

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.

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| Respondent: | <i>Simon Vicary</i> (simon.vicary@edfenergy.com) |
| Company Name: | <i>EDF Energy</i> |
| <p>Please express your views regarding the Workgroup Consultation, including rationale.</p> <p>(Please include any issues, suggestions or queries)</p> | <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

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| 1 | <p>Do you believe that CMP308 Original proposal, better facilitates the Applicable CUSC Objectives?</p> | <p><i>The proposed CUSC mod better facilitates code objectives (a) effective competition, (c) developments in transmission business, (d) EU compliance and (e) promoting efficiency. It is neutral on (b) cost reflectivity. Our reasoning is set out in our original proposal and repeated in the workgroup report.</i></p> |
| 2 | <p>Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.</p> | <p><i>Yes. With sufficient lead time for implementation, our modelling indicates that the consumer impacts in the short-term are likely to be neutral. We also believe that our proposed implementation approach would address the concerns raised by suppliers in relation to the potential extension of Ofgem tariff cap. This would ensure that expected lower wholesale prices would be matched with higher BSUoS costs in any extended tariff cap (WG report section 2.4)</i></p> <p><i>In the long run removal of the identified distortion in the wholesale market would ensure more effective competition which is in consumers' interests: i.e. will ensure dispatch and investment in new generation is more efficient.</i></p> |
| 3 | <p>Do you have any other comments?</p> | <p><i>Whilst the EU Third Package arrangements recognise that different types of market organisation will exist within the wider internal market in electricity, they also acknowledge the need to reduce market distortions to deliver the full benefits of a competitive internal market in electricity.</i></p> <p><i>This is critical in the context of growth in GB interconnection capacity which is set to significantly increase (4GW in 2018, 5GW from January 2019, 8GW by 2021 and, with Ofgem's approved pipeline, potentially up to 18GW by the early 2020s), which represents almost a third of peak GB demand.</i></p> |
| 4 | <p>Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?</p> | <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> <p><i>No.</i></p> |

Specific questions for CMP308

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

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| 5 | <p>Do you feel it is more efficient for BSUoS to be handled by customers / suppliers rather than customers / suppliers and generators?</p> | <p><i>Better aligning the GB market arrangements and the charges faced by GB generation with those prevalent in other interconnected countries, where generation is typically not subject to such charges, would allow GB and continental generation to compete on a more equitable basis and would remove the potential for BSUoS to distort cross border trade.</i></p> <p><i>Ofgem broadly supported a similar proposal (CMP201) in 2014 but, incorrectly in our view, considered the short-term consumer negative impact outweighed the longer-term benefits: “We consider that in principle, removing BSUoS from generators would have a small positive impact on competition. However, we are concerned that at this time the potential benefits this would bring would not be material enough to offset the potential costs to consumers from implementing the modification” – from Ofgem’s CMP201 decision document, October 2014.</i></p> <p><i>Also, by reducing the number of parties needed to manage BSUoS cost risk is likely to reduce overall risk premia leading to overall efficiency and lower costs for consumers.</i></p> |
| 6 | <p>If CMP308 were to be implemented, what would your thoughts be in regard to combined/net risk premia?</p> | <p><i>We consider that there may be a benefit to consumers of slightly lower risk premia from avoiding the need to factor BSUoS risk into generation/wholesale market costs, instead being covered within more predictable demand volumes.</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>A lead time of 2 years after a decision is made should be sufficient to ensure that 1) the wholesale market adjusts to the removal of BSUoS from generation, and 2) there is time for consumers and suppliers to adjust for the change. This includes any extension of Ofgem’s tariff cap.</i></p> <p><i>As BSUoS is charged on a £/MWh basis we do not think it is bound to 1st April like the other use of system costs. However, with the main contract rounds for non-domestic consumers starting on 1st April and on 1st October we think it is reasonable for the implementation date to be either of these.</i></p> |
| 8 | <p>Has the Analysis comprehensively considered consumer/system benefits, or can you identify any area which</p> | <p><i>Yes.</i></p> <p><i>Our modelling indicates that there should be no adverse effects for GB end consumers, subject to sufficient time for implementation to take account of existing contractual commitments.</i></p> |

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| | may need more consideration by the workgroup? | <i>In the long run removal of a distortion in the wholesale market would ensure more effective competition which is in consumers' interests: i.e. it would ensure dispatch and investment in new generation is more efficient.</i> |
| 9 | Are there any thoughts on the impact of CMP308 on the generation mix, be that short or long term? | <p><i>We do not believe that CMP308 will directly impact the GB generation mix in either the short or long term. The generation mix is changing significantly driven largely by Government policy and the need to decarbonise.</i></p> <p><i>However, we note the concerns raised for pumped storage generation that they may be at a disadvantage because BSUoS is typically higher overnight than during the daytime. Either CMP281, that is currently processing through the CUSC process, or an alternative change that a party could raise entailing moving to a daily average BSUoS £/MWh charge could resolve this position if considered a significant issue. Ofgem have already set out a clear policy view on the need for this change to be made therefore we expect this concern to be addressed.</i></p> |
| 10 | Are there any unintended consequences of CMP308 which have not as yet been considered by the workgroup? | <i>No, none that we are aware of.</i> |
| 11 | Will there be any specific impact on renewable or distributed generation, be that long or short term? | <p><i>No.</i></p> <p><i>Our modelling indicates that there should be no impact on renewable or distributed generation in the long or short term.</i></p> <p><i>We consider that as BSUoS is a half hourly charge it is expected that, as the GB wholesale market is considered to be efficient, the power price will reduce as a direct consequence of the increase in BSUoS charge for suppliers for each half hour. Therefore, a reduction in the power price will offset any increase in the BSUoS liability of a supplier. Therefore, CMP308 will have a neutral impact on the incentives for parties to operate embedded generation and demand side response on sites connected to the distribution system.</i></p> <p><i>With regards CfD holders, those that are Transmission connected have a strike price adjustment for BSUoS, as it is currently part of their</i></p> |

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| | | <p><i>marginal cost, so its removal will leave them, and consumers, neutral to CMP308. This is not relevant for distribution connected CfD holders as they do not pay BSUoS so are neutral to CMP308.</i></p> <p><i>We note that in their Targeted Charging Review (TCR) Ofgem have indicated that they may introduce BSUoS charging for distribution connected generation. The CMP308 proposal analysis shows that its impact on renewable and distributed generation is still neutral regardless of the outcome of the TCR.</i></p> |
| 12 | <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>No.</i></p> |