

CMP262

‘Removal of SBR/DSBR Costs from BSUoS into a “Demand Security Charge”’.



CUSC Panel – 30 September 2016

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Background

- CMP262 was raised by VPI Immingham and was submitted to the CUSC Modifications Panel for their consideration on 18 March 2016.
- The Proposers request that the Proposal be developed and assessed against the CUSC Applicable Objectives in accordance with an urgent timetable. This was agreed to by the Panel and was approved by Ofgem on 31 March 2016.
- CMP262 aims to create a new cost recovery mechanism, a “Demand Security Charge” specifically for recovery of all SBR/DSBR utilisation costs, which is only levied on demand side Balancing Mechanism Units (BMUs).

Workgroup Consultation

- **Sixteen** responses were received to the Workgroup Consultation and were considered by the Workgroup.
 - **Six** respondents supported the Original proposal as better meeting the Applicable CUSC Objectives and implementation approach.
 - **Nine** respondents did not support it.
 - **One** respondent did not comment against whether the Original better met the applicable CUSC objectives and highlighted a number of concerns regarding the implementation approach including concerns regarding customers potentially being charged more than 100% of the cost of utilisation and cost burden falling on standard variable tariff customers.

Post Code Administrator Consultation Developments

- Following the Code Administrator Consultation some feedback was received from the Authority and it was understood that there may have some uncertainty over the baseline recovery mechanism.
- Further investigations confirmed that a common view about the baseline was not shared by some Workgroup members.
 - A summary of these events along with proposed next steps to resolve these issues was presented to the CUSC Panel at their meeting on 26 August 2016. The Panel directed the CMP262 Workgroup to re-convene to discuss these issues and update their report to reflect these discussions and issue a five day Code Administrator Consultation to the Industry.

Clarification of Baseline

- The Workgroup met on 7 September 2016 to discuss and clarify the baseline recovery mechanism and were given the opportunity to review the content of the report and make any necessary changes that would assist the Authority in making its decision.
- For the avoidance of doubt, the baseline within the current CUSC methodology states the costs of Supplemental Balancing Reserve (SBR) utilisation are recovered through Balancing Services Use of System (BSUoS) charges with their costs being spread across all settlement periods within the day of utilisation on a volume weighted basis.

WACMs

- The Workgroup deliberated and updated the options table for WACMs. They reviewed their voting positions and agreed to support only two of the options as WACMs.
- One Workgroup member revised their voting opinion. The remaining Workgroup members confirmed that this did not change their voting opinions.

Option / WACM reference	Owner	New charge / Existing charging (Develop new charge or include in existing BSUoS charge)	Charge levied on Demand / Generation (charging demand only?)	Charge levied on Gross or Net demand?	Who pay – users of Current Year or future years?	Smearing	
						D	E
						Across 6am to 8pm (whole winter cost, Nov to Feb) (Current year users)	Across whole winter, all settlement periods, Nov to Feb (Current year users)
Original Proposal	Mary Teuton - VPI Immingham	Existing	Demand	Net	Current	No	Yes
WACM 1 (Option 4)	Daniel Hickman - npower	Existing	Both	Net	Current	No	Yes
WACM 2 (Option 6)	Daniel Hickman - npower	Existing	Both	Net	Current	Yes	No

Revised Workgroup Vote

- At the final Workgroup meeting, Workgroup members voted on the Original Proposal and the 2 WACMs
- Overall, most Workgroup supported WACM1 as better facilitating the applicable CUSC objectives.
 - **Three** votes supported WACM1
 - **Two** Workgroup members supported the Original
 - **One** Workgroup member supported WACM2
 - **One** Workgroup member supported the Baseline as their preferred option.

Revised Code Administrator Conclusions

- **Nine responses** were received to the Code Administrator Consultation, Overall, three respondents preferred the Baseline; one supported the Original Proposal; four supported WACM1 and one respondent supported WACM2.
 - The respondents that preferred the Baseline considered the Original and the WACMs had the potential to introduce windfall gains and losses both across generation and supply businesses exposing Suppliers and Consumers to increased BSUoS costs within very short timescales;
 - The Proposer supported the Original as they consider lack of any market signal and ability to accurately forecast the SBR/DSBR costs, coupled with potential volatility negatively impacts competition in the wholesale electricity market, distorting competition. They also believe this potential inaccuracy of costs may lead to sub-optimal and uneconomic despatch of generation.
 - The four respondents that supported WACM1 considered this to be the most efficient option to put in place as it did not increase system costs more than is necessary.
 - The respondent that supported WACM2 agreed with the principle to maintain the existing 50:50 split between generators and suppliers for the SBR/ DSBR utilisation costs and did not object to the smearing approach outlined for this option.

Terms of Reference

- The Workgroup concluded that their Terms of Reference have been met;

Issue	Evidence
a. To investigate if there is a better risk management tool. Issue discharged by CUSC Panel.	This issue was de-scoped Panel addressed in d.
b. To look at what the impact of the proposal would be on various sectors of the market.	Section 3
c. What would be the ultimate impact on customers?	Section 3, Table 4
d. Are there any other options that can address improving the quality and timeliness of information to market participants?	Section 3
e. What are the implications on RCRC?	Section 3
f. What is the cost of implementing a new billing system and how is the benefit of this assessed against the short life of this modification proposal.	Section 3, Section 6, Table 4
g. Workgroup to consider other solutions that spread the costs to generators and suppliers over a longer period of time.	Section 3, Table 4
h. What is the impact of this proposal on competition and at which point does this prevent the market from reacting in a competitive manner.	Section 3, Table 4
i. There are currently a number of related BSC modifications in progress, the Workgroup are requested to review these and identify any impact these may have on this proposal.	Section 3, Table 4

Proposed CUSC Modification

- This Proposal seeks to amend;
 - Changes to Section 14 – Charging Methodologies, specifically Section 2 ‘The Statement of the Use of System Charging Methodology’
 - 14.29 Principles
 - 14.30 Calculation of the Daily Balancing Use of System charge.
 - 14.31 Settlement of BSUoS

Questions before Panel Vote?



Panel Recommendation Vote – Charging Objectives

- (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. These are defined within the National Grid Electricity Transmission plc Licence under Standard Condition C10, paragraph 1; and
- (e) Promoting efficiency in the implementation and administration of the CUSC arrangements.

*Objective (c) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).

Vote

- Vote 1 - does the original or WACM facilitate the objectives better than the Baseline?
- Vote 2 – Which option is the best?
 - Panel Votes:
 - James Anderson
 - Bob Brown
 - Kyle Martin
 - Garth Graham
 - Nikki Jamieson
 - Paul Jones
 - Simon Lord (Paul Jones)
 - Cem Suleyman
 - Paul Mott

Timetable

30 September 2016	CUSC Panel meeting
7 October 2016	Final report sent to Authority for decision
4 November 2016	Indicative Authority Decision due (20 Working days)
11 November 2016	Implementation date