

# **CMP408 - Allowing consideration of a different notice period for BSUoS tariff settings**

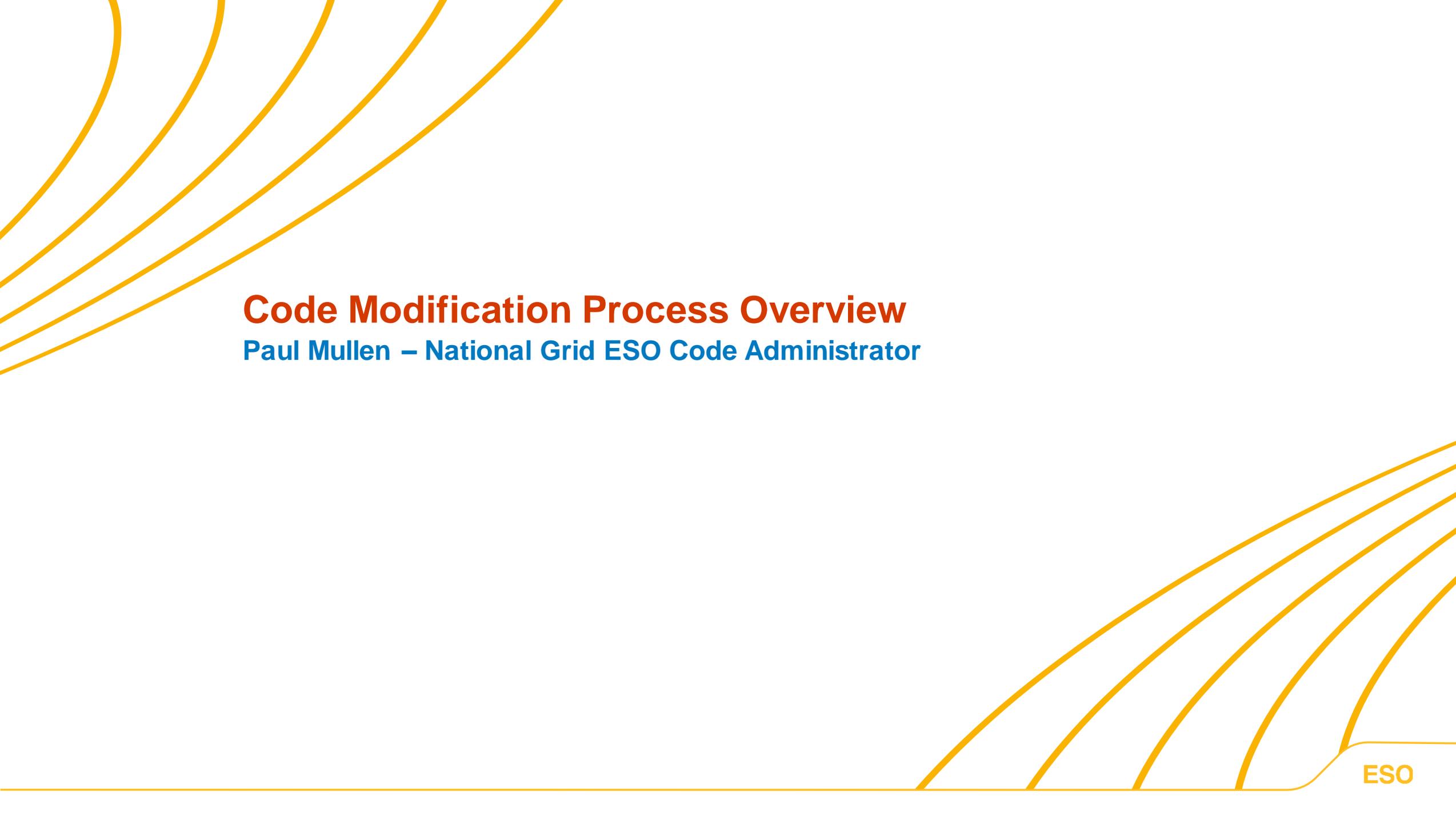
## **Workgroup 1**

**Thursday 16<sup>th</sup> March 10am**

**Online Meeting via Teams**

# WELCOME

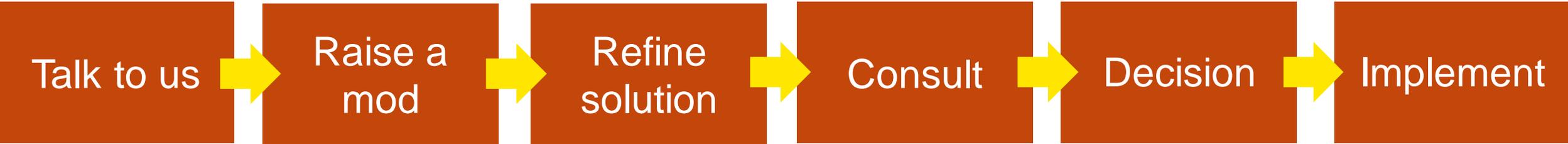
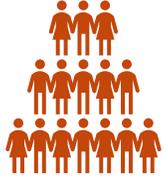




# **Code Modification Process Overview**

**Paul Mullen – National Grid ESO Code Administrator**

# Code Modification Process Overview



Forums

Panels

Workgroups  
(Workgroup Consultations)

Ofgem/Panel



## Refine solution Workgroups



- If the proposed solution requires further input from industry in order to develop the solution, a Workgroup will be set up.
- The Workgroup will:
  - further refine the solution, in their discussions and by holding a **Workgroup Consultation**
  - Consider other solutions, and may raise **Alternative Modifications** to be considered alongside the Original Modification
  - Have a **Workgroup Vote** so views of the Workgroup members can be expressed in the Workgroup Report which is presented to Panel



# Consult Code Administrator Consultation

- The Code Administrator runs a consultation on the **final solution(s)**, to gather final views from industry before a decision is made on the modification.
- After this, the modification report is voted on by Panel who also give their views on the solution.





## Decision



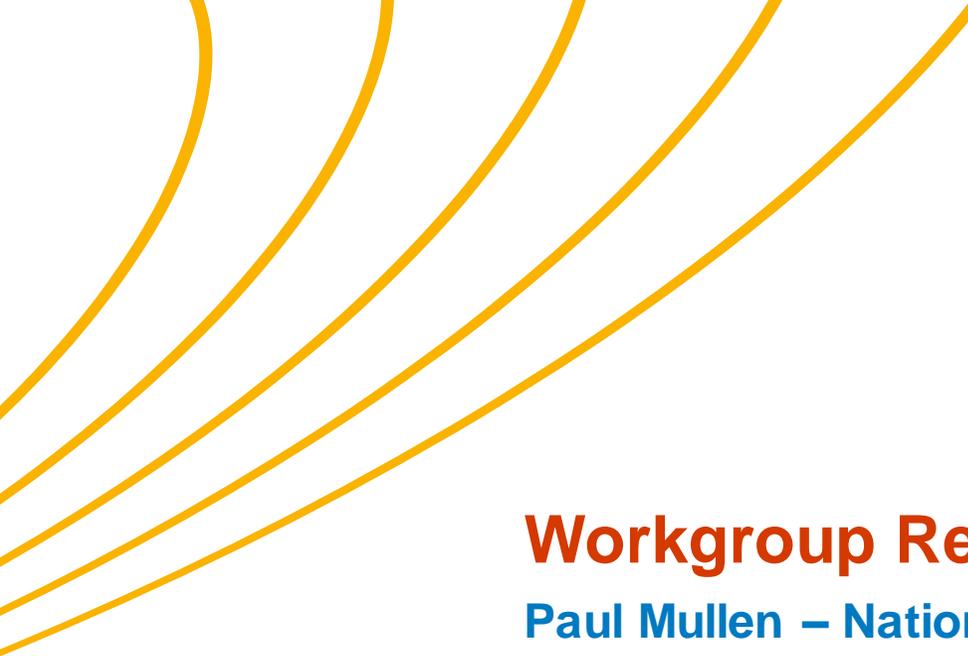
- Dependent on the Governance Route that was decided by Panel when the modification was raised
- **Standard Governance:** Ofgem makes the decision on whether or not the modification is implemented
- **Self-Governance:** Panel makes the decision on whether or not the modification is implemented
  - an appeals window is opened for 15 days following the Final Self Governance Modification Report being published



## Implement

- The Code Administrator implements the final change which was decided by the Panel / Ofgem on the agreed date.





# **Workgroup Responsibilities**

**Paul Mullen – National Grid ESO Code Administrator**

## Expectations of a Workgroup Member

Contribute to the discussion

Be respectful of each other's opinions

Language and Conduct to be consistent with the values of equality and diversity

Do not share commercially sensitive information

Be prepared - Review Papers and Reports ahead of meetings

Complete actions in a timely manner

Keep to agreed scope

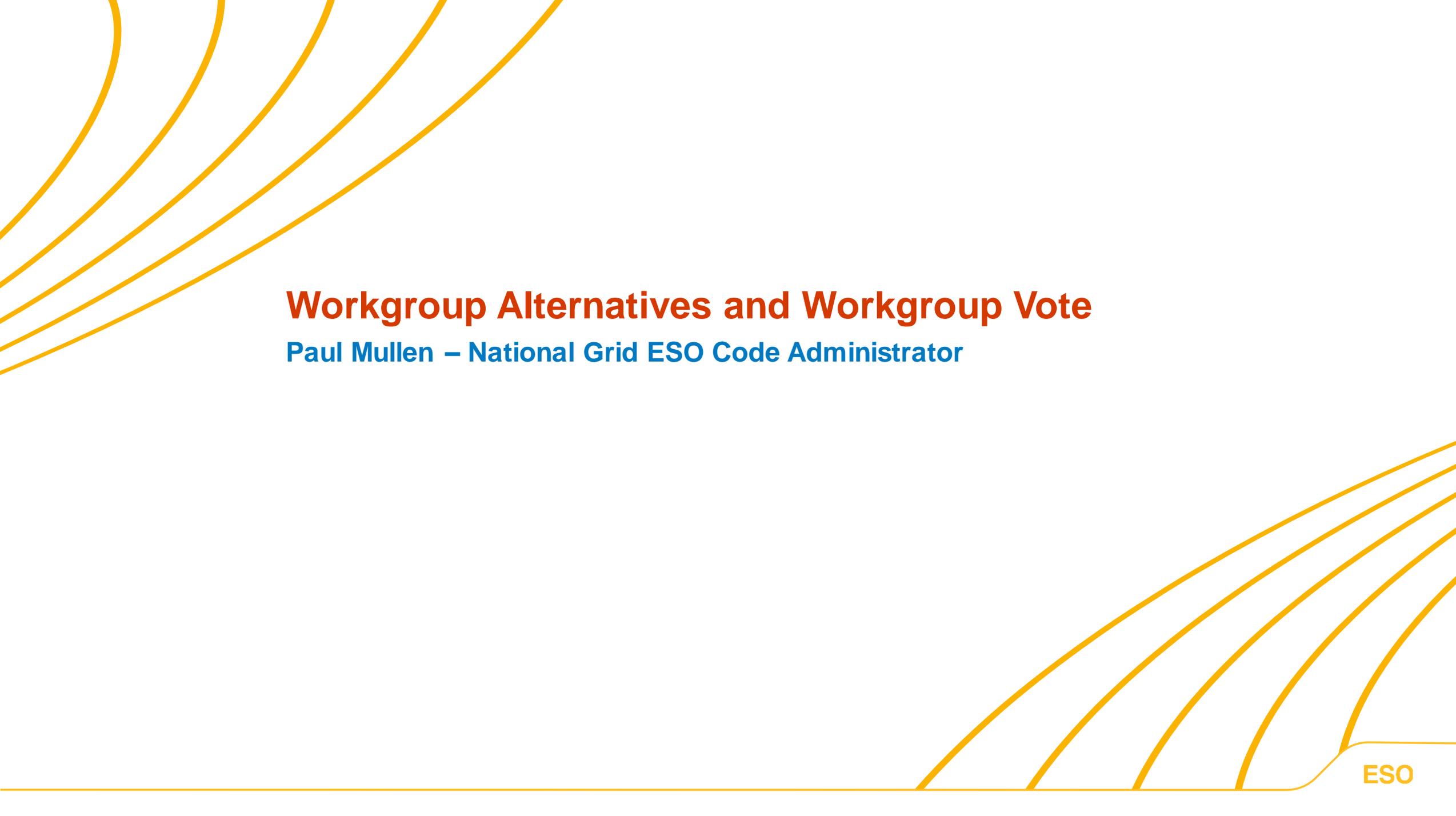
## Your Roles

Help refine/develop the solution(s)

Bring forward alternatives as early as possible

Vote on whether or not to proceed with requests for Alternatives

Vote on whether the solution(s) better facilitate the Code Objectives



# **Workgroup Alternatives and Workgroup Vote**

**Paul Mullen – National Grid ESO Code Administrator**

# Can I vote? and What is the Alternative Vote?

To participate in any votes, Workgroup members need to have attended at least 50% of meetings

## Stage 1 – Alternative Vote

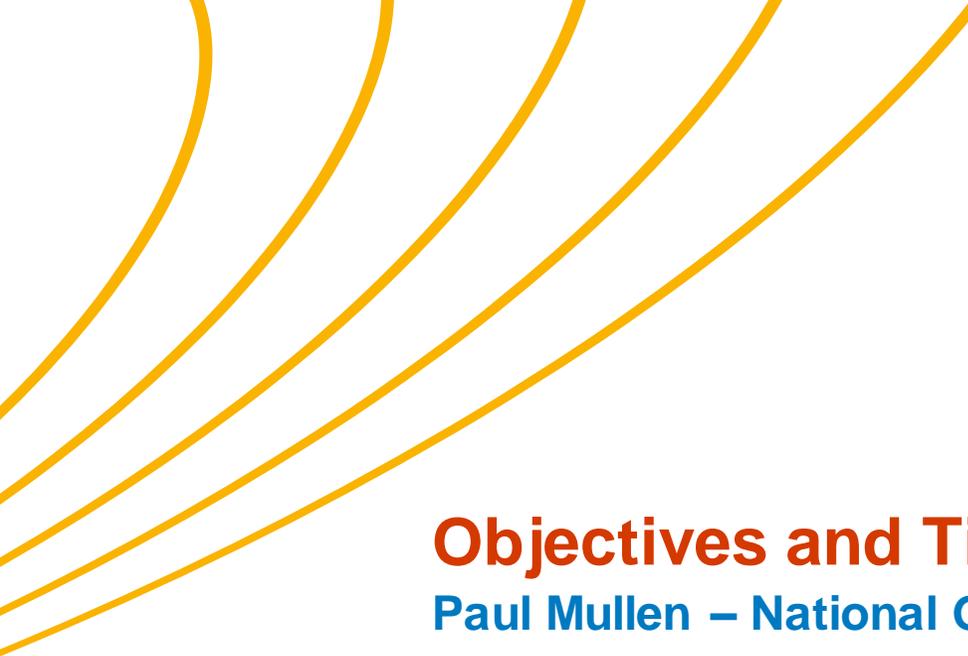
- Vote on whether Workgroup Alternative Requests should become Workgroup Alternative CUSC Modifications.
- The Alternative vote is carried out to identify the level of Workgroup support there is for any potential alternative options that have been brought forward by either any member of the Workgroup OR an Industry Participant as part of the Workgroup Consultation.
- **Should the majority of the Workgroup OR the Chair believe that the potential alternative solution may better facilitate the CUSC objectives than the Original then the potential alternative will be fully developed by the Workgroup with legal text to form a Workgroup Alternative CUSC modification (WACM) and submitted to the Panel and Authority alongside the Original solution for the Panel Recommendation vote and the Authority decision.**

# Can I vote? and What is the Workgroup Vote?

To participate in any votes, Workgroup members need to have attended at least 50% of meetings

## Stage 2 – Workgroup Vote

- 2a) Assess the original and WACMs (if there are any) against the CUSC objectives compared to the baseline (the current CUSC)
- 2b) Vote on which of the options is best.

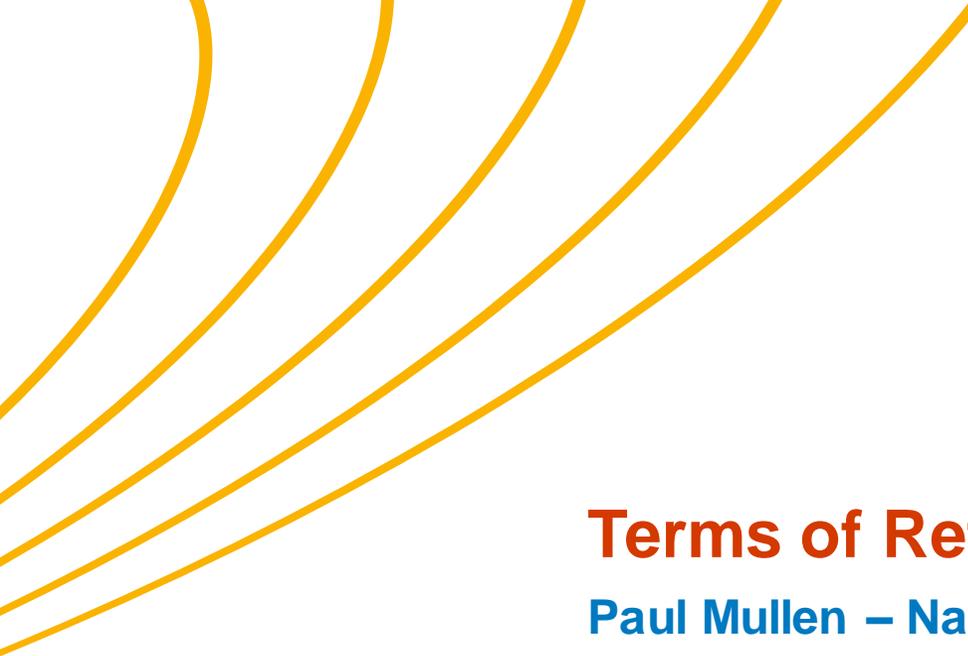


# Objectives and Timeline

Paul Mullen – National Grid ESO Code Administrator

# Timeline for CMP408 as at 16 March 2023

Milestone	Date	Milestone	Date
Proposal Presented to Panel	27 January 2023	Panel sign off that Workgroup Report has met its Terms of Reference	30 June 2023
Workgroup Nominations	06 February 2023 – 27 February 2023	Code Administrator Consultation (20 working days)	11 July 2023 – 08 August 2023
Workgroup 1 – Understand / discuss proposal and solution(s), review and agree on Terms of Reference and Timeline, review cross code impacts, review analysis and agree next steps.	16 March 2023	Draft Final Modification Report (DFMR) issued to Panel	17 August 2023
Workgroup 2 – Refine solution(s), draft legal text, consider potential Workgroup Consultation questions and finalise Workgroup Consultation	13 April 2023 (17 or 18 April if people on Easter Holiday)	Panel undertake DFMR recommendation vote	25 August 2023
Workgroup Consultation	20 April 2023 – 15 May 2023	Final Modification Report issued to Panel to check votes recorded correctly (5 working days)	30 August 2023 – 06 September 2023
Workgroup 3 – Review Workgroup Consultation responses, consider new points raised, refine solution, review legal text and discuss any potential alternatives	23 May 2023	Final Modification Report issued to Ofgem	07 September 2023
Workgroup 4 – Finalise solutions (including legal text) and alternatives and hold alternative vote. Finalise Workgroup Report and hold Workgroup Vote	14 June 2023	Ofgem decision	End October 2023
Workgroup Report issued to Panel (5 working days)	22 June 2023	Implementation Date	01 April 2024

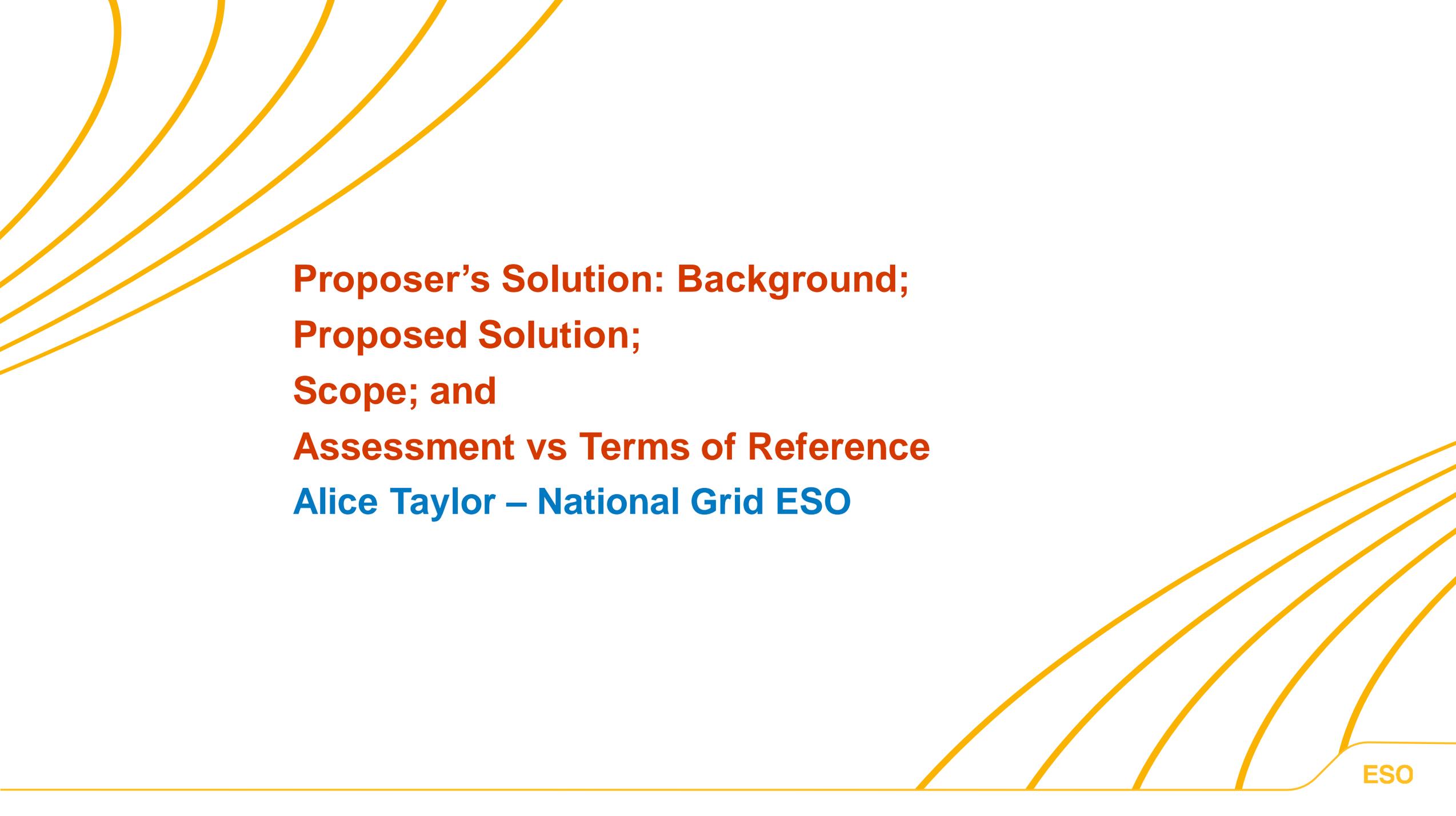


# Terms of Reference

Paul Mullen – National Grid ESO Code Administrator

## CMP408 – Terms of Reference

<b>Workgroup Term of Reference</b>	<b>Location in Workgroup Report (to be completed at Workgroup Report stage)</b>
<b>a) Consider EBR implications</b>	
<b>b) Consider what notice period is appropriate</b>	
<b>c) Consider what fixed period is appropriate taking into account 2<sup>nd</sup> BSUoS Taskforce conclusions</b>	
<b>d) Consider whether the implementation of the tariff introduced by CMP408 (if approved for implementation on 1 April 2024) would supersede any prior tariff set in the current 9-month notice period</b>	
<b>e) Consider Ofgem’s decision letter re: CMP361/CMP362</b>	



**Proposer's Solution: Background;  
Proposed Solution;  
Scope; and  
Assessment vs Terms of Reference**  
**Alice Taylor – National Grid ESO**

# Terms of Reference

Workgroup Term of Reference	
a. Consider EBR implications	There are not any.
b. Consider what notice period is appropriate	An increase in BSUoS volatility means a shorter notice period allows for more accurate forecasting for tariff setting, which reduces chances of tariff resets within the fixed period. This is considered on Slide 5 in more detail.
c. Consider what fixed period is appropriate taking into account 2 <sup>nd</sup> BSUoS Taskforce conclusions	Analysis on BSUoS volatility shows the difference in costs from the 2 <sup>nd</sup> BSUoS Taskforce which brings into question if the 15 month total period is still relevant in current climate. This is considered on Slide 6 in more detail.
d. Consider whether the implementation of the tariff introduced by CMP408 (if approved for implementation on 1 April 2024) would supercede any prior tariff set in the current 9-month notice period	Infographic shown on Slide 8 showing two options. ESO prefers the option of implementation of new notice period for April 24 where a new tariff using the 3 month notice period is set in Jan 24, superseding the tariff set in the 9 month notice period in July 23.
e. Consider Ofgem's decision letter re: CMP361/CMP362	This is referenced throughout.

# Background

## What's happened so far:

Ofgem have approved CMP361/362 WACM 3, which includes:

- 9 month notice period of the tariff
  - 6 month fix period for the tariff
  - No BSUoS Industry Fund
- Following this approval, Ofgem have stated as per their minded-to decision, that they believe:

*“3-month Notice Period strikes the appropriate balance between providing Suppliers with sufficient advance notice of charges, and mitigating the risk of inaccuracy in a forecast set in advance of the timeframe to which it relates.”*

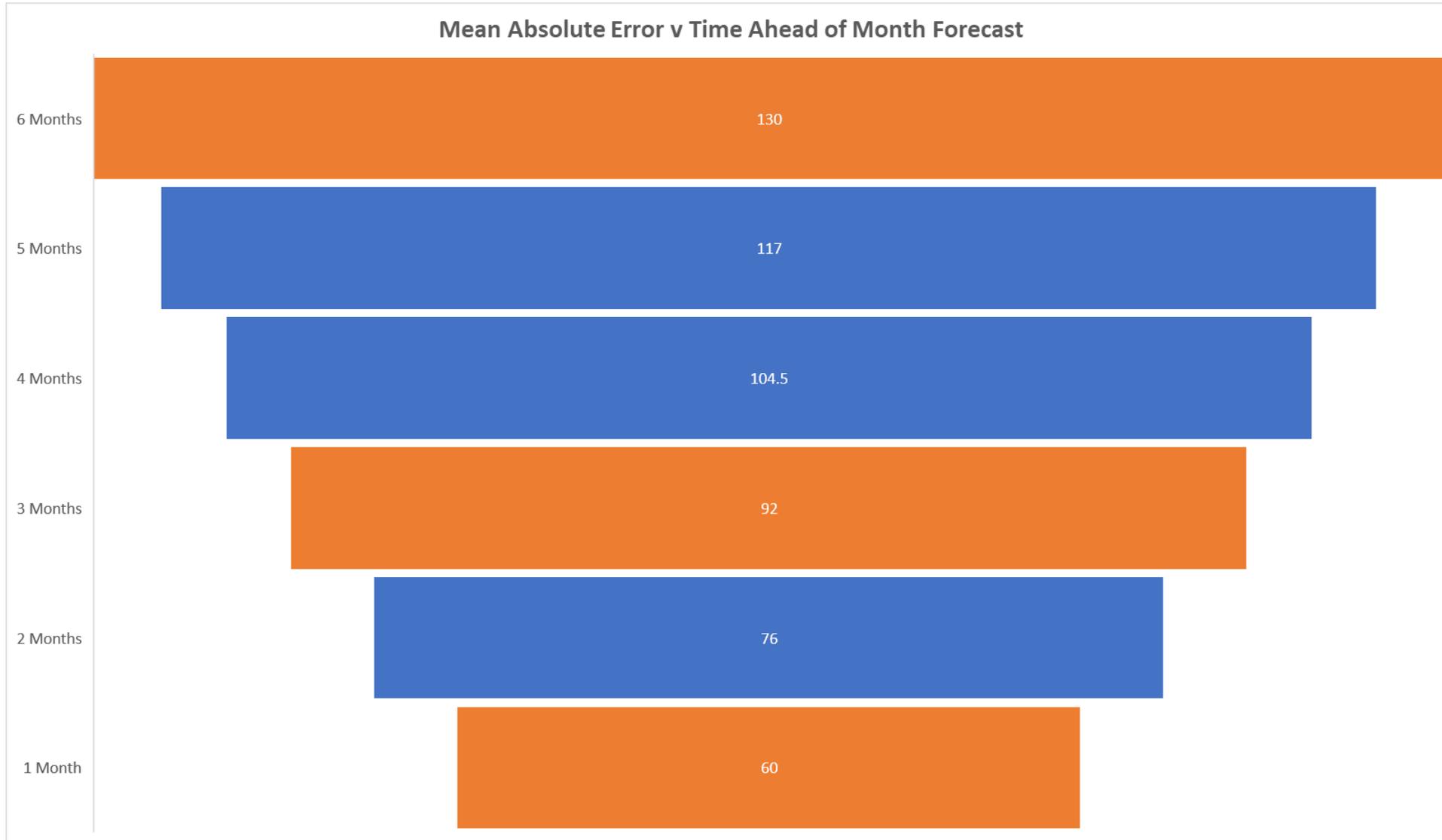
# CMP408

- CMP408 is being raised to amend the notice period of fixed BSUoS to 3-months from the current baseline of 9 month notice period.
- The ESO along with Ofgem's minded to decision feels that a shorter notice is more appropriate given the volatility of BSUoS costs, to allow for more accurate forecasting, whilst still providing suppliers with enough notice of set tariffs.
- Discussion to include:
  - Whether 3-months notice period is appropriate
  - If approved, whether the implementation of the tariff for April 2024, would supersede any prior tariff set in the current 9-month notice period
  - Discussion among the fixed period along with that of notice is within the ToR, however given the current baseline has no industry fund, the ESO would not be looking to amend the fixed period to anything longer than 6 months.

# Accuracy of Forecasting

- Assessing the Mean Absolute Error (MAE) and how this increases the further out that you forecast a single month
- Under a 6 month notice or above:
  - When forecasting ahead for a single month, the MAE for that month would be £130m. If you make a forecast for a fixed 6 month period, that is 6 months out from it starting, each subsequent month within that fixed period is even greater than 6 months out. Therefore, there is an even higher MAE expected for each continued month in the fixed period.
- Under a 3 month notice:
  - When forecasting ahead for a single month, the MAE for that month would be £92m. If you make a forecast for a fixed 6 month period, that is 3 months out from it starting, each subsequent month within that fixed period is even greater than 3 months out. However, under a 3 month notice this over MAE will be lower than that in a 6 month or above notice period.

# Accuracy of Forecasting – Mean Absolute Error



## Please Note

MAE values for months 1,3 and 6 are based on historical performance data, the rest are interpolations from those three months.

## 3 Month Notice Period

- Currently under a 9 month notice period, you have increased uncertainty of BSUoS forecasting accuracy and therefore by shorting the notice period you are going to increase the accuracy and reduce the need for tariff resets within the fixed period.
- Forecasting for BSUoS has become more difficult with increased volatility
- The Second BSUoS Taskforce looks at the optimum amount of combined time for fixed and notice period would be 15 months and therefore by reducing the notice period to 3 months, you are left with only a combined period of 9 months.
- Although we recognise the 15 month findings from the Taskforce we question whether they are still relevant due to the change in context surrounding BSUoS costs currently. The increase in volatility, and lack of predictability suggests that a shorter overall period is more appropriate.

# Total Daily BSUoS Charge 2015 to 2023 Using Published SF Data

Charging Year	Min	Max	Range
2015-16	£1,686	£8,554,497	£8,552,811
2016-17	£778,685	£17,598,214	£16,819,529
2017-18	£935,238	£16,615,461	£15,680,223
2018-19	£380,155	£13,761,735	£13,381,580
2019-20	£1,722,667	£13,298,803	£11,576,136
2020-21	£2,085,852	£21,004,966	£18,919,115
2021-22	£2,471,228	£66,341,794	£63,870,566
2022-23	£2,052,666	£64,590,239	£62,537,574



c. Consider what fixed period is appropriate taking into account 2<sup>nd</sup> BSUoS Taskforce conclusions

b. Consider what notice period is appropriate

# ESO's Position

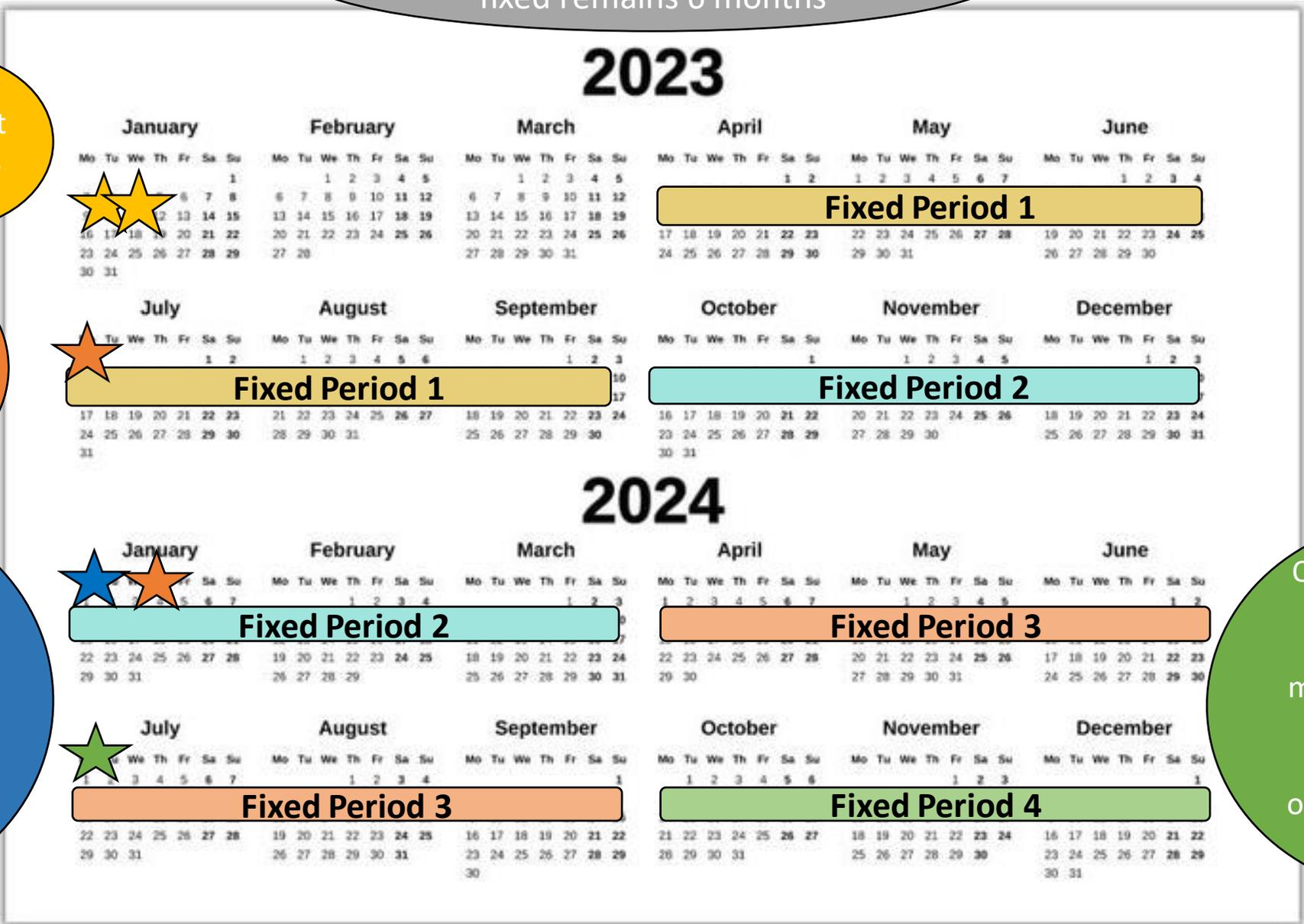
- Based on the data shown, we feel that the 15 month combined period for Fixed BSUoS as per the Second Taskforce is less relevant in the current market. This combined with the current baseline of the CUSC including no industry BSUoS fund, we would not be looking to increase the fixed period to anything longer than 6 months.
- The increase in not only costs of BSUoS but also range also lends itself to a shorter notice period to increase accuracy of forecasting.

On the assumption that the fixed remains 6 months

First tariffs set in Jan 23 FP 1 & 2

In July 23 tariff is set based on 9 month notice for April 24

Need tariff set beginning of Jan 24 for April 24 if new 3 month notice period implemented superseding 9-month one set in July 23



Or we run with the current tariff and release a new 3 month tariff for Oct 24 in July 24 superseding the one set on 9 month tariff in Jan 24

d. Consider whether the implementation of the tariff introduced by CMP408 (if approved for implementation on 1 April 2024) would supersede any prior tariff set in the current 9-month notice period

# ESO's Position

- Our view is that implementation of the new notice period should come into effect April 24 as per the date specified on the timeline.
- In order to do this we would therefore supersede the existing tariff set on the 9-month notice period in July 23, with a new tariff using the 3 month notice period that would be released in Jan 24 to come into effect in April 24.



# Cross Code Impacts

Paul Mullen – National Grid ESO Code Administrator



**AOB**

**Paul Mullen – National Grid ESO Code Administrator**



## Next Steps

Paul Mullen – National Grid ESO Code Administrator