

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>George Moran</i> George.moran@centrica.com
Company Name:	<i>Centrica</i>
Please express your views regarding the Workgroup Consultation, including rationale. (Please include any issues, suggestions or queries)	<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>

Standard workgroup consultation questions

<p>1</p>	<p>Do you believe that CMP308 Original proposal, better facilitates the Applicable CUSC Objectives?</p>	<p>No.</p> <p><i>Applicable CUSC Objective (a): Detrimental impact.</i></p> <p><i>The methodology for setting the retail price cap brings a delay in reflecting changes in the level of BSUoS costs within the cap. This means that suppliers will face significant and unjustified losses as a result of the higher BSUoS costs that would result from CMP308. If an efficient supplier is unable to recover its costs, then this will adversely affect competition in supply.</i></p> <p><i>The volatility of BSUoS costs has also increased in recent years and so smaller suppliers will be less able to manage uncertain cash-flows and increased costs.</i></p> <p><i>Partially offsetting this, there could be a small positive effect on competition in generation, but with some forms of generation disadvantaged (i.e. storage).</i></p> <p><i>Applicable CUSC Objective (b): Detrimental impact.</i></p> <p><i>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 status quo.</i></p> <p><i>Applicable CUSC Objective (c): Neutral</i></p> <p><i>Applicable CUSC Objective (d): Neutral</i></p> <p><i>Applicable CUSC Objective (e): Detrimental Impact</i></p> <p><i>We consider that the question of who should pay BSUoS should follow on from the conclusions of the BSUoS Task Force and the TCR decision, rather than through this modification, which we consider is an inefficient use of industry resource.</i></p>
----------	--	--

2	Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.	<p><i>If CMP308 were approved, we recommend a minimum 3-year lead time.</i></p> <p><i>We believe that there should be a sufficient delay in implementation to ensure that no one party incurs windfall losses or gains as a result of this proposal. Any contracts to buy or sell electricity struck before CMP308 was raised are likely to reflect the current basis of BSUoS charges. Fixed term contracts for 3 years or longer are commonplace in the supply market, and so a 2- year implementation period is insufficient to ensure consumers and suppliers are able to adjust for the change. Windfall gains or losses could potentially also arise through CM bids made before CMP308 was raised and so likely to be based on the current arrangements.</i></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?	<p><i>If yes, please complete a WG Consultation Alternative Request form, available on National Grid's ESO website¹, and return to the CUSC inbox at cusc.team@nationalgrideso.com</i></p>

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><i>No. The transaction costs (i.e. people and processes) associated with BSUoS risk management are negligible and would remain negligible if CMP308 were implemented. The more important question is in relation to risk premia.</i></p>
6	If CMP308 were to be implemented, what would your thoughts be in regard to combined/net risk premia?	<p><i>We accept that obtaining evidence on risk premia is difficult. However, there is a clear structural market difference between Generators and Suppliers with respect to BSUoS. The Generation community receives the majority of the revenues behind BSUoS costs. This means that if BSUoS costs are higher (lower) than expected then it is highly likely that</i></p>

¹<https://www.nationalgrideso.com/codes/connection-and-use-system-code-cusc>

		<p><i>Generators, as a whole, will have received higher (lower) revenues. Because of this structural difference we consider current BSUoS risk cannot be assumed to be equivalent between Generators and Suppliers.</i></p> <p><i>It seems self-evident that generators face lower BSUoS risk than suppliers. This is because generators, taken as whole, should be able to mitigate some, if not all, of the risk of higher BSUoS with the opportunity for additional constraint/ancillary service payments. Unless evidence, or arguments, can be provided to the contrary it should be assumed that CMP308 would result in an increase in net risk premia.</i></p>
7	<p>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</p>	<p><i>As set out above, if CMP308 were approved, we recommend a minimum 3-year lead time.</i></p>
8	<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 consultation provides limited analysis on consumer or system benefits.</i></p> <p><i>Removing BSUoS from generation would reduce the GB generation cost stack and have an equivalent downward effect on wholesale price, but this would lead to increased ‘domestic’ generation (reduced imports and increased exports) which will have an upward effect on wholesale price as more expensive marginal plant comes on. This upward effect on wholesale price would benefit all GB generation and lead to additional generator profits and higher net consumer costs in the short term. In the longer term, higher profits could lead to more investment and/or lower CM bids – potentially offsetting the short-term detriment.</i></p> <p><i>CMP201 attempted to provide quantitative analysis for some of these impacts. For CMP308, the proposer has offered an opinion that the short-term impact has been removed, but no analysis to support this has been provided.</i></p>
9	<p>Are there any thoughts on the impact of CMP308</p>	<p><i>More expensive marginal plant (likely to be less efficient and more polluting)</i></p>

	on the generation mix, be that short or long term?	
10	Are there any unintended consequences of CMP308 which have not as yet been considered by the workgroup?	<i>BSUoS currently provides 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, potentially resulting in increased system costs.</i>
11	Will there be any specific impact on renewable or distributed generation, be that long or short term?	
12	Will there be any significant IT costs to change your systems as a result of CMP308? If so please give detail.	No