

Workgroup Consultation Response – Pro-Forma

CMP308: 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 **8 May 2019** to cusc.team@nationalgrideso.com. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the CUSC Modifications Panel when it makes its final determination.

These responses will be included in the Final CUSC Modification Report which is submitted to the CUSC Modifications Panel.

Respondent:	<i>Joshua Logan</i> Joshua.logan@drax.com 01757 612736
Company Name:	<i>Drax Group Plc</i>
<p>Please express your views regarding the Workgroup Consultation, including rationale.</p> <p>(Please include any issues, suggestions or queries)</p>	<p>For reference, the Applicable CUSC Objectives for the Use of System Charging Methodology are:</p> <p>(a) That compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity;</p> <p>(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);</p> <p>(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;</p> <p>(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency. These are defined within the National Grid Electricity Transmission Plc Licence under Standard Condition C10, paragraph 1*; and</p> <p>(e) Promoting efficiency in the implementation and administration of the CUSC arrangements.</p> <p>*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).</p>

1	<p>Do you believe that CMP308 Original proposal, better facilitates the Applicable CUSC Objectives?</p>	<p>We fully support a level playing field between all market participants and believe CMP308 will reduce costs for end consumers. CMP308 better facilitates the Applicable CUSC Charging Objectives.</p> <p>Applicable CUSC Charging Objective a) – Positive</p> <p>The removal of a potential market distortion will increase competition and ensure there is a level playing field between all generators.</p> <p>As illustrated in Figure 3 of the report, the majority of European countries do not levy “Balancing Charges” on generators. The removal of BSUoS charges from GB generation would enable GB and continental generation to compete on a more equitable basis and remove the potential for BSUoS to distort cross border trade. Analysis done by the proposer using 2017 data suggested that removing BSUoS from GB generation would have resulted in changes in interconnector flows throughout the year. In particular, had CMP308 been in place there would have been times where GB generation was cheaper than imports from Europe, resulting in reduced costs for consumers.</p> <p>Applicable CUSC Charging Objective c) – Positive</p> <p>The growth in interconnection capacity is a strong driver of the need to update BSUoS charging arrangements. As interconnection capacity increases, the impact of the uneven playing field between GB and continental generators will increase.</p> <p>Applicable CUSC Charging Objective d) – Positive</p> <p>Whilst the EU Third Package recognises that different types of market arrangements will exist within different countries in the internal market for electricity, it also acknowledges the need to reduce market distortions to deliver the full benefits of a competitive market to end consumers.</p> <p>Applicable CUSC Charging Objective e) – Positive</p> <p>Aligning GB market arrangements with continental market arrangements will better facilitate an efficient and more competitive electricity market. GB consumers will benefit from this.</p> <p>As illustrated by the analysis, in the short term there should be no adverse effects for GB consumers, subject to implementation taking account of existing contractual commitments. This addresses the concerns Ofgem had when they previously rejected a similar modification (CMP201) in 2014.</p>
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2	Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.	<p>Both suppliers and generators can enter into trades or have financial exposure 2 years or more in advance and suppliers can enter into fixed price contracts with customers over a similar time horizon. To ensure suppliers and generators do not suffer from unavoidable losses or benefit from windfall gains, there must be sufficient lead time between modification approval and implementation.</p> <p>Whilst there could still be some financial exposure, we believe that implementation at least 2 full charging years after a decision is made would be appropriate. April 2022 implementation would be sufficient providing an authority decision is made before April 2020.</p>
3	Do you have any other comments?	No.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	We do not wish to raise an alternative.

Specific questions for CMP308

5	Do you feel it is more efficient for BSUoS to be handled by customers / suppliers rather than customers / suppliers and generators?	<p>In principle, it would be more efficient for BSUoS to be handled by suppliers rather than generators. As illustrated in Figure 3 of the report, there are three points in the industry supply chain from generation to consumption where market participants have to manage risk associated with BSUoS, implementing CMP308 would reduce this to one. This could decrease the total costs of forecasting BSUoS and managing risk across the industry.</p> <p>CMP308 aligns with Ofgem's TCR principles. In particular, there has been no indication to date from the BSUoS taskforce that BSUoS could be made cost-reflective in a way that is useful to market participants. If this is the case, the most efficient method of collection may be through a fixed charge on demand, which aligns with the current TCR thinking.</p> <p>Additionally, generators make unit dispatch decisions on a half-hourly basis, and the nature of BSUoS complicates this decision-making process. Since BSUoS is an unpredictable and ex-post charge, it cannot provide a signal and isn't known until after the settlement period. Generators can inadvertently take inefficient dispatch decisions as a result of this disparity which would be corrected by CMP308.</p>
6	If CMP308 were to be implemented, what would your thoughts be	The impact on risk premia is difficult to quantify due to the commercially sensitive nature of the information. In principle it would be more efficient for BSUoS to be handled by suppliers

	in regard to combined/net risk premia?	only, compared to both suppliers and generators.
7	What do you feel would be a sufficient lead time for the implementation of this modification? Would you support a non-April (i.e. October) implementation date in any given year? Please provide an explanation for your response	See response to Q2. We would prefer an April implementation to align with the start of the charging year. Changing the charging methodology midway through a charging year can cause additional uncertainty and would require changes to current working practise.
8	Has the Analysis comprehensively considered consumer/system benefits, or can you identify any area which may need more consideration by the workgroup?	Subject to an appropriate implementation lead time, consumers and GB generation will benefit from a more competitive wholesale market where BSUoS charges do not distort cross-border trade. The analysis has indicated that the wholesale market price doesn't need to fall by the full BSUoS amount to ensure that in the short-term the impact on consumers is at least neutral. This addresses Ofgem's concerns when they rejected a similar modification (CMP201) in 2014.
9	Are there any thoughts on the impact of CMP308 on the generation mix, be that short or long term?	CMP308 is technology neutral and should benefit GB generators as a whole by removing a potential market distortion that disadvantages GB generation compared to continental generation.
10	Are there any unintended consequences of CMP308 which have not as yet been considered by the workgroup?	No.
11	Will there be any specific impact on renewable or distributed generation, be that long or short term?	No, CMP308 does not have a specific impact on distributed or renewable generation. We note that CMP308 has a neutral impact on the embedded benefit. Changes to the embedded benefit are out of scope of this modification and form part of Ofgem's TCR.
12	Will there be any significant IT costs to change your systems as a result of CMP308? If so please give detail.	We have not identified any significant IT costs that would arise as a result of CMP308.