CUSC Alternative Form

CMP361 Alternative Request 1:
Fixed price BSUoS charges based on a 12-month notice period and 3-month fixed period

Overview: This alternative proposal to the Original for CMP361 looks to change the split between notice period and fixed period from 3 months' notice, 12 months fixed to 12 months' notice, 3 months fixed. All other aspects of the Original proposal remain the same.

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What is the proposed alternative solution?

The Original proposal for CMP361 is to fix the BSUoS charge on a £/MWh basis for a period of 12 months with a 3 month notice period. This is in line with the 2nd BSUoS Task Force recommendation for a combined 14/15 month period for both a notice period and the fixed period. For example, the ESO would announce the BSUoS charge in Jan with the charge coming into effect in Apr through to the following March. The ESO favour a short notice period as it allows them to use as up to date information to set the BSUoS charge as possible and therefore reduce the level of K factor corrections needed in later periods. The proposed alternative solution also is in line with the 2nd BSUoS Task Force recommendation, but has a different split between notice period and fixed period in that it proposes a 12 month notice period and a 3 month fixed period. This proposal does mean that ESO have to forecast out further, but it does allow suppliers to factor in BSUoS better to customers tariffs, thereby reducing the need for a risk premium in the tariff.

For example, consider a supplier selling a 2-year fixed tariff at the start of Dec 23. Under the ESO 3-month notice, 12-month fixed (3N12F) proposal with the notice period starting in Jan 24 and the fixed period running from Apr 24 to Mar 25, the supplier will know the BSUoS charge for the first four months of the contract (as they are already in the fixed period that was set in Jan 23 and started in Apr 23), but will have to base their tariff on ESO forecasts of BSUoS for the period Apr 24 – Dec 25. However, the estimate of the Apr 25 – Mar 26 charge of the BSUoS fixed price in Dec 23 will only be based on monthly forecasts for the period Apr 25 – Nov 25 as ESO monthly forecasts currently only run 24 months out. This means that the estimate of the Apr 25 – Mar 26 charge (which the supplier needs to set the tariff for the period Apr 25 – Dec 25) will have to be estimated from an incomplete set of data. For a diagram of this example, see Figure 1 below:

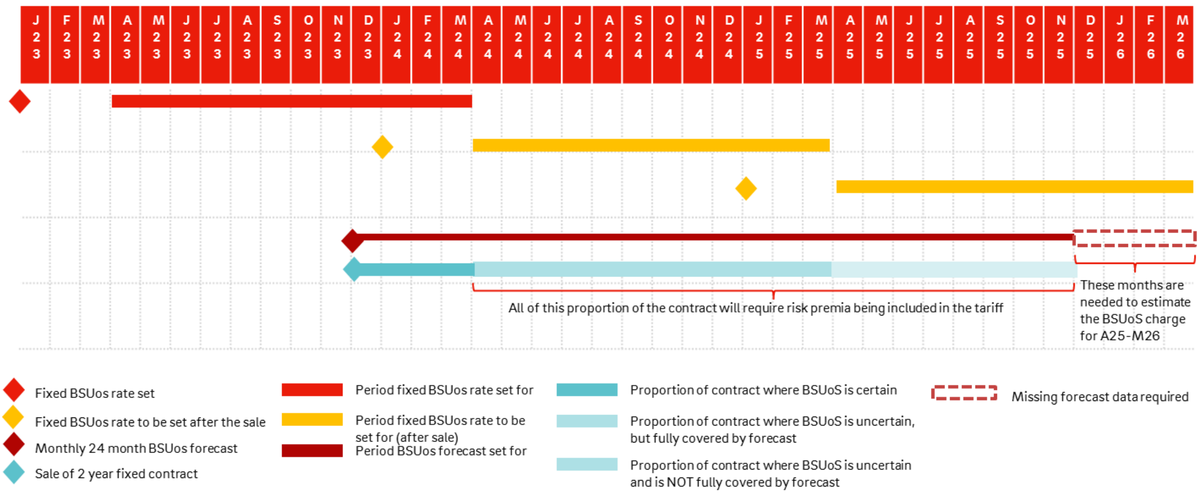

Figure 1 - 3N12F timeline for sale of 2 year fixed tariff

For the 12-month notice, 3-month fixed proposal (12N3F), the time for which there is no knowledge about the BSUoS charge for a 2-year fixed tariff is significantly shorter than in the 3N12F option. See Figure 2 for the equivalent diagram to Figure 1. Here, the supplier selling a 2-year tariff in Dec 23 will know the fixed charges out to Jan 25 from previously set charges (set in Jan 23, Apr 23, June 23 and Sept 23) and can use the Dec 23 2 year monthly forecast to estimate most of the rest of the tariff period (out to Sept 25). It is only the last two months of the tariff for which the supplier will have to estimate the Oct 25-Dec 25 using incomplete data (as the 2-year forecast will only go out to Nov 25). Therefore, using the 12N3F option allows the supplier to have a better idea for what the BSUoS charge will be over the entire 2-year period and significantly reduce the level of any risk premium needed.

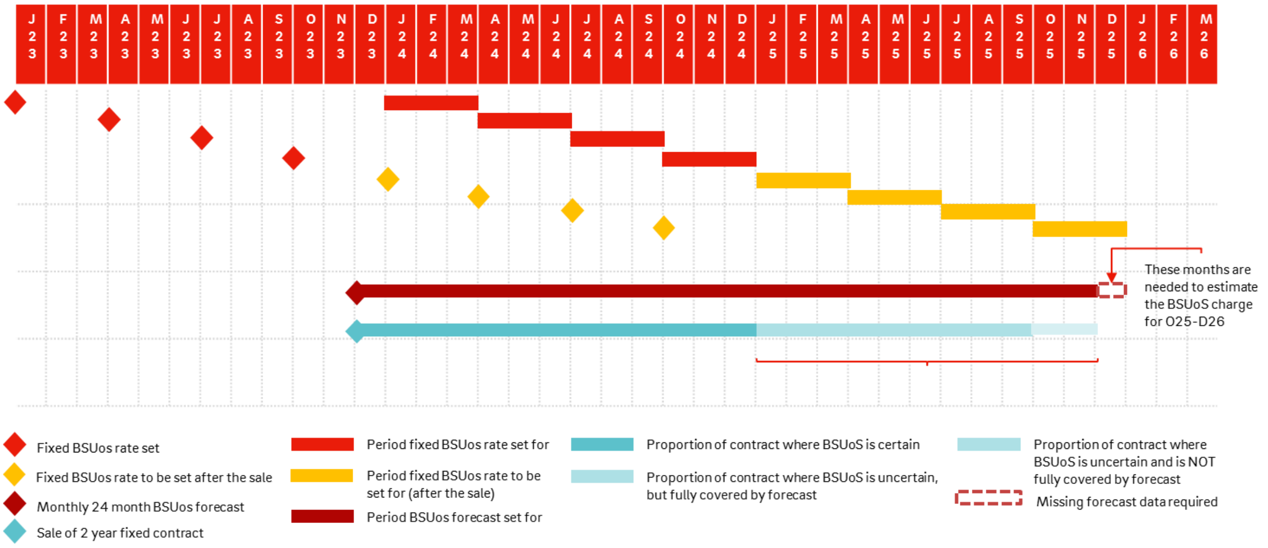

Figure 2 12N3F timeline for sale of 2-year fixed tariff

E.ON has also done some analysis looking at the overall cost of using the 12N3F option compared to the 3N12F using the 2-year monthly forecasts and actual BSUoS charges over the last 3 years for sales of both 2-year fixed and 1-year fixed contracts]. Overall, costs to both NGESO (from working capital costs to cover forecasting errors) and suppliers (from inability to collect K factor corrections) show that there is a slight benefit from using the 12N3F option (see Table 1).

Option	2-year fixed tariffs		1-year fixed tariffs	
	Cost to NGESO (£/MWh)	Cost to suppliers (£/MWh)	Cost to NGESO (£/MWh)	Cost to suppliers (£/MWh)
3N12F	0.05	1.23	0.05	0.85
12N3F	0.03	1.19	0.03	0.8

Table 1 - Cost to NGESO and suppliers of following the two proposals for setting BSUoS

What is the difference between this and the Original Proposal?

The only difference between this alternative and the Original Proposal is the split between notice period and fixed period which the 2nd BSUoS Task Force recommended should in total be 14/15 months.

What is the impact of this change?

Proposer's Assessment against CUSC Charging Objectives	
Relevant Objective	**Identified impact**
(a) That compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity;	**Positive** By moving to a 12N3F methodology, suppliers will have less need to include risk premia into their tariffs to cover uncertainty in BSUoS estimates. Sustainable competition should be based on costs that a supplier has an ability to control and not its risk appetite.
(b) That compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard licence condition C26 requirements of a connect and manage connection);	**None**
(c) That, so far as is consistent with sub-paragraphs (a) and (b), the use of system charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses;	**Positive** This alternative looks to remove more of the risk premia added to tariffs by suppliers to cover errors in forecasting than the Original proposal.
(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and	**None**
(e) Promoting efficiency in the implementation and administration of the system charging methodology.	**Positive** Reducing risk premia by more than the Original proposal will increase the potential efficiencies identified

	by the Original proposal.
*Objective (d) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).	

When will this change take place?

Implementation date:

Same as the Original proposal

Implementation approach:

Same as the Original proposal

Acronyms, key terms and reference material

Acronym / key term	Meaning
BSC	Balancing and Settlement Code
BSUoS	Balancing Services Use of System
BSUoS Fund	The Original proposal is to place a cap on the ESO's total support via its working capital facility (WCF) and form an industry funded BSUoS Fund to ensure an agreed probability of tariffs being reset is covered. This would be collected as part of the BSUoS tariff.
CMP	CUSC Modification Proposal
CUSC	Connection and Use of System Code
LCCC	Low Carbon Contracts Company
SCR	Significant Code Review
CVA	Central Volume Allocation
DNO	Distribution Network Operator
DUoS	Distribution Network Use of System
EBR	Electricity Balancing Regulation
ESO	Electricity System Operator
Ex ante	"before the event" (Latin)
LCCC	Low Carbon Contracts Company

RCRC	Residual Cashflow Reallocation Cashflow
RIIO2	Price Control Period
SCR	Significant Code Review
SQSS	Security and Quality of Supply Standards
STC	System Operator Transmission Owner Code
SVA	Supplier Volume Allocation
T&Cs	Terms and Conditions
TCR	Targeted Charging Review
TNUoS	Transmission Network Use of System
WCF	Working Capital Facility

Reference material:

None.