

Code Administrator Consultation Response Proforma**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 to cusc.team@nationalgrideso.com by **5pm on 31 August 2021**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration.

If you have any queries on the content of this consultation, please contact Joseph Henry at joseph.henry2@nationalgrideso.com or cusc.team@nationalgrideso.com

Respondent details	Please enter your details
Respondent name:	George Moran
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I wish my response to be:

(Please mark the relevant box)

 Non-Confidential Confidential

Note: A confidential response will be disclosed to the Authority in full but, unless agreed otherwise, will not be shared with the Panel or the industry and may therefore not influence the debate to the same extent as a non-confidential response.

For reference the Applicable CUSC (charging) Objectives are:

- a. *That compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity;*
- b. *That compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard licence condition C26 requirements of a connect and manage connection);*
- c. *That, so far as is consistent with sub-paragraphs (a) and (b), the use of system charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses;*
- d. *Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and*
- e. *Promoting efficiency in the implementation and administration of the system charging methodology.*

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

Standard Code Administrator Consultation questions	
1	<p>Do you believe that the CMP308 Original Proposal better facilitates the Applicable Objectives?</p>

As required, our assessment of CMP308 is against the current CUSC baseline. Strictly on that basis, we consider it will have a **negative impact** on the applicable objectives.

Applicable CUSC Objective (a): Negative impact.

The current methodology for setting the retail price cap includes a delay in reflecting changes in the level of BSUoS costs within the cap. Therefore, without a change to the retail price cap methodology, suppliers will face significant and unjustified losses due to the higher BSUoS costs that would result from CMP308 not being reflected in the price cap from the point of implementation. If an efficient supplier is unable to recover its costs, then this will adversely affect competition in supply.

The volatility of BSUoS costs has increased in recent years. Currently the portion of balancing costs paid by generation is incorporated into the power price, which suppliers can hedge against. Therefore, recovering all BSUoS costs from suppliers will lead to an increase in the uncertainty of BSUoS related costs and cash flows. Suppliers will have varying abilities to manage this increased uncertainty, with a resultant negative impact on competition in supply.

Partially offsetting these negative impacts, there is likely to be a positive effect on competition in generation.

Applicable CUSC Objective (b): Negative impact.

BSUoS is currently a cost recovery charge, providing no useful cost reflective forward-looking signal. It can encourage responses that are inefficient and increase system costs e.g. reducing demand to avoid high BSUoS costs caused by excess Generation in a zone. CMP308 would double the strength of these distortive signals, making it less cost reflective than the baseline.

		<p>Applicable CUSC Objectives (c), (d) and (e): Neutral impact.</p> <p>Comment on further industry changes: We note that subsequent industry developments could remove or reduce the negative impacts we have identified above. CMP361 (Introduction of an ex ante fixed BSUoS tariff) is currently going through the CUSC change process and we also understand that Ofgem are fully aware of the implications of CMP308 on the price cap. Should a reasonable CMP361 solution be implemented at the same time as CMP308 (or earlier), and should Ofgem confirm that the price cap methodology will be revised to ensure that the increase in BSUoS costs would be allowed for from the point of implementation, then the negative impacts we identify above would be largely mitigated, leaving the positive impact on competition in generation.</p>
2	Do you support the proposed implementation approach?	Yes
3	Do you have any other comments?	<p>We note that a key assumption made by Frontier Economics in its impact assessment is that <i>“CfD strike prices for any contracted plant paying BSUoS charges will be adjusted down when its BSUoS charges are removed”</i>.</p> <p>We also note that BEIS, in its consultation of 18th January stated that it may need to consider amending the CfD contract to reflect possible future changes in how Balancing Services Use of System (BSUoS) charges are paid.</p> <p>However, we would request that Ofgem seek assurances from BEIS that this will be the case for all CfD agreement types i.e. the downward adjustment will also apply to those with an early investment contract and those with a bespoke contract. Generators with these CfD contract types represent around half of total CfD generation output. Therefore, if strike prices are not adjusted downwards for these generators, then we believe the impact assessment will need to be revisited.</p>