

## 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](mailto: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](mailto:Jennifer.groome@nationalgrideso.com) or [cusc.team@nationalgrideso.com](mailto:cusc.team@nationalgrideso.com)

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#### 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:

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

Standard CMP361 Code Administrator Consultation questions		
1	<p>Do you believe that the CMP361 Original Proposal or WACM1, WACM2, WACM3, WACM4, WACM5, WACM6 or WACM7 better facilitates the Applicable Objectives?</p>	<p>All proposals better facilitate the Applicable CUSC objectives a) and b)</p> <p>Objective a) This modification will create a level playing field amongst all Suppliers, reducing the need to forecast a highly volatile charge or rely on forecasts produced by the ESO which have consistently under forecasted the charge. It will allow Suppliers to provide customers what they want which are fixed tariffs with a reduced risk premia.</p> <p>Objective b) Due to the volatility of BSUoS costs a fixed charge for one year may not accurately represent the underlying BSUoS costs, however with any under or over recovery added to future charges; over time they do.</p> <p>Under the current baseline, charges levied on Suppliers fully reflect the Balancing costs of a particular Settlement Period charged to a Supplier but not the end Users of the System. When these costs are then charged to the users of the system via Electricity bills a risk premia is added to cover forecasting error. Coupled with volatility the charges to the end System User are highly unlikely to match actual costs over a year, with Suppliers or the end consumer having to manage the shortfall. Fixing the charge allows actual costs to be recovered from the end system user albeit over longer timescales.</p> <p>The BSUoS taskforce concluded that BSUoS should not and does not provide an efficient cost signal. Moving to a fixed charge and the recovery of costs via this charge, supports this view.</p> <p>In terms of which proposal better meets the applicable Objectives we consider the notice period as the main parameter as this determines how much certainty can be reflected in contracts. The BSUoS fund being the second most important parameter to consider; those proposals which combine a greater notice period along with a</p>

		<p>BSUoS fund better meet the Applicable Objectives than those proposals with shorter notice periods and no BSUoS fund, as they allow a greater degree of certainty of BSUoS costs whenever a contract is signed within the year, whereas with a shorter notice period, as you progress through the financial year April t-1 to April t-2 there would be more uncertainty over future BSUoS as proportions of a fixed contract will have significant periods where the BSUoS charge is not fixed.</p> <p>It would be preferable if alternative funding sources were available to fund any potential under recovery over and above the ESO's own credit facilities, but if those additional funding options do not exist, a BSUoS fund built up by Industry lessens the chances of a mid-year price change. Any uncertainty either through having periods of where the BSUoS charge is not fixed within the period of a Fixed Contract; or there is the possibility that the fixed Charge will be adjusted due to a Mid Year Price change will manifest itself in a higher risk premium being applied. This risk premium is ultimately transferred to the end consumer diminishing one of the key benefits of this modification. This viewpoint is supported by the Frontier Analysis which indicates that a longer notice period reduces the risk premia.</p> <p>Recent events also show the real need for this modification.</p>
2	Do you support the proposed implementation approach?	Yes. It is crucial that this modification is implemented alongside CMP308 as soon as possible.
3	Do you have any other comments?	The purpose of the modification is to reduce the risk premia which Generators and Suppliers are forced to add onto their own forecasts of BSUoS as end consumers demand certainty. Any assessment of proposals should therefore concentrate on what is best for the end consumer by reducing this risk premia the most, and not what might be convenient and easier to undertake for certain Industry Users. Alongside this modification we would like to see an improvement in BSUoS forecasts especially towards the back end of the 2 years, and a deeper

		<p>understanding of the drivers of Balancing Costs. The ESO has historically consistently under forecasted BSUoS costs necessitating the BSUoS fund. Overtime we would expect the P99 to be reduced as forecasts improve and BSUoS stabilises. We recently see positive steps being taken by the ESO to address these issues.</p>
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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?	We believe CMP362 is purely an enabling modification for CMP361 and therefore, like CMP361, it better facilitates the Applicable Objectives (a) and (b) for the reasons we detail in our response to the CMP361 consultation whilst CMP362 (like CMP361) is neutral with respect to the other Applicable Objectives.
2	Do you support the proposed implementation approach?	Yes
3	Do you have any other comments?	No