

CUSC Alternative Form

CMP361 WACM6: Fixed price BSUoS Charges based on a 9-month notice and 6-month fixed period with a confidence level of P90 and a cap on the annual contribution to the BSUoS Fund of £25m

Overview: This alternative is as per the Original Proposal with the following exceptions:

- The target confidence level is reduced to P90 (subject to the annual cap below)
- A cap on the annual contribution to the BSUoS Fund of £25m (instead of being built up over two years – both initially and on an enduring basis)
- An increased notice period – 9 months' notice and 6 months fixed

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What is the proposed alternative solution?

As with the CMP361 Original Proposal, this alternative solution also seeks to introduce an ex ante fixed volumetric BSUoS tariff set over a total fixed and notice period of 15 months. This will deliver the recommendations of the Second BSUoS Task Force.

What is the difference between this and the Original Proposal?

As per original, but with the following differences:

- A lower target confidence level (P90 instead of P99)
- Capped annual contribution to the BSUoS fund of £25m. This is instead of the fund being built up over two years – both initially and on an enduring basis. The capped contribution to the BSUoS fund will mean that in some years, particularly the early years following implementation, the confidence level of the published BSUoS tariff may not achieve the P90 targeted level. The ESO should state the achieved confidence level with each tariff publication.
- An increased notice period – 9 months' notice and a 6 months fixed tariff.

What is the impact of this change?

Proposer's Assessment against CUSC Charging Objectives

Relevant Objective	Identified impact
(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>Positive:</p> <p>BSUoS is increasingly volatile and difficult to forecast. The current ex-post charging approach creates significant risk which suppliers cannot hedge against. To the extent that the proposal improves the predictability of the BSUoS charges that suppliers need to factor into contract offerings, we believe it will improve competition between suppliers.</p> <p>Notice Period: We believe that the more advance notice that is provided of a fixed charge, the more contracts will be able to benefit from the reduction in risk. Options which provide more notice, even with a shorter fixed period, will therefore increase the benefit of the change and spread it more fairly across the market (and customers).</p> <p>BSUoS Fund: We believe the BSUoS Fund concept in the Original acts to reduce the benefit of the change. The BSUoS fund was not recommended by the Task Force or Ofgem and would represent a shock to industry. The mechanism would require suppliers to be able to forecast</p>

	<p>changes in the ESOs working capital arrangements and risk modelling to be able to forecast future BSUoS rates, neither of which we believe Suppliers will be well placed to do. The fund itself will therefore add back some of the risk premium that the change seeks to reduce. Therefore, this alternative includes a cap to the annual contribution to the BSUoS Fund. A capped contribution to the BSUoS fund significantly reduces the uncertainty surrounding changes to the ESO's working capital and risk modelling, as well as the cost shock associated with its introduction.</p> <p>Confidence Level: We believe the P99 confidence level targeted in the Original is excessive. Setting the fund to recover a lower level of base risk, leaving individual market participants to price in any further premium if desired and allowed by competitive pressures, will help to ensure competition drives an efficient outcome for risk premiums. Therefore, this alternative reduces the target confidence level to P90.</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>Positive:</p> <p>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. CMP361 will remove/reduce these distortive signals, making it more cost reflective than the baseline.</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>None</p>
<p>(d) Compliance with the Electricity Regulation and any relevant legally</p>	<p>None</p>

binding decision of the European Commission and/or the Agency *; and	
(e) Promoting efficiency in the implementation and administration of the system charging methodology.	<p>Neutral:</p> <p>Moving to an ex-ante approach for BSUoS should simplify the use of system charging methodology, but we believe the BSUoS Fund in the Original proposal introduces an additional and unnecessary complexity relative to the baseline. This alternative reduces some of this adverse effect by capping the annual contribution to the BSUoS fund which will be easier for Parties to understand and manage.</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>	

When will this change take place?

Implementation date:

April 2023 or sooner

Implementation approach:

As per the original

Acronyms, key terms and reference material

Acronym / key term	Meaning
BSC	Balancing and Settlement Code
BSUoS	Balancing Services Use of System
BSUoS Fund	The Original proposal is to place a cap on the ESO's total support via its working capital facility (WCF) and form an industry funded BSUoS Fund to ensure an agreed probability of tariffs being reset is covered. This would be collected as part of the BSUoS tariff.
CMP	CUSC Modification Proposal
CUSC	Connection and Use of System Code

LCCC	Low Carbon Contracts Company
SCR	Significant Code Review
CVA	Central Volume Allocation
DNO	Distribution Network Operator
DUoS	Distribution Network Use of System
EBR	Electricity Balancing Regulation
ESO	Electricity System Operator
Ex ante	“before the event” (Latin)
LCCC	Low Carbon Contracts Company
RCRC	Residual Cashflow Reallocation Cashflow
RIIO2	Price Control Period
SCR	Significant Code Review
SQSS	Security and Quality of Supply Standards
STC	System Operator Transmission Owner Code
SVA	Supplier Volume Allocation
T&Cs	Terms and Conditions
TCR	Targeted Charging Review
TNUoS	Transmission Network Use of System
WCF	Working Capital Facility

Reference material:

None.