

Code Administrator Consultation Response Proforma

CMP361 & CMP362: BSUoS Reform: Introduction of an ex ante fixed BSUoS tariff & Consequential Definition Updates

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 7 January 2022**. 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 Jennifer Groome Jennifer.groome@nationalgrideso.com or cusc.team@nationalgrideso.com

Respondent details	Please enter your details
Respondent name:	Daniel Parry
Company name:	Shell Energy UK Limited
Email address:	Daniel.parry@shellenergy.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.

CMP361

For reference the Applicable CUSC (charging) Objectives are:

- 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;*
- 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);*
- 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.*

**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).*

CMP362

For reference the Applicable CUSC (non-charging) Objectives are:

- a) *The efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence;*
- b) *Facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity;*
- c) *Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and*
- d) *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).*

Please express your views in the right-hand side of the table below, including your rationale.

Standard CMP361 Code Administrator Consultation questions		
1	Do you believe that the CMP361 Original Proposal or WACM1, WACM2, WACM3, WACM4, WACM5, WACM6 or WACM7 better facilitates the Applicable Objectives?	<p>In line with our response to the CMP361 & CMP362 Workgroup Consultation Response, Shell considers that any of the proposed solutions better facilitate the Applicable Objectives than the current ex-post model. However, we consider that the Original Proposal affords suppliers the least comprehensive forward view of BSUoS costs.</p> <p>Shell supports WACM1:12-month notice period and 3-month fixed period with BSUoS fund at P99 risk capital assumption. We support this alternative modification as a longer notice period would allow Suppliers to better account for BSUoS in their tariffs. Suppliers could provide future notice of tariffs in their business models as there would be a greater number of fixed priced Settlement Periods within the Financial year, reducing the need for elevated risk premia.</p> <p>The longer notice period combined with BSUoS fund at a 1 in 100 year risk assumption offers, in our mind, sufficient assurances to suppliers and their customers of a more stable forward view than the status quo. This better facilitates the Applicable CUSC Objectives than the Original Proposal or alternative Modifications.</p> <p>In Frontier Economics' analysis, Figure 49 shows WACMs 1 and 2 outperform the Original Proposal in terms of weighted average industry benefits by scenario and contract length with P99 capital assumption. They also outperform the benefits of the Original Proposal for 1 year, 2 year and 3 year duration supply contracts to consumers.</p> <p>WACM 1 offers 12-month notice period and 3-month fixed period. WACM 2 offers 9-month notice period and 6-month fixed period. Both alternative modifications support a BSUoS fund paid via tariffs to reduce National Grid ESO's risk capital exposure. As WACM1 and WACM 2 use the same P99 risk capital assumption, and both outperform the Original Proposal in their weighted average benefits, it would seem reasonable to afford suppliers the</p>

		optimal (12 months) notice period within the 15 months' notice + fixed window established by the Second Balancing Services Charges Task Force.
2	Do you support the proposed implementation approach?	Shell supports the proposed implementation approach and agrees that a holistic implementation of CMP361 and CMP308 is required. We consider the two modifications to be intrinsically linked and that one of the intended benefits of CMP308 - cost reduction to consumers over time - can only be realised when suppliers have sufficient certainty of fixed forecasts of BSUoS costs to revalue down the risk premia on supply contracts.
3	Do you have any other comments?	Though we broadly support the introduction of a BSUoS fund to decrease the risk of within-period changes to fixed BSUoS tariffs to a 1 in 100 years scenario, Shell asks that National Grid ESO work with industry to ensure it is robustly managed by means such as: <ul style="list-style-type: none"> • Data transparency commitments in CMP361, including monthly updates on the usage of funds available, are upheld and maintained. • Sufficient clarity over the nature of the fund and whether or not suppliers can draw from it if they exit the market. To allow for this would introduce cost risk into the BSUoS tariff that the fund itself seeks to mitigate. • The fund amount is subject to regular review to ensure it is proportionate to the P99 risk target. Shell would expect that over time the quality of ex-ante BSUoS data, analyses and forecasts produced by National Grid ESO should increase and so the total value of the fund should, therefore, decrease.

Standard CMP362 Code Administrator Consultation questions

1	Do you believe that the CMP361 Original Proposal or WACM1, WACM2, WACM3, WACM4, WACM5 or WACM6 better facilitates the Applicable Objectives?	Shell believes WACM1 better facilitates the Applicable Objectives.
2	Do you support the proposed	Shell supports the proposed implementation approach and agrees that a holistic implementation of CMP361 and CMP308 is required.

	implementation approach?	
3	Do you have any other comments?	Click or tap here to enter text.