in an efficient

	manner. Rather, BSUoS is simply a cost recovery mechanism.
Do you believe that the proposed original or any of the alternatives better facilitate the Applicable CUSC Objectives? Please include your reasoning.	We believe that by implementing CMP201 and CMP202 as a package both modifications will better facilitate Applicable CUSC objectives (a) and (c). By removing all import and export distortions caused by levying 50% of BSUoS on generation, this will help create a level playing field between generators in the EU internal market for electricity. This will facilitate efficient cross border trade and benefit GB consumers in terms of fostering more competitive electricity prices. Thus Objective (a) is better facilitated. Objective (c) is better facilitated as implementing both modifications will better reflect the duties associated with National Grid‟s business by promoting a single internal market in electricity which will promote efficient cross border trade (in line with the intent of the Third Package).

Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.	We agree that a reasonable length of time should be allowed for transition to ensure both generators and suppliers are able to take account of changes in their commercial agreements with each other and, in the case of suppliers, with end consumers. We believe that a three year transition period2 would allow adequate time to avoid any potential perverse outcomes and unintended consequences. This is due to the majority of fixed term contracts being three years or less in length. Therefore, when new contracts are negotiated, prices should reflect the new BSUoS charging arrangements. We note that discussion at Workgroup meetings suggests contracts that are longer than three years in length are likely to contain clauses that enable the pass-through of cost increases related to regulatory changes. Whilst we agree, these longer term contracts also represent a small minority of total customer contracts. In contrast we believe that a five year transition period would be disproportionate to the potential cost to suppliers. The benefits of CMP201 (and CMP202) should be realised in a reasonable timeframe. It is our view that the potential for perverse outcomes is almost eliminated with a three year notice period. Therefore, any risks beyond three years are unlikely to be material. For similar reasons, we do not think that CMP201 should only be allowed to take effect once all forward trading arrangements have been amended to clearly state whether or not BSUoS is included. In addition to unnecessarily delaying the benefits of the Modifications, we believe this suggestion could create a perverse incentive to set up a small number of very long term forward contracts which would frustrate the transition of CMP201. With regards to phasing, we believe that all the phased approaches detailed in the consultation document are overly complex and are likely to significantly increase the implementation costs associated with CMP201 whilst providing little additional benefit. Moving all BSUoS charges to demand in

	one step with a reasonable notice period (i.e. three years) is both a sensible and cost-effective approach. Finally, in the interests of ensuring consumers are well informed of the changes which might need to be made to their contracts, we can see some benefit in National Grid providing a short explanation letter to confirm when and why tariffs might change following the implementation of the Modification in the event of Ofgem approval. Moreover, we suggest that best practice would entail suppliers informing customers of any changes to their contracts well in advance to ensure consumer confidence in the market is maintained.
Do you have any other comments?	No.
Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?	No. However, we encourage the Workgroup to consider a Workgroup Alternative which sets the transition time to three years as opposed to two or five years. This is because we understand that the majority of customer contracts do not extend beyond three years in duration. As such, a three year transition arrangement would best ensure that any perverse outcomes are avoided whilst allowing the benefits of the modification to be captured at the earliest opportunity. Moreover, a three year transition potentially provides a compromise between the two year and five year transition options.

Specific questions for CMP201

Q	Question	Response
1	**Do you have any views on how the risk from CMP201 can be quantified?**	We are only aware of the methods discussed at the first two Workgroup meetings. We believe these provide a satisfactory quantification of the potential effects that CMP201 might cause.

Q	Question	Response
2	**What are your views on the credit risk on Suppliers, either i) the under-securing of BSUoS for a short period following implementation of CMP201; (should special changes be made to ameliorate this time-limited risk, or is it bearable); and ii) the enduring increase?**	In the short term, we believe the increase will have a small impact on supplier's credit risk costs. We expect that the increased level of credit cover would be required to be in place prior to the implementation date. As such, National Grid should have oversight of any parties failing to post additional credit in good time. In such circumstances, National Grid may wish to warn parties of their potential to breach credit requirements if they fail to increase the level of credit posted. However, credit cover is one of the elements that smaller suppliers are wary of and any enduring increase that exposes the supplier to a larger credit risk can be challenging to manage. This would especially be the case for a new market entrant who would not have the benefit of a good payment history to offset some of the credit requirements and would need to lodge cash. There is also the issue that increased charges carry the risk of causing cash flow difficulties as the point at which the supplier pays (every 29 days) is different from the point at which suppliers can recover money from the customer – especially if they are quarterly billed. Whilst these already exist, the fact that the BSUoS charge will be doubled will exacerbate this issue. However, whilst noting these impacts we believe that provided adequate notice of changes is given to market participants (e.g. a three year transition), a prudent supplier will be able to manage these enduring impacts. Moreover, these impacts are outweighed by the benefits of the proposed modification.
3	**Do you have any conflicting information or understandings as to how other EU Member States charge for BSUoS?**	No. We believe that the evidence presented to the Workgroup represents a realistic assessment of the treatment of BSUoS (equivalent) costs in continental European electricity markets.

Q	Question	Response
4	**Are there any further pros or cons that should be highlighted in the assessment and if so, how they might be demonstrated / quantified?**	No. We believe that all the relevant pros and cons have been captured. We agree strongly with the following pros highlighted in the Consultation document: • There is the potential for suppliers to experience windfall losses “if implementation/transition is poorly managed”. Moreover, sufficient time is required for changes to “be reflected in Supplier / Gen and Supplier / customer contracts”; • The Modification will allow GB generators to “compete with other generation on [an] equal basis”; • There will be “greater opportunities to export electricity from GB – [which] creates a level playing field with continental generation”; • The Modification “removes potential electricity import (to GB) distortion; e.g. potential for higher cost imports, that only appear to be relatively „cheap‟ due to the regulatory treatment of BSUoS type costs, to undercut GB generation as EU generation does not pay BSUoS”; • The Modification facilitates the “promotion of efficient EU wide competition in electricity through [the] removal of NTBs [Non Tariff Barriers] [and] maximises allocative efficiency across the EU"; and • There is no increase in risk as “generators‟ and suppliers‟ BSUoS risk is symmetrical. Risk is only transferred”. Therefore, there will be “no effect on end consumers from changing the BSUoS charge allocation”. We disagree strongly that: • “End consumer costs will rise due to asymmetric risk”. • That there is the potential for wholesale prices to “not decrease in line with [the] decrease in BSUoS costs”. This will only occur if transition is managed poorly. Assuming transition is adequately covered, there is sufficient competition in the generation market to ensure that reductions in BSUoS costs will be passed on in full to end consumers via the wholesale market.
5	**Do you have any additional views on the issue of BSUoS and RCRC interaction in the context of this proposal, and if so, any proposals for how it can be addressed?**	We do not believe that there is any interaction between RCRC and BSUoS. We believe that RCRC is a consequence of dual cash out pricing and will continue to function as it currently stands. BSUoS and RCRC can both be either positive or negative at the same time, but can also be in different directions at the same time (RCRC can be positive whilst BSUoS is negative and vice-versa). This suggests that there is no correlation/interaction which needs to be addressed.
6	**Will the proposed change have any impact on User IS systems, please provide details, timing and likely costs?**	The impact to users IT systems will be minimal. Generators will only be required to remove BSUoS from cost calculations (or set to zero). Suppliers and their IT systems already deal with BSUoS costs; it is only a change to the percentage allocated to such parties.

CMP201 – Removal of BSUoS charges from Generation

Respondent:	Paul Mott
Company Name:	EDF Energy
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	EDF Energy believes that the workgroup has produced a balanced and reasonable report.
Do you believe that the proposed original or any of the alternatives better facilitate the Applicable CUSC Objectives? Please include your reasoning.	EDF Energy believes that CMP201 would, if passed, better facilitate System Charging Method objective (a). This is because if passed, it would help to create a level playing field between Generators in the EU which in turn should facilitate further cross-border trading of electricity and benefit GB consumers from more competitive wholesale prices. We also believe that CMP201 would, if passed, better facilitate System Charging Method objective (c). This is because if passed, it would help National Grid (NG) by promoting a single internal market in electricity and facilitating greater cross-border trading of electricity an objective of the EU 3rd Package.

Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.	Timescales for implementation are paramount. The modification does not mandate an implementation date. The date needs to take some account in of the general lengths of existing contractual commitments (but not case by case). In particular we note that removing the 50% BSUoS share from generation will lead to lower wholesale electricity market prices, thereby offsetting the increase in the BSUoS charge to Suppliers. Forward trade horizons are at least 18 months ahead and so at least 18 months notice is needed before implementation to ensure that the reduction in BSUoS charges for generators are able to feed through into lower wholesale prices. This should also allow sufficient time for Suppliers to build any increase into their Supply contracts and so ensure that they are protected against any unexpected increase in BSUoS. We note that the final vote of the CUSC panel is to be in July, so that if the Authority's decision were within three months, by October 2012, there would be 18 months' notice to April 2014. Our settlements department has confirmed that monthly phasing-in, as described in the Phase Implementation portions, would not cause any difficulties, and that implementation on a date other than 1st April would also be acceptable.

	We would suggest implementation on either 1st April 2014 if the decision was made by 1st October 2012, or 1st October 2014 if the decision was made at a later stage. This is because a number of Supplier contracts with customers start/finish on 1st October 2014, so it is a natural alternative choice to April. Since the modification does not specify an implementation date, either of these dates would be consistent with it, and would not require an alternative amendment. We are neutral on the question of phasing. It would add a very small amount of complexity to being a participant in this sector. The complexity added is less under variant (b) (phasing in by periods of six months) than under variant (a) (monthly phasing), and so we should have a small preference for (b) over (a) if phasing is to be the implementation approach. The phasing-in of the change could allow a beginning of the phasing prior to April 2014, but the phasing should not then end on April 2014. That is say, phasing resulting in full implementation by April 2014 appears too extreme. The example phasing discussed in the paper, where , the proportion of the BSUoS charges paid by Generators declines at a set rate, either by month or by six month block from 50% to 0% from 1st April 2013 to 31st March 2015, may represent an acceptable approach to the application of two-year phasing-in. We do not agree with the more complex phasing variant (c) discussed. This appears to be unnecessarily complex. It also, as a minor issue, raises uncertainties about the proportion of BSUoS that is paid by generators per month during the entire transition period, as that proportion would be dependent on the total volumes of HH and NHH demand, and would not be known in advance. We do not agree with phasing-in the change over a five year period, as this appears too long.
Do you have any other comments?	No.
Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?	*No.*

Specific questions for CMP201

Q	Question	Response
1	**Do you have any views on how the risk from CMP201 can be quantified?**	The work done by the workgroup and National Grid appears to represent a fair attempt at this

Q	Question	Response
2	**What are your views on the credit risk on Suppliers, either i) the under-securing of BSUoS for a short period following implementation of CMP201; (should special changes be made to ameliorate this time-limited risk, or is it bearable); and ii) the enduring increase?**	Technically, there will be a short period where Suppliers are under-securing against BSUoS. 1 month's BSUOS forward cover (to NG) must be secured, the calculation being against BSUoS prices to Suppliers over the last 3 months. Therefore technically, an adjustment ought to be made for the three months prior to implementation for a step implementation, though this may not be essential. For a phased implementation, the increase in BSUoS prices Suppliers are exposed to over two years would be so gradual as to be almost entirely picked up at each point in time by the three month averaging in the liability calculation method, so that no change would be required. On an enduring basis post-implementation, we do not believe that a Supplier should face an insuperable difficulty in the increased BSUoS credit exposure.
3	**Do you have any conflicting information or understandings as to how other EU Member States charge for BSUoS?**	No.
4	**Are there any further pros or cons that should be highlighted in the assessment and if so, how they might be demonstrated / quantified?**	No.
5	**Do you have any additional views on the issue of BSUoS and RCRC interaction in the context of this proposal, and if so, any proposals for how it can be addressed?**	We do not regard RCRC as a natural hedge for BSUoS. If parties were entirely in energy balance in a given half-hour, half of BSUoS costs would still be present. If parties' energy imbalances in a given half-hour were large but the net energy imbalance was zero, and if there were no need for constraint resolution, RCRC would still be high. We do agree that there could be merit in the RCRC charging (distribution) base being considered in the future, but it is not proper business for CMP201, and no dependency can be introduced.
6	**Will the proposed change have any impact on User IS systems, please provide details, timing and likely costs?**	No identifiable impacts

CMP201 – Removal of BSUoS charges from Generation

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 by **28 March 2012** to cusc.team@uk.ngrid.com
Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests.
Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup report which is submitted to the CUSC Modifications Panel.

Respondent:	Paul Carter Tel 01977 782525 Email paul.carter@eggboroughpower.co.uk
Company Name:	Eggborough Power Limited
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	Eggborough Power Limited (EPL) supports the removal of BSUoS charges from GB Generators, there by recovering all BSUoS costs from GB Suppliers, as we agree that this would better align the GB market arrangements with other EU member states. The more similar charging structures are between states the greater the competitive pressure will be between plants as the internal market develops and cross border trading increases.
Do you believe that the proposed original or any of the alternatives better facilitate the Applicable CUSC Objectives? Please include your reasoning.	*For reference, the Applicable CUSC 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;* By levelling the playing field between generators in the GB market and those in other EU markets the proposal will increase competition and the potential for cross border trade. It will also remove the price advantage for interconnector parties who can import power, but not face BSUoS, thereby earning greater profits on the back of wholesale prices that reflect BSUoS costs. EPL recognises the concerns expressed about some supply contracts. However, we believe this problem would be very limited as few parties would have signed contracts that did not allow for cost past through or alterations in price to reflect regulatory changes. Therefore any impacts on suppliers should be short lived. *(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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard condition C26 (Requirements of a connect and manage connection); If it is assumed that the customers ultimately pay the costs associated with delivering electricity to them, then placing the charges more directly on customers (via Suppliers) is a more efficient way to allocate the costs. As noted with interconnectors, some parties are able to gain for the BSUoS included power prices though they are not paying BSUoS. On balance EPL believes that the charging arrangement will be more efficient by making the charges more direct and removing trading distortions. *(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.* The transmission business needs to react to the way the EU markets are developing, with policies to enhance interconnection and competition between member states. Development of the system should be based on seeing how the internal market works and responding to changes in power flows.

Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.	EPL thinks that 24 months is too long a timescale for implementation. We would rather see the change occur after a year. This should give suppliers time to go and renegotiate or alter contracts as required.
Do you have any other comments?	No
Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No

Specific questions for CMP201

Q	Question	Response
1	**Do you have any views on how the risk from CMP201 can be quantified?**	If the suppliers believe that they face risks then they should evidence those.

2	**What are your views on the credit risk on Suppliers, either i) the under-securing of BSUoS for a short period following implementation of CMP201; (should special changes be made to ameliorate this time-limited risk, or is it bearable); and ii) the enduring increase?**	While there is an implementation risk, EPL feels that the risk will be limited and therefore the costs of trying to alter the credit calculation is probably not worth the benefit to the community. However, a simply solution would be to simply double the number against which credit is raised recognising the suppliers' liabilities effectively double compared to the previous year. Credit is always an issue from smaller players. However, if they have to increase credit for BSUoS they should see credit for energy reduce as wholesale prices reduce.
3	**Do you have any conflicting information or understandings as to how other EU Member States charge for BSUoS?**	No
4	**Are there any further pros or cons that should be highlighted in the assessment and if so, how they might be demonstrated / quantified?**	No
5	**Do you have any additional views on the issue of BSUoS and RCRC interaction in the context of this proposal, and if so, any proposals for how it can be addressed?**	No
6	**Will the proposed change have any impact on User IS systems, please provide details, timing and likely costs?**	No

CMP201 – Removal of BSUoS charges from Generation

Respondent:	*Esther Sutton* *esther.sutton@eon-uk.com*
Company Name:	*E.ON*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	CMP201 seeks to align GB electricity market arrangements with those prevalent in the EU where charges equivalent to bsuos are more commonly charged 100% to generation, and in doing so further cross-border trades and the move to one European market for energy. On this basis, E.ON supports CMP201.
Do you believe that the proposed original or any of the alternatives better facilitate the Applicable CUSC Objectives? Please include your reasoning.	*For reference, the Applicable CUSC 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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard 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.* We support the arguments of the Proposer that changing the Use of System Charging Methodology through CMP201 could further Objective (a) to facilitate competition, and (c), that by further aligning GB market arrangements with Europe this is taking due account of developments.

Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.	We see that the Workgroup has not yet concluded what the implementation approach for CMP201 should be; we would support a longer time-frame for implementation. While as a Charging Methodology change an implementation of/beginning 01 April should give parties more notice than for a change to another part of the CUSC, clearly the Authority's decision date will determine exactly how much notice companies receive of this change. We note that not only a 2 year but a 3 year transition period may not allow enough time for this change to be incorporated in Supply contracts with some customers, hence we

	do not support the Proposer's suggestion of an implementation date of 24 months. We note the arguments for and against a phased or step-change implementation; and that as per para. 5.8 that if this change required system changes then a step-change approach might be more manageable than phased implementation. However on this point we believe that CMP201 should not require any significant changes to our User systems so for us IS changes are not a barrier to a phased approach.
Do you have any other comments?	Not at this stage.
Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?	No.

Specific questions for CMP201

Q	Question	Response
1	**Do you have any views on how the risk from CMP201 can be quantified?**	The temporary transition risk to Suppliers will only affect a certain proportion of contracts and should be manageable given long enough advance knowledge of implementation to incorporate this change into forthcoming agreements. However as the Report acknowledges, commercial sensitivity means that it would be difficult to quantify the risk to Suppliers of contractual arrangements that might not allow pass-through or reopening under these circumstances. Consequently, to minimise this risk it would seem prudent to ensure a longer timeframe for implementation than the 24 months initially suggested. We do not believe that the risk premium owing to the variability/volatility and ex-post nature of bsuos is more easily managed by Generators as one Group member suggested per para. 4.13-18, and cannot see how it would be practical to quantify this theory.

Q	Question	Response
2	**What are your views on the credit risk on Suppliers, either i) the under-securing of BSUoS for a short period following implementation of CMP201; (should special changes be made to ameliorate this time-limited risk, or is it bearable); and ii) the enduring increase?**	We do not believe that these present significant issues. We recognise that if CMP201 was implemented the current credit arrangements risk under-securing bsuos for a short period post-implementation but do not expect that this would be a serious risk; if further information suggests otherwise then this might justify changes to limit this risk. Suppliers would have an enduring requirement to increase their credit cover, but we agree that, as the Group has identified, independent generators would see the opposite effect therefore any negative impact on competition from the former would be offset by the latter.
3	**Do you have any conflicting information or understandings as to how other EU Member States charge for BSUoS?**	No.
4	**Are there any further pros or cons that should be highlighted in the assessment and if so, how they might be demonstrated / quantified?**	Not that we are aware of.
5	**Do you have any additional views on the issue of BSUoS and RCRC interaction in the context of this proposal, and if so, any proposals for how it can be addressed?**	No additional views.
6	**Will the proposed change have any impact on User IS systems, please provide details, timing and likely costs?**	We believe that there should be no significant impact on IS systems for either our Generation or Supply business.

CMP201 – Removal of BSUoS charges from Generation

Respondent:	Chris Hill (chris.hill@first-utility.com)
Company Name:	First Utility
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	First Utility is not in support of the above proposal as we believe that forcing suppliers to take on the whole risk related to BSUoS is disproportionate and will mean that RCRC and the energy balancing element of BSUoS will no longer net to zero. In addition, suppliers' credit requirements in relation to BSUoS are likely to increase and this will have a negative impact on competition, particularly in relation to smaller suppliers who do not own generation businesses to offset this increased charge. Working capital which could be used to grow these businesses will be diverted to this new higher cost.
Do you believe that the proposed original or any of the alternatives better facilitate the Applicable CUSC Objectives? Please include your reasoning.	We do not believe that implementation of the proposal will better facilitate the Applicable CUSC Objectives due to the negative impact on competition and the creation of increased barriers to entry by smaller suppliers in relation to BSUoS credit requirements as described above.

Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.	We do not support implementation. Although a proposed implementation date of 2 years may reduce the potential windfall effect for certain generations, we do not believe that this will ameliorate the creation of new barriers to market entry for smaller suppliers.
Do you have any other comments?	
Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?	No.

Specific questions for CMP201

Q	Question	Response
1	Do you have any views on how the risk from CMP201 can be quantified?	No.

Q	Question	Response
2	**What are your views on the credit risk on Suppliers, either i) the under-securing of BSUoS for a short period following implementation of CMP201; (should special changes be made to ameliorate this time-limited risk, or is it bearable); and ii) the enduring increase?**	Our main concern is that the increased credit costs around BSUoS will disproportionately affect smaller suppliers and thus create a barrier to entry.
3	**Do you have any conflicting information or understandings as to how other EU Member States charge for BSUoS?**	No.
4	**Are there any further pros or cons that should be highlighted in the assessment and if so, how they might be demonstrated / quantified?**	No.
5	**Do you have any additional views on the issue of BSUoS and RCRC interaction in the context of this proposal, and if so, any proposals for how it can be addressed?**	No.
6	**Will the proposed change have any impact on User IS systems, please provide details, timing and likely costs?**	We do not believe that this will have a direct impact on our systems.

CMP201 – Removal of BSUoS charges from Generation

Respondent:	Simon Lord
Company Name:	International Power
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	We do not believe that either generation or supply is able to hedge BSUoS to any meaningful extent and the collection of BSUoS is simply a revenue recovery exercise. Therefore, the principle that should be applied is that the collection should optimise market efficiency. We believe that reducing barriers to cross border trading (removal of BSUoS from generation) will improve the overall competitiveness of the market.
Do you believe that the proposed original or any of the alternatives better facilitate the Applicable CUSC Objectives? Please include your reasoning.	Yes, we believe the proposal will bring the cost base of GB generation into line with that in continental Europe. Thus overall it will improve the efficiency of the GB market with the benefits of improved efficiency being felt by customers.

Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.	We support the proposed implementation approach with the proviso that there should be adequate notice to the market to ensure that there should be no windfall gains or losses across market players We believe that the notice period should be long enough to allow an orderly transition but not so long such that the benefit of the modification is not realised. A notice period of 36 month would allow the market to factor in any price changes.
Do you have any other comments?	No.
Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?	No.

Specific questions for CMP201

Q	Question	Response
1	**Do you have any views on how the risk from CMP201 can be quantified?**	We do not believe that CMP 201 presents a significant additional risk to the industry as long as the implementation date is notified ahead of time to the industry as proposed.

Q	Question	Response
2	**What are your views on the credit risk on Suppliers, either i) the under-securing of BSUoS for a short period following implementation of CMP201; (should special changes be made to ameliorate this time-limited risk, or is it bearable); and ii) the enduring increase?**	We believe that the security implications should be addressed by the working group such that no party is required to hold more security than is required under the current arrangements or, if this is not possible, any addition security required should be objectively justified.
3	**Do you have any conflicting information or understandings as to how other EU Member States charge for BSUoS?**	No.
4	**Are there any further pros or cons that should be highlighted in the assessment and if so, how they might be demonstrated / quantified?**	No.
5	**Do you have any additional views on the issue of BSUoS and RCRC interaction in the context of this proposal, and if so, any proposals for how it can be addressed?**	No.
6	**Will the proposed change have any impact on User IS systems, please provide details, timing and likely costs?**	This will potentially impact on retail IS systems but with sufficient notice this can be managed by existing business processes.

CMP201 – Removal of BSUoS charges from Generation

Respondent:	*Helen Inwood; Helen.Inwood@npower.com ; 07795 354788*
Company Name:	*RWE npower*
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	We are very concerned at the lack of clarity around implementation dates in this consultation. The implementation date needs to be sufficiently far in the future so preventing potential windfall gains for generators and windfall losses for suppliers on already purchased commodity contracts. The working group have been unable to undertake analysis on the extent of windfall gains and losses. A full impact analysis needs to be carried out. This needs to look at timescale of implementation, level of BSUoS prices etc. It is totally inappropriate to decide on an arbitrary date without a full understanding of the impact to market participants – including small suppliers and larger I&C consumers who have already hedged volume. The implementation timetable should only be decided once this analysis is available and should ensure that there are **no** windfall gains or losses as a result of this regulatory change. During the transition period the wholesale market will need to develop a trade-able instrument to reflect no BSuoS for generators - such an instrument will need time to develop and its liquidity will be key to making the transition effective. Ofgem's target to increase liquidity may be undermined by this proposal, given this is adding to the uncertainty in longer dated contracts that are currently within normal liquidity. The Description of the CUSC modification clearly states that '*there should be no adverse effects for GB end consumers*' and '*GB consumers will benefit from more competitive arrangements delivered through a wider fully functioning competitive market in generation*'. This is very misleading statement since analysis presented to the working group on 15th March indicate that prices to end GB consumers will in fact go **up** since generators will be exporting more to the continent. This analysis is not reflected in the consultation and is therefore providing Industry Parties with an inaccurate view of the impact on consumers. On this basis, we do not believe that this consultation is providing enough information for Industry Parties to fully understand the impacts on consumer prices. We would therefore suggest that it is unreasonable to expect Industry Parties to support or reject CMP201 since the consultation is not providing a balanced view on the impact on consumers?

	BSUoS, by its very nature, can be a difficult charge for market participants to forecast and can be very volatile. By transferring all of BSUoS to suppliers, suppliers are now faced with increased risks through more exposure to a volatile charge. The consultation refers to vertically integrated utilities being equally exposed to both the loss and gain and suggests that such companies would be equally exposed to both loss and gain at group level. It is important to recognise that these utilities must operate separate generation and supply businesses. In addition, it is very unlikely that a vertically integrated company will have a fully matched portfolio of generation and supply. This therefore means that there will be overall windfall gain or loss at group level depending on whether the group is overall long or short. This should not be an outcome of implementing regulatory change. We recognise that CMP201 has been raised to seek to align GB Balancing Services arrangements with those prevailing in other EU member states. We believe that CMP202, if approved, will achieve that in the short term. However, we do not believe that the impacts of CMP201 are well enough understood in order to push this through quickly. Other wider options should be explored to mitigate the risks or impacts on suppliers and consumers e.g. fixed price BSUoS
Do you believe that the proposed original or any of the alternatives better facilitate the Applicable CUSC Objectives? Please include your reasoning.	No. We do not believe this proposal meets any of the objectives. As stated above, the impact of CMP201 on market participants is unclear and a full impact analysis needs to be carried out before it is clear whether or not this proposal will better facilitate competition. The link between BSUoS and RCRC has not been addressed. The likelihood of windfall gains to generators and windfall losses to suppliers during a transition period – with no underlying analysis on how that transition period should be determined – is an unacceptable consequence of this proposal. As a result, we do not believe any of the objectives can be shown to be met. *For reference, the Applicable CUSC 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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard 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.

Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.	We would support this change provided that impact analysis is undertaken and implementation is outside current hedging timescales. We reject the change if it is implemented inside current hedging timescales.
Do you have any other comments?	There are a large number of regulatory changes being discussed at the moment which will impact prices (EFA blocks to calendar months, liquidity market, SCR etc). This uncertainty results in suppliers and generators abilities to forecast prices. This will inevitably lead to concerns around entering into longer term contracting arrangements between consumers, suppliers and generators since it is difficult to mitigate these regulatory risks. We believe this issue should be looked at in conjunction with some of the other changes going through.
Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?	*If yes, please complete a Workgroup Consultation Alternative Request form, available on National Grid's website, and return to the above email address with your completed Workgroup Consultation response proforma.*

Specific questions for CMP201

Q	Question	Response
1	**Do you have any views on how the risk from CMP201 can be quantified?**	Work needs to be carried out to establish current hedging timescales. The implementation date should be later than that period to avoid windfall gains or losses. The implementation date should be announced in sufficient time to allow the market time to develop new products with sufficient liquidity.
2	**What are your views on the credit risk on Suppliers, either i) the under-securing of BSUoS for a short period following implementation of CMP201; (should special changes be made to ameliorate this time-limited risk, or is it bearable); and ii) the enduring increase?**	Doubling the BSUoS charge for suppliers will have a detrimental impact on the credit cover they require to operate in the market. This has particular impact on small suppliers. The impact of this has again not been made clear in the consultation. At the working group on 15th March, National Grid presented numbers based on current BSUoS prices which implied that, at current levels, small suppliers would not need to review their credit cover limits. However, this takes no account of (a) future BSUoS prices which could be much larger than now (b) where suppliers have not minimised their credit cover requirements for reasons of policy or timing during the year. Any impact analysis should include the scenario that BSUoS charges may rise (e.g. 2008 levels?) or assume that suppliers are minimising their credit cover arrangements. Without this analysis, again, the impacts cannot be quantified.

Q	Question	Response
3	**Do you have any conflicting information or understandings as to how other EU Member States charge for BSUoS?**	No.
4	**Are there any further pros or cons that should be highlighted in the assessment and if so, how they might be demonstrated / quantified?**	See Page 1
5	**Do you have any additional views on the issue of BSUoS and RCRC interaction in the context of this proposal, and if so, any proposals for how it can be addressed?**	BSUoS is inextricably linked to RCRC and imbalance. Analysis needs to be done on the impact of continuing to pass through RCRC to the generators. While appreciating RCRC is subject to BSC rather than CUSC, the two charges should be treated together rather than in isolation. For this reason, we suggest that CMP201 and an overall impact analysis form part of the SCR on electricity cash-out arrangements. This will also allow other options to be looked at which meet the wider objectives.
6	**Will the proposed change have any impact on User IS systems, please provide details, timing and likely costs?**	Not clear yet

CMP201 – Removal of BSUoS charges from Generation

Respondent:	James Anderson; james.anderson@scottishpower.com
Company Name:	ScottishPower Energy Management
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	ScottishPower and ScottishPower Renewables support implementation of CMP201. Removal of BSUoS charges from generation will remove a barrier to cross-border trade with continental European counterparties. CMP201 should be implemented in conjunction with CMP202 (Removal of BSUoS from Interconnector lead parties). To implement CMP202 without CMP201 would place generators in GB at a commercial disadvantage to continental European generators who would not face BSUoS when selling into the GB market.
Do you believe that the proposed original or any of the alternatives better facilitate the Applicable CUSC Objectives? Please include your reasoning.	*For reference, the Applicable CUSC 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;* CMP202 better facilitates effective competition in the generation of electricity both within GB and across Europe through removal of a barrier to trade. *(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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard condition C26 (Requirements of a connect and manage connection);* Implementation of CMP202 will be neutral in facilitating achievement of Objective (b). As in the existing baseline, the cost allocation methodology will continue to accurately reflect charges into the appropriate time periods but will neither improve nor weaken cost reflectivity. *(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.* CMP202 will better reflect developments in the transmission licensees' businesses as it will take account of the increased interconnectivity between GB and continental Europe and the development of cross-border trading.

Do you support the proposed implementation approach? If not, please state why and provide an alternative	We support the implementation approach contained in the original proposal namely 2 years. This period will allow both suppliers and generators to reach the end of the majority of their contract positions thus minimising windfall gains and losses. Having a single transition date (rather than a phased

suggestion where possible.	introduction) will avoid the need for alternative trading products to be created (either including or excluding BSUoS) thus minimising the impact on participant systems.
Do you have any other comments?	CMP202 (Removal of BSUoS form Interconnector lead parties) should not be implemented without implementation of CMP201 as this would exacerbate the position of GB generators when competing with continental European generators.
Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?	No.

Specific questions for CMP201

Q	Question	Response
1	**Do you have any views on how the risk from CMP201 can be quantified?**	ScottishPower believes that there is very little risk inherent in CMP201. In an efficient, competitive market for generation, with a large number of generators we believe that the wholesale price will reflect the reduction in BSUoS payable by generators. Any Supplier issues over the uncertainty in forecasting BSUoS could be addressed by subsequent modification of the BSUoS charging methodology to reflect the fact that Suppliers are largely unable to respond to the half-hourly price signal contained within BSUoS. At a future date, the methodology could be changed to a volume-based, cost recovery mechanism based upon forecast costs with annual reconciliation to outturn costs.
2	**What are your views on the credit risk on Suppliers, either i) the under-securing of BSUoS for a short period following implementation of CMP201; (should special changes be made to ameliorate this time-limited risk, or is it bearable); and ii) the enduring increase?**	Any under-securing of BSUoS by Suppliers will be a short-term, transitory issue which will resolve itself as the higher charges are taken into the existing credit calculation. The low probability of a major Supplier default during this period does not justify the introduction of special measures over this brief period. The proposed implementation timetable (2 years) will allow Suppliers sufficient time to secure the additional credit cover required in the most cost-effective manner. The scale of additional credit cover required will be negligible in comparison to the trading credit lines required to secure energy purchases.
3	**Do you have any conflicting information or understandings as to how other EU Member States charge for BSUoS?**	Our understanding of the treatment of charges for balancing services is in agreement with the ENTSO-E paper of May 2011 in that the majority of charges fall almost exclusively upon Suppliers across the Member States.

Q	Question	Response
4	**Are there any further pros or cons that should be highlighted in the assessment and if so, how they might be demonstrated / quantified?**	ScottishPower considers that all material pros and cons have been addressed in the consultation document.
5	**Do you have any additional views on the issue of BSUoS and RCRC interaction in the context of this proposal, and if so, any proposals for how it can be addressed?**	ScottishPower believes that the correlation between BSUoS and RCRC has largely broken down due to the increasing use of more economic constraint management services by the System Operator rather than the Balancing Mechanism for system management purposes. Further analysis would be required before we were convinced that part or all of the components of RCRC should be returned only to Suppliers.
6	**Will the proposed change have any impact on User IS systems, please provide details, timing and likely costs?**	A single transition at a set future date would have minimal impact on User IS systems. This would allow generators to factor the removal of BSUoS into their selling prices and Suppliers to ensure that the change in BSUoS is reflected in their wholesale electricity purchase prices. Both generators and suppliers could take account of this in a simple manner. A phased transition such as that discussed in 4.66 to 4.68 would be more problematic and require extensive changes to trading systems and User forecasting systems.

CMP201 – Removal of BSUoS charges from Generation

Respondent:	Colin Prestwich
Company Name:	SmartestEnergy Limited
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	It is not clear to us whether this question is about the process or the substantive issues. If the former we have no comment, if the latter please see below.
Do you believe that the proposed original or any of the alternatives better facilitate the Applicable CUSC Objectives? Please include your reasoning.	We do not believe that this modification on its own facilitates effective competition or results in cost reflective charges. This is because the supply side is even less able to respond to price signals than the generation side. We believe that locational BSUoS would have been a welcome development in this regard. However, given that locational BSUoS has been rejected by Ofgem within the last couple of years and in the context of more recent European developments we are now of the opinion that the costs of constraints (a large component of BSUoS) are best dealt with by transferring the costs into the day ahead energy markets. In summary, we would say that the proposals meet the CUSC objectives in part in combination with market coupling.

Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.	Yes. Ordinarily as a supplier we would prefer to see a phased approach. However, for the reasons stated above we believe that this change should be made at or around the time that market coupling effects regional day ahead wholesale pricing to reflect the costs of constraints. For this reason we prefer to see a stepped (not phased) approach but with at least two years' lead time.
Do you have any other comments?	No
Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No.

Specific questions for CMP201

Q	Question	Response
1	**Do you have any views on how the risk from CMP201 can be quantified?**	No

2	**What are your views on the credit risk on Suppliers, either i) the under-securing of BSUoS for a short period following implementation of CMP201; (should special changes be made to ameliorate this time-limited risk, or is it bearable); and ii) the enduring increase?**	Clearly, for us as a supplier, the credit requirement would double. Whilst this may be manageable for SmartestEnergy, this is yet another initiative which throws additional costs on suppliers and this cannot be good for the competition which small suppliers bring to the market.
3	**Do you have any conflicting information or understandings as to how other EU Member States charge for BSUoS?**	No
4	**Are there any further pros or cons that should be highlighted in the assessment and if so, how they might be demonstrated / quantified?**	No
5	**Do you have any additional views on the issue of BSUoS and RCRC interaction in the context of this proposal, and if so, any proposals for how it can be addressed?**	We are not convinced this is a serious issue. It is true that there is a correlation between RCRC and BSUoS, but it is not the case that one is compensation for the other, or indeed, directly related. As the document explains, total costs should, after the transition period, be the same due to completion in the generation market. In our view RCRC will not be unduly affected.
6	**Will the proposed change have any impact on User IS systems, please provide details, timing and likely costs?**	On the assumption that the format of information flows does not change and that it is merely the values in the fields that change there should be no IT impact on Smartest Energy.

CMP201 – Removal of BSUoS charges from Generation

Respondent:	*Please insert your name and contact details (phone number or email address)* ***Andrew Green*** ***Telephone: 07837 419 454*** ***Andrew.green@totalgp.com***
Company Name:	Total Gas & Power Ltd (TGPL)
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	TGPL understands and is broadly supportive of the rationale behind this change proposal. However it is imperative that the implementation minimises disruption to customers and suppliers and as such **TGPL would strongly advocate Workgroup option 2** which would allow for a 5 year transition with a hard cut-over at a fixed date. A phased implementation would be extremely disruptive and make the transition more complex and costly to manage. Providing a 5 year lead time would allow Suppliers to take account of the increased BSUOS charges in their contractual arrangements with consumers. The proposed 24 months is insufficient notice period.
Do you believe that the proposed original or any of the alternatives better facilitate the Applicable CUSC Objectives? Please include your reasoning.	Yes

Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.	No, 24 months does not give sufficient time for suppliers to back of the increased BSUOS charges in their forward contracts with consumers. TGPL believes option ii) giving 5 years notice would allow for this.
Do you have any other comments?	No
Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No

Specific questions for CMP201

Q	Question	Response

1	**Do you have any views on how the risk from CMP201 can be quantified?**	No
2	**What are your views on the credit risk on Suppliers, either i) the under-securing of BSUoS for a short period following implementation of CMP201; (should special changes be made to ameliorate this time-limited risk, or is it bearable); and ii) the enduring increase?**	This will add to the credit burden of smaller suppliers in the market and therefore has the potential to impact supply competition but TGPL believes this impact to be small
3	**Do you have any conflicting information or understandings as to how other EU Member States charge for BSUoS?**	No
4	**Are there any further pros or cons that should be highlighted in the assessment and if so, how they might be demonstrated / quantified?**	No
5	**Do you have any additional views on the issue of BSUoS and RCRC interaction in the context of this proposal, and if so, any proposals for how it can be addressed?**	No
6	**Will the proposed change have any impact on User IS systems, please provide details, timing and likely costs?**	If the transition is phased or insufficient notice is given to Users there is potential for IT impacts and reconciliation processes would be required which would be costly to administer and disruptive and unwelcome for end consumers who would receive unanticipated ad hoc reconciliation invoices

CMP201 – Removal of BSUoS charges from Generation

Respondent:	*Garth Graham (01738 456000 garth.graham@sse.com)*
Company Name:	SSE
Please express your views regarding the Workgroup Consultation, including rationale. **(Please include any issues, suggestions or queries)**	We support in principle the CMP201 proposal, as detailed in the consultation document, as it facilitates in particular cross border trading of electricity. In our view the Workgroup has identified a number of important aspects of the proposal that need to be clarified before we can give a definitive view on CMP201. We hope our answers to the questions below will assist the Workgroup in its deliberations.
Do you believe that the proposed original or any of the alternatives better facilitate the Applicable CUSC Objectives? Please include your reasoning.	*For reference, the Applicable CUSC 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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard 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.* Yes. In our view CMP201 (as currently described in the consultation document) does in our view better facilitate the Applicable Use of System Charging Methodology Objectives. In particular we concur, for the reasons set out in the Proposal, that CMP201 better meets Objective (a) as it demonstrably facilitates effective competition in the generation and supply of electricity within GB and within the EU.

Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.	. We note the Proposer suggests a two year implementation period; i.e. approved by, say, mid March 2013, introduced into the CUSC ten days later and brought into effect from 1st April 2015. We agree with this. In our view this most appropriately reflects the most likely contractual position (where market prices / trades etc., extend out for circa two years).

	However, we appreciate there maybe a desire to consider a phased transition. In terms of the associated phased transition options noted in paragraph 4.63 (and detailed in subsequent paragraphs) we can see there being some merit in a two year transition period, from 1st April 2013 to 31st March 2015; i.e. Option (i). We also note the deliberations over variations (a), (b) and (c). In our view variation (c) seems the most appropriate as it takes account of the market conditions, such as contract rounds for industrial and commercial customers.
Do you have any other comments?	We have no additional comments at this time over and above those detailed in this response.
Do you wish to raise a WG Consultation Alternative Request for the Workgroup to consider?	*No.*

Specific questions for CMP201

Q	Question	Response
1	**Do you have any views on how the risk from CMP201 can be quantified?**	We note the Workgroup deliberations on the risks associated with BSUoS volatility as set out in the consultation document. We have no additional views on how the risk from CMP201 can be quantified.
2	**What are your views on the credit risk on Suppliers, either i) the under-securing of BSUoS for a short period following implementation of CMP201; (should special changes be made to ameliorate this time-limited risk, or is it bearable); and ii) the enduring increase?**	We note the deliberations of the Workgroup on the matter of credit risk. In terms of the risk noted in paragraph 4.29 we believe such a risk, of under securitisation, could perhaps be ameliorated by a phased transition (over two years from April 2013 to March 2015) as this may reduce the amount at risk of being under-secured. In respect of the enduring increase, given that this risk already exists (on generators) and that this cost (in full or in part) is captured within the price that generators charge to suppliers there should not be an unmanageable situation going forward if CMP201 is implemented. In terms of the concern noted in paragraph 4.30 we believe this too could perhaps be ameliorated by a phased transition (over two years from April 2013 to March 2015) as the amount that a Supplier (big or small) would be asked to secure would increase over 24 months rather than as a 'big bang' event, say, on 1st April 2015.

Q	Question	Response
3	**Do you have any conflicting information or understandings as to how other EU Member States charge for BSUoS?**	We note the Workgroup deliberations on this matter (as outlined in paragraphs 4.34-4.37). We have no additional information on this matter. We believe that the ENTSO-E publication of May 2011 provides a useful and authoritative comparison of the way EU Member States charge for BSUoS. This analysis; as summarised in paragraph 4.35; supports the proposition set out in CMP201 that the charges currently applied to Generators should be migrated over to Suppliers to facilitate cross border trading in electricity and supporting the internal electricity market.
4	**Are there any further pros or cons that should be highlighted in the assessment and if so, how they might be demonstrated / quantified?**	We note the 'pros & cons' outlined in Table 1. We have no additional items to add to the list.
5	**Do you have any additional views on the issue of BSUoS and RCRC interaction in the context of this proposal, and if so, any proposals for how it can be addressed?**	We note that the Workgroup is still considering the issue of the interaction between BSUoS and RCRC and we look forward to reading and considering the conclusions the Workgroup reach on this in due course.
6	**Will the proposed change have any impact on User IS systems, please provide details, timing and likely costs?**	At this stage, given the information contained in the consultation document, we do not envisage there being any appreciable impact on our IT systems.