CUSC Alternative Form

CMP361 WACM5:
Collecting a P99 BSUoS fund over 5 years

Overview: CMP361 is looking to make BSUoS a fixed, ex ante charge. In order to mitigate cashflow concerns of the ESO, the Original proposal looks to collect a BSUoS fund from BSUoS liable parties that will ensure that the ESO has sufficient money to pay generators for BSUoS services 99 times out of 100 (P99). Current estimates place this cost to industry at ~£200-300m. The Original proposal looks to collect this BSUoS fund over a two-year period. This alternative request seeks to spread the cost to industry (and hence customers) over a longer period to reduce the volatility of BSUoS payments. It acknowledges that there is more risk of BSUoS rates needing to be reopened within year by extending the time over which the fund is collected, but believes that at the P99 level, the additional risk is balanced by the reduction in volatility of customers' bills.

Proposer: Matthew Cullen, E.ON UK

Contents

What is the proposed alternative solution?

As part of CMP361's Original proposal, the ESO are looking to make BSUoS a fixed, ex ante charge. By doing this, ESO takes on a cashflow risk as the fixed ex ante charge must be forecasted ahead of delivery and may not cover the actual costs for BSUoS. This differential between forecast and actual is proposed to be recovered through a K factor correction that is added to later BSUoS charges. Therefore, ESO is exposed for a limited period. In order to mitigate this risk, ESO are proposing the introduction of an industry BSUoS fund where BSUoS liable parties pay into a working capital 'pot' to cover this cashflow risk (ESO will also contribute to this fund). The size of the fund depends on the level of certainty that industry wants to ensure that ESO will not reopen BSUoS rates within year (this is ESO's only option to ensure BSUoS service providers are paid). This would cause significant problems to suppliers who will have agreed energy tariffs with customers based on the original BSUoS charge set by ESO. Unless suppliers allow for this in their contract T&Cs, they will be unable to pass this cost on to customers. Current estimates provided by NGESO suggest that to ensure BSUoS charges are not reopened with a 99% degree of certainty will require a BSUoS fund of ~£500-600m. ESO's Original proposal is to collect this fund over a two-year period. This alternative is proposing to collect the BSUoS fund over a five-year period to reduce the impact on the volatility of BSUoS charges with a small increase in the likelihood of needing to reopen BSUoS charges (moving from a 98% probability of not needing to reopen charges to a 95% probability).

What is the difference between this and the Original Proposal?

The only difference between this alternative proposal and the Original is the period over which the BSUoS fund is collected (going from 2 years to 5 years). All other aspects of this proposal are identical to the Original proposal.

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;	**Positive** In the current environment, any need to supply large amounts of cash upfront is going to be challenging for suppliers. By reducing the level of per annum charge, this helps ease the pressure on small suppliers especially
(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	**None**

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;	**None**
(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and	**None**
(e) Promoting efficiency in the implementation and administration of the system charging methodology.	**None**
*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).	

When will this change take place?

Implementation date:

The implementation date for this alternative proposal is identical to the Original proposal i.e. Apr 23

Implementation approach:

None.

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:

1. None.