

## 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](mailto: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.

<b>Respondent:</b>	<p><i>Naomi De Silva (Cost Forecasting Manager)</i>  <i>naomi.desilva@shellenergy.co.uk</i></p> <p><i>Alternative contact: Paul Farmer (Industry Codes Manager)</i>  <i>paul.farmer@shellenergy.co.uk</i></p>
<b>Company Name:</b>	<p><i>Shell Energy Retail Limited</i></p>
<p><b>Do you believe that the proposed original or any of the alternatives better facilitate the Applicable CUSC Objectives? Please include your reasoning.</b></p>	<p>For reference, the Applicable CUSC objectives are:</p> <ul style="list-style-type: none"> <li>(a) the efficient discharge by the licensee of the obligations imposed upon it under the Act and by this licence;</li> <li>(b) facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity.</li> <li>(c) compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.</li> <li>(d) compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.</li> </ul> <p><i>We understand the aim of the proposal is to level the playing field between GB and European generators and this should have long term benefits to GB market participants and these should eventually benefit consumers. (CUSC Objective B)</i></p> <p><i>Our primary concern is around the short term impacts of the shift of profits from generation to suppliers should there be insufficient notice of the change. While referred to as the short term, this</i></p>

	<p><i>could be a few years and this is a not insignificant period of time over which for suppliers to absorb the significant additional costs.</i></p> <p><i>This would significantly penalise suppliers without integrated generation and retail businesses i.e. with substantially more demand than generation volumes. Suppliers with vertically integrated businesses are able to offset the changes in BSUoS costs across their integrated business whereas those which are only a retail business cannot.</i></p> <p><i>This results in a less level playing field. In this case, CUSC Objective B would not be better facilitated by the modification.</i></p> <p><i>This would be particularly exacerbated should the default tariff cap and prepayment cap methodology not be adjusted.</i></p> <p><i>The BSUoS allowance is £9 for the April – Sept 2019 cap. Assuming BSUoS is currently shared 50:50 demand:generation, not adjusting the cap would result in the £13 headroom almost entirely depleted by the additional £9 of cost.</i></p> <p><i>For this reason, we believe CUSC Objective B is only facilitated if there is 3 years of lead time after the decision is made and before implementation in charges. And in addition, Ofgem has indicated the price cap methodology will be revised prior to implementation work starting.</i></p>
<p><b>Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.</b></p>	<p><i>We support the approach conditional on there being 3 years of lead time after the decision is made and on Ofgem revising the price cap methodologies prior to implementation commencing to fairly reflect the additional BSUoS costs suppliers will face.</i></p> <p><i>3 years is because suppliers offer fixed tariffs longer than 2 years and these are beneficial for customer choice.</i></p> <p><i>Note it does not equate to a 3 year tariff period because there is a lag between the time of the decision and when a customer joins that tariff (switching time + lead time for suppliers to adjust their tariffs.)</i></p> <p><i>We note 3 years and 5 years notice were suggested options of CMP201.</i></p> <p><i>We raised our concern about the BSUoS allowance in our default tariff cap consultation response:</i></p> <p><i>On Network Costs, we recognise basing BSUoS on historical final settlement data is the “least worst” option. Currently BSUoS is charged on generation and demand users. We ask Ofgem to confirm it will adjust the final settlement data should industry change proposals result in BSUoS becoming charged only on demand, doubling these costs.</i></p> <p><i>As this was not explicitly addressed by Ofgem in their 6 Nov 2018 decision, we look forward to this being addressed should</i></p>

	<p><i>CMP308 be approved.</i></p> <p><i>If not addressed, it would result in default and prepayment tariff prices being set at a level below an economically efficient level and result in suppliers making losses.</i></p> <p><i>It would particularly penalise suppliers without integrated generation and retail businesses i.e. with substantially more demand than generation volumes. Therefore, resulting in a less level playing field.</i></p> <p><i>Suppliers with vertically integrated businesses are able to offset the changes in BSUoS costs across their integrated business whereas those which are only a retail business cannot.</i></p>
<p><b>Do you have any other comments?</b></p>	<p><i>(None)</i></p>
<p><b>Do you feel it is more efficient for BSUoS to be handled by customers / suppliers rather than customers / suppliers and generators?</b></p>	<p><i>We recognise it is more efficient for one party (suppliers) to forecast BSUoS directly rather than in addition forecasting how energy and imbalance prices are impacted by the BSUoS charges faced by generation.</i></p> <p><i>However, suppliers are able to manage the risk around energy prices and imbalance prices through their demand forecasting and hedging whereas BSUoS is an ex post charge and is not hedgeable. The prevalence of fixed tariffs in the retail market and a default tariff cap allowance based on a particular hedging calculation encourages this.</i></p> <p><i>This can be mitigated by giving suppliers a longer notice period of 3 years. We also note CMP250 aims for greater BSUoS stability.</i></p> <p><i>We recognise BSUoS is primarily a cost reflective charge and therefore there is consistency with Ofgem's TCR position in charging residual charges directly to demand.</i></p> <p><i>However, we would recommend changes are implemented with the view that the Balancing Services Taskforce may identify cost reflective elements of BSUoS which are appropriate to be charged to both generation and demand. We would prefer all major charges to BSUoS charging to be coordinated as volatility and challenges forecasting BSUoS is a key concern.</i></p>
<p><b>If CMP308 were to be implemented, what would your thoughts be in regards to combined/net risk premia?</b></p>	<p><i>While the net risk premium consumers pay is in theory likely to be lower, in reality moving some of BSUoS from energy and imbalance prices moves a cost suppliers have some ability to manage the risk around (through hedging) to one they do not. Therefore, net risk premia may not reduce as much as expected.</i></p> <p><i>In addition, reducing risk premia relies on transparency of wholesale prices and wholesale market liquidity which is likely to</i></p>

	<i>be more challenging following suspension of the MMO.</i>
<b>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</b>	<p><i>We would support a non-April implementation date as long as we get 3 years notice per our earlier comments.</i></p> <p><i>However, we prefer an April implementation date and 3 years notice.</i></p>
<b>Has the Analysis comprehensively considered consumer/system benefits, or can you identify any area which may need more consideration by the workgroup?</b>	<p><i>CMP 201 was rejected on the basis that the short term negative benefits to the market would not be negated by the longer term benefits.</i></p> <p><i>We would like to understand further how by revising the CMP201 modelling, the short term consumer impact is now deemed to be neutral given a greater proportion of consumers are now on effectively fixed tariffs (given the default price cap.)</i></p> <p><i>The benefits for CMP201 included the additional profits to generators in the short term resulting in new investment and competitive downward pressure on wholesale prices. It's not clear whether this has been revisited in light of the current uncertainty around the Capacity Market. The CMP201 decision noted changes in CM and CfD FITs regimes were more likely to dominate generators investment decisions.</i></p> <p><i>If generators profits increase in the short term as a result of the change, are consumers paying more than they should via capacity market payments (if reinstated)?</i></p>
<b>Are there any thoughts on the impact of CMP308 on the generation mix, be that short or long term? Will there be any significant IT costs to change your systems as a result of CMP308? If so please give detail.</b>	<i>(No comment)</i>
<b>Are there any unintended consequences of CMP308 which have not as yet been considered by the workgroup?</b>	<p><i>We note the following (2.4.6) and agree further analysis would be needed under these circumstances.</i></p> <p><i>Should no such modification to the BSUoS methodology for the price cap be apparent prior to the Authority decision on this modification, the potential detrimental impacts on suppliers described above will need to be fully considered before approval or rejection.</i></p>
<b>Will there be any specific impact on renewable or</b>	<i>(No comment)</i>

<b>distributed generation, be that long or short term?</b>	
<b>Will there be any significant IT costs to change your systems as a result of CMP308? If so please give detail.</b>	<i>(None)</i>