

Workgroup 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 24 September 2021**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

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:	Joshua Logan
Company name:	Drax Group
Email address:	Joshua.Logan@drax.com
Phone number:	07934296838

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, the Workgroup 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:**

- 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.*

**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 regarding the Workgroup Consultation in the right-hand side of the table below, including your rationale.

CMP361 Standard Workgroup Consultation questions			
1	Do you believe that the CMP361 Original Proposal better facilitates the Applicable Objectives?	<input checked="" type="checkbox"/> Yes, it better facilitates objectives: <input checked="" type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> D <input checked="" type="checkbox"/> E	<input type="checkbox"/> No, it has a negative effect on objectives: <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E
		<p>The Second BSUoS Task Force concluded that BSUoS costs should be recovered only from final demand, and that BSUoS charges should be fixed with a notice period. This conclusion was supported by Ofgem. CMP308 will implement the first part of this conclusion, and CMP361/362 will implement the second element.</p> <p>The CMP361 Original Proposal better facilitates the Applicable CUSC Charging Objectives. However, we have identified 2 alternative solutions which we believe are better than the Original (please see our response to Question 4 and the Alternative Request forms).</p> <p>We acknowledge that fixing BSUoS would transfer some risk from market participants to the ESO and that the</p>	

greater the duration of the fix and notice period the more risk is transferred. Nevertheless, a regulated entity (in this case the ESO) who is guaranteed to recoup the cost, should have a lower cost of capital than that of energy suppliers. Therefore, fixing BSUoS should reduce whole system costs and, all else being equal, lead to lower costs for the end consumer.

Applicable Objective A – Positive

BSUoS is volatile and difficult to forecast. Adopting an ex-ante fixed charge as per the ESO's Original Proposal would go some way to addressing this issue.

Market participants attempt to forecast BSUoS but given the uncertainty, there is risk premia factored into retail contracts which is ultimately borne by end consumers. Whilst difficult to quantify, it is reasonable to assume it would be a significant amount in aggregate across the sector. Fixing BSUoS as per the Original Solution would materially reduce that risk premia and thus reduce this additional cost to the end consumer.

The current methodology results in an inefficient allocation of costs across all market participants including consumers. Due to the volatility of BSUoS, there will be times when market participants incorrectly forecast BSUoS and as a result will be unable to recover the cost. Fixing BSUoS will improve competition as it allows market participants to more effectively compete on price (wholesale market hedging, cost to serve, etc.) and is not influenced by their ability (or inability) to forecast BSUoS charges which are outside of their control.

In summary, the volatility and unpredictability of BSUoS charges causes uncertainty for market participants, has a negative impact on competition and increases costs for consumers. CMP361 would significantly reduce the BSUoS risk faced by market participants operating in a competitive environment and reallocate this to a regulated entity (the ESO). This will have a positive impact on competition in the retail market.

Applicable Objective C – Positive

The ESO forward plan commits to reviewing BSUoS charges and exploring the possibility of fixing BSUoS. CMP361 does this and therefore takes account of developments in the licensee's business.

Applicable Objective E – Positive

		<p>Fixing BSUoS simplifies the recovery of BSUoS costs and unlocks process efficiencies for market participants compared to the status quo. As explained above, CMP361 would reduce whole system costs and have a beneficial impact on end consumers. Fixing BSUoS promotes efficiency in the administration of the charging methodology.</p> <p>BSUoS and Low Demand</p> <p>We also wish to highlight that currently, BSUoS can send a perverse signal to the market which can drive up whole system costs and consumer bills. BSUoS can be at it's highest when system costs are being driven by issues caused by low demand. The high BSUoS charge incentivises demand to reduce further to avoid the cost. This is not a useful market signal and could result in balancing costs rising further. By fixing BSUoS this issue is removed.</p> <p>Impact on Consumers – Frontier Analysis</p> <p>In addition to the qualitative reasoning given in relation to the Code Objectives, the quantitative analysis by Frontier also concludes that fixing BSUoS would have a £140 - £148m benefit to end consumers (NPV, 2023 - 2040).</p> <p>Potential alternatives – Frontier Analysis</p> <p>We believe the positive impact on the code objectives would be greater should one of our potential alternatives be implemented.</p> <p>Moreover, as indicated by Figure 47 of the Frontier report, the options with the joint highest industry benefits are:</p> <ul style="list-style-type: none"> • 9-month notice and 6-month fixed, and • 12-month notice and 12-month fixed.
2	Do you support the proposed implementation approach?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <p>We support April 2023 implementation to coincide with the implementation of CMP308, assuming that modification is approved. Given the interactions between these modifications it's important they are implemented simultaneously to deliver the entire suite of BSUoS reforms as efficiently as possible.</p>
3	Do you have any other comments?	N/A
4	Do you wish to raise a Workgroup	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

<p>Consultation Alternative Request for the Workgroup to consider?</p>	<p>We are raising two Alternative Requests which, in our opinion, are better than the Original when assessed against the Applicable Objectives. A comprehensive overview of the alternatives can be found in our Alternative Request forms.</p> <p>Alternative 1: 9-Month Notice and 6-Month Fix</p> <p>As per the original but with 9-months' notice and 6-month fix.</p> <p>Alternative 2: 12-Month Notice and 12-Month Fix</p> <p>As per the original but with 12-months' notice and 12-month fix.</p>
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<p>CMP362 Standard Workgroup Consultation questions</p>						
<p>5</p>	<p>Do you believe that the CMP362 Original Proposal better facilitates the Applicable Objectives?</p>	<table border="0"> <tr> <td data-bbox="620 918 991 1245"> <input checked="" type="checkbox"/> Yes, it better facilitates objectives: <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input checked="" type="checkbox"/> D </td> <td data-bbox="991 918 1461 1245"> <input type="checkbox"/> No, it has a negative effect on objectives: <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D </td> </tr> <tr> <td colspan="2" data-bbox="620 1245 1461 1615"> <p>CMP362 will better facilitate the Applicable CUSC Objectives.</p> <p>Applicable Objective D - Positive</p> <p>CMP361 will require consequential changes to definitions in CUSC Section 11. CMP362 will address these changes to Section 11 and other non-charging Sections of the CUSC. This will ensure the efficient implementation and administration of CUSC arrangements.</p> </td> </tr> </table>	<input checked="" type="checkbox"/> Yes, it better facilitates objectives: <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input checked="" type="checkbox"/> D	<input type="checkbox"/> No, it has a negative effect on objectives: <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D	<p>CMP362 will better facilitate the Applicable CUSC Objectives.</p> <p>Applicable Objective D - Positive</p> <p>CMP361 will require consequential changes to definitions in CUSC Section 11. CMP362 will address these changes to Section 11 and other non-charging Sections of the CUSC. This will ensure the efficient implementation and administration of CUSC arrangements.</p>	
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<p>6</p>	<p>Do you support the proposed implementation approach?</p>	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>We support April 2023 implementation to coincide with the implementation of CMP308 assuming that modification is approved. Given the interactions between these modifications it's important they are implemented simultaneously to deliver the entire suite of BSUoS reforms as efficiently as possible.</p>				
<p>7</p>	<p>Do you have any other comments?</p>	<p>N/A.</p>				
<p>8</p>	<p>Do you wish to raise a Workgroup</p>	<p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p>				

<p>Consultation Alternative Request for the Workgroup to consider?</p>	<p>Unless an alternative for CMP361 requires a corresponding alternative to be raised for CMP362, we do not wish to raise an alternative for this modification.</p>
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CMP361 & CMP362 Modification Specific Workgroup Consultation questions		
9	<p>The Original solution has 3 months' notice and 12 months fixed, what would your preferred combination of notice period and fixed period be? Please provide your justification.</p>	<p> <input type="checkbox"/> 3-month notice period and 12-month fixed period <input type="checkbox"/> 9-month notice period and 6-month fixed period <input type="checkbox"/> 12-month notice period and 3-month fixed period <input checked="" type="checkbox"/> Other (please describe below) </p> <p>Our preference would be 12-months' notice and 12-month fix, as per our second alternative. The total combined notice and fixed duration is significantly greater for this combination compared to others. We agree that other options would reduce the BSUoS risk in supply contracts, but this option would completely remove it in most instances depending on the exact contract length and lead time. It's common for non-domestic supply contracts to have a duration of 2 years and be agreed several months prior to the supply start date. In our view this option is the most comprehensive solution which best facilitates the code objectives and almost fully removes the BSUoS risk from consumer prices. For more detail, please see our Alternative Request forms.</p> <p>Our second preference is for 9-months' notice and 6-month fix. The Original's 3-months' notice is not long enough and would result in many supply contracts being exposed to BSUoS volatility. Conversely, the 12-months' notice and 3-month fix option gives sufficient notice but would see the BSUoS tariff changing frequently. As such, we believe 9-months' notice and 6-month fix strikes the right balance between the options which have a total combined fix and notice of 14/15 months. For more detail, please see our Alternative Request forms.</p> <p>We are particularly concerned that the notice period of 3-months for the ESO's original is not sufficient. This variation wouldn't maximise the benefits of fixing BSUoS as highlighted by Frontier's analysis which quantifies this as having the lowest industry benefit.</p>
10	<p>Do you support the use of an industry-funded BSUoS Fund to reduce the probability of re-setting tariffs?</p>	<p> <input type="checkbox"/> Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> Other / Don't know </p> <p>We are not convinced that an industry funded BSUoS fund is required. Our preference would be for the ESO to enter into an arrangement with a financial institution who</p>

		<p>could provide such a facility. We would like to see this possibility explored further to understand if it would be viable and at what cost.</p> <p>Should it not be a viable or an economically efficient option, we would support an industry funded BSUoS Fund to significantly reduce the possibility of re-opening the tariffs during a fixed period. Re-opening tariffs would entirely undermine the benefits associated with this modification and should be an absolute last resort. We would support a BSUoS Fund to significantly mitigate the risk of this in the absence of some arrangement with a financial institution.</p>								
11	<p>What would the appropriate balance be between the level of the BSUoS Fund requirement, and the probability of tariffs being reset within the fixed period due to under recovery (in the Original solution is this set at P99 – see table on pages 15-16)?</p>	<table border="0"> <tr> <td><input checked="" type="checkbox"/> P99</td> <td><input type="checkbox"/> P75</td> </tr> <tr> <td><input type="checkbox"/> P95</td> <td><input type="checkbox"/> P65</td> </tr> <tr> <td><input type="checkbox"/> P90</td> <td><input type="checkbox"/> P50</td> </tr> <tr> <td><input type="checkbox"/> P77</td> <td><input type="checkbox"/> Other / Don't know</td> </tr> </table> <p>As per our response to Question 10, should a BSUoS Fund be introduced it should almost eliminate the possibility of having to re-open tariffs during a fixed period. For that reason, we support this fund being set at a P99 level.</p> <p>The indicative figures in Table 4 suggest that approximately £275 million would have to be recovered from industry to fund this at the P99 level. Whilst this amount is less for lower P-values, we believe it is a reasonable cost to achieve a P99 confidence level.</p> <p>To mitigate the impact of building up the fund, we would support recovering the money over 2 years (see our response to question 12).</p>	<input checked="" type="checkbox"/> P99	<input type="checkbox"/> P75	<input type="checkbox"/> P95	<input type="checkbox"/> P65	<input type="checkbox"/> P90	<input type="checkbox"/> P50	<input type="checkbox"/> P77	<input type="checkbox"/> Other / Don't know
<input checked="" type="checkbox"/> P99	<input type="checkbox"/> P75									
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<input type="checkbox"/> P90	<input type="checkbox"/> P50									
<input type="checkbox"/> P77	<input type="checkbox"/> Other / Don't know									
12	<p>Do you agree with the proposed approach to recover half of the BSUoS Fund in the first financial year and the rest in the second financial year?</p>	<table border="0"> <tr> <td><input checked="" type="checkbox"/> Yes</td> </tr> <tr> <td><input type="checkbox"/> No</td> </tr> <tr> <td><input type="checkbox"/> Other / Don't know</td> </tr> </table> <p>Should the fund be accrued over 12 months or less it would have a significant impact on the £/MWh BSUoS amount faced by market participants. Building up the fund over two years rather than one will mitigate the impact on market participants whilst still accruing the fund relatively quickly.</p>	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> Other / Don't know					
<input checked="" type="checkbox"/> Yes										
<input type="checkbox"/> No										
<input type="checkbox"/> Other / Don't know										
13	<p>Do you agree with the proposed data transparency approach set out in the Workgroup consultation?</p>	<table border="0"> <tr> <td><input checked="" type="checkbox"/> Yes</td> </tr> <tr> <td><input type="checkbox"/> No</td> </tr> <tr> <td><input type="checkbox"/> Other / Don't know</td> </tr> </table> <p>Any additional data and transparency is welcomed by industry. It will enhance the ability for industry to forecast</p>	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> Other / Don't know					
<input checked="" type="checkbox"/> Yes										
<input type="checkbox"/> No										
<input type="checkbox"/> Other / Don't know										

	<p>BSUoS charges even ahead of the notice period being set.</p> <p>We support quarterly forecasts of the upcoming BSUoS tariff. This will provide market participants with a view of the next BSUoS tariff even prior to the notice period.</p> <p>Additionally, we welcome the proposed monthly updates on the total ESO working capital, BSUoS fund utilisation and ongoing over/under-recovery.</p>
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