

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:	Jason Harkay
Company name:	Utilita Energy Limited
Email address:	jasonharkay@utilita.co.uk
Phone number:	Click or tap here to enter text.

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	Do you believe that the CMP308 Original Proposal better facilitates the Applicable Objectives?	<p>Yes, the solution aligns with the recommendations of the Second BSUoS Task Force, that BSUoS should be paid by final demand users only and addresses the defect of uncompetitive charging between GB and European generators. Most EU countries Generators are not charged the equivalent of BSUoS and those that do, do so on a much smaller scale. With increasing interconnectivity with Europe, disparity in charges may be exploited to the detriment of competition. The removal BSUoS charges from GB generation will enable competition on a more equal basis and remove the potential for BSUoS to distort cross border trade (ACO a).</p> <p>Interconnection capacity is set to increase in the future, as such the market distortion between GB and European generators will also increase. The proposed modification accounts for this and seeks to prevent further distortion (ACO c).</p> <p>Recovering BSUoS directly from final demand should promote efficiency by simplification of the system. Currently BSUoS charges are passes through various markets and mechanisms before being recovered from the end consumer. Therefore, the simplification of this should result in the reduction to whole system costs. The change also facilitates closer alignment between BSUoS and TNUoS terminology making the charging methodology more internally consistent (ACO e).</p> <p>The Frontier Economics analysis supports the workgroup's conclusions regarding the likely reduction to overall system costs and customer costs. Concluding that the increase in the BSUoS demand charge is more than offset by reductions in wholesale prices and low carbon support payments.</p>
2	Do you support the proposed implementation approach?	<p>We'd recommend a minimum lead time of 2 years for this change. The proposed implementation date should provide a sufficient period to ensure that the wholesale market adjusts to the removal of BSUoS from generation and allow time for consumers and suppliers to adjust for change.</p>

3	Do you have any other comments?	<p>While we welcome these changes to industry, as things stand, we believe the implementation of this modification will impose an increased risk to suppliers via the Retail Price Cap.</p> <p>An update to the price cap methodology must be made should CMP308 be approved, or CMP361/362 (or similar) approved making BSUoS an ex-ante fixed charge in conjunction with this modification.</p> <p>Without either of these changes, for a limited period, suppliers with high levels of default tariff customers will be put into a position where they are paying almost double the BSUoS charge, but are only able to pass through the previous (pre-CMP308) BSUoS charge. This is due to current methodology for setting the retail price cap including a delay in reflecting changes in the level of BSUoS costs within the cap. Suppliers already make extremely slim margins, if not negative, on these types of tariff. Ofgem's own data, at time of writing, shows a fully negative margin on a typical domestic bill of -1.32%. This change will look to further exacerbate the problem.</p> <p>Currently a proportion of BSUoS is paid by generators and incorporated into the wholesale price, which suppliers can hedge against. Under CMP308 suppliers will take on the sole responsibility of the BSUoS charge and they will no longer be able to hedge in this way. Impact to suppliers will vary on their previous hedging efficiency, with the most efficient being the greatest penalised.</p> <p>Using an ex-ante BSUoS fixed charge will remove the market signals that allow some consumers to avoid paying BSUoS and improve a supplier's ability to forecast, allowing them to better manage their cash flow and help to mitigate the risks outlined above.</p> <p>This would address our concerns about moving a variable BSUoS charge solely to suppliers and would align with additional recommendations from the Second BSUoS Task Force.</p>
---	---------------------------------	--