

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>Grace Smith</i>
Company Name:	<i>Sembcorp / UK Power Reserve</i>
Do you believe that the proposed original or any of the alternatives better facilitate the Applicable CUSC Objectives? Please include your reasoning.	<p>For reference, the Applicable CUSC objectives are:</p> <ul style="list-style-type: none"> (a) the efficient discharge by the licensee of the obligations imposed upon it under the Act and by this licence; (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. (c) compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency. (d) compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency. <p><i>We agree with the proposer's assessment against the Applicable Objectives. The primary benefit will be to objective b), as GB generators will be able to compete more effectively with European generators. As the amount of interconnection is due to grow, it is vital for the health of the GB market, and its relationship with the European wholesale market, that generators are on a level playing field. We believe that effective competition over interconnectors will also add to security of supply.</i></p> <p><i>We also believe the proposal will better facilitate objective a) as it will allow the ESO to recover BSUoS costs in a way that does not create a wider market distortion, without creating a negative impact to consumers, assuming the lead time is long enough for</i></p>

	<i>the market to react and suppliers to forecast appropriately.</i>
Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.	<i>We support the proposed implementation and believe the proposed legal text is clear and appropriate.</i>
Do you have any other comments?	<i>It is appropriate is that BSUoS is charged to offtaking Units (regardless of importing or exporting status) into order to prevent gaming of network charges, however, this modification should be considered alongside CMP281 'Removal of BSUoS Charges From Energy Taken From the National Grid System by Storage Facilities'. If Storage pay BSUoS on importing, they will be at a competitive disadvantage when discharging to the wholesale market.</i>
Do you feel it is more efficient for BSUoS to be handled by customers / suppliers rather than customers / suppliers and generators?	<i>Given there is no evidence that generation responds to BSUoS as a price signal (Deliverable One of the Balancing Services Task Force will provide more information), charging to generation is economically inefficient. Users end up paying the costs through higher wholesale prices, as generators attempt to preserve margins in the competitive market, and so it will be clearer to charge it directly to consumers. The proposed solution is cost reflective of a user's impact on balancing services as timing of volumetric effects are reflected in the charge.</i>
If CMP308 were to be implemented, what would your thoughts be in regards to combined/net risk premia?	<i>Pricing data around BSUoS is commercially sensitive and therefore not readily available, but we believe the majority of parties apply a flat average across all half-hours, necessary for trading more than HH periods, to other price elements. Whilst this may not be a clearly defined "risk premia", parties will need to ensure that average is high enough. Given the difficulties of forecasting BSUoS, as evidenced by the ESO's APE reporting, there will probably be a slight premium. Implementing CMP308 would mean only one party is needing to apply an average. This will be more efficient and should allow stronger signals to come through. While there is no guarantee this single premia will be lower than a combined premia, suppliers and consumers will have increased transparency as to how much it is.</i>
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	<i>We would be supportive of a non-April implementation date. Changes to charging methodologies are generally implemented in April to avoid a change mid-tariff, with associated re-invoicing and/or pro-rated tariffs. Since BSUoS is calculated and charged on a HH basis, this requirement is not necessary. <i>We agree with the proposer that 2 years after the Authority decision would be suitable. Leaving implementation longer (such as to April) would delay the benefit of this modification.</i></i>

<p>Has the Analysis comprehensively considered consumer/system benefits, or can you identify any area which may need more consideration by the workgroup?</p>	<p><i>The workgroup has looked carefully at all areas of consumer and system benefits and has produced a comprehensive report.</i></p>
<p>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.</p>	<p><i>This modification should be considered in line with CMP281 'Removal of BSUoS Charges From Energy Taken From the National Grid System by Storage Facilities'. Offtaking storage will be charged under this modification alone, which would create a cost they are exposed to, possibly creating a distortion compared to other GB and European regulators. Storage being charged 'twice' on the same kWh is the defect being addressed by CMP280/281 – the modification could exacerbate that and, if not addressed, could lead to less grid-scale storage in the long-term. However, if CMP281 is not implemented, offtaking storage would be treated in an equal manner to any other form of offtaking generation, so the implementation of this modification is not directly dependant on the implementation of CMP281.</i></p>
<p>Are there any unintended consequences of CMP308 which have not as yet been considered by the workgroup?</p>	<p><i>If, in the future, the generation mix changes to includes much larger proportions of solar and there are extended periods of negative prices, charging BSUoS (which is always positive) onto demand will weaken this negative signal. We believe that this is an unlikely, very long-term scenario and can be addressed by industry with time if it should occur.</i></p>
<p>Will there be any specific impact on renewable or distributed generation, be that long or short term?</p>	<p><i>This modification won't affect the Embedded Benefit distributed generation receives, which is in scope of the TCR. Renewable generation with PPA or CfDs will be unaffected as prices have been already agreed. Any future contracts will have time to account for this change during the implementation period.</i></p>
<p>Will there be any significant IT costs to change your systems as a result of CMP308? If so please give detail.</p>	<p><i>None.</i></p>