

Workgroup Consultation Response Proforma

CMP398: GC0156 Cost Recovery mechanism for CUSC Parties

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 January 2023**. 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 banke.john-okwesa@nationalgrideso.com or cusc.team@nationalgrideso.com

Respondent details	Please enter your details
Respondent name:	George Moran
Company name:	Centrica
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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.

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

- The efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence;*
- 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;*
- Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and*
- Promoting efficiency in the implementation and administration of the CUSC arrangements.*

*The Electricity Regulation referred to in objective (c) is Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity (recast) as it has effect immediately before IP completion day as read with the modifications set out in the SI 2020/1006.

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

Standard Workgroup Consultation questions							
1	<p>Do you believe that the Original Proposal better facilitates the Applicable Objectives?</p>						
	<p>Mark the Objectives which you believe the original solution better facilitates:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%;">Original</td> <td style="width: 15%; text-align: center;"><input type="checkbox"/> A</td> <td style="width: 15%; text-align: center;"><input type="checkbox"/> B</td> <td style="width: 15%; text-align: center;"><input type="checkbox"/> C</td> <td style="width: 15%; text-align: center;"><input type="checkbox"/> D</td> <td style="width: 15%; text-align: center;"><input type="checkbox"/> E</td> </tr> </table> <p>We do not believe the proposal better facilitates any of the applicable objectives and consider it will have a negative impact on Applicable Objectives (a), (b) and (e).</p> <p>AO (a): The efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence: Negative Impact</p> <p>Allowing explicit pass-through of costs incurred by generators for compliance with an obligation placed on them through the Grid Code via this proposed modification does not allow market forces to determine the efficient cost of complying with such an obligation. For instance, why would any party submit a stretching competitive bid in a tender for restoration service provision, when they can simply pass-through costs incurred without the competition. Further, in such a situation where there is little or no competitive pressure in the tender process, how would the ESO or ‘committee of technical experts’ know what an efficient cost should be when assessing cost submissions from those who were unsuccessful in, or did not enter, the tender process. This lack of competition will inevitably increase the costs to consumers of generators complying with the Grid Code.</p> <p>(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: Negative Impact</p> <p>As above, the proposal effectively removes competitive pressure from the costs of compliance with the Grid Code.</p> <p>Further, suppliers will have entered contracts of up to 5 years with customers. Any additional costs passed through to BSUoS resulting from this modification will therefore result in potentially material losses for those suppliers. The proposal represents a clear and</p>	Original	<input type="checkbox"/> A	<input type="checkbox"/> B	<input type="checkbox"/> C	<input type="checkbox"/> D	<input type="checkbox"/> E
Original	<input type="checkbox"/> A	<input type="checkbox"/> B	<input type="checkbox"/> C	<input type="checkbox"/> D	<input type="checkbox"/> E		

		<p>unjustified cross subsidy between suppliers/consumers towards generators.</p> <p>(d) Promoting efficiency in the implementation and administration of the CUSC arrangements: Negative Impact</p> <p>As well as delivering less efficient outcomes for consumers overall, the introduction of a 'committee of independent experts' will add further inefficiency and cost to the CUSC.</p>
2	Do you support the proposed implementation approach?	<p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>As is clear from our response to question 1, we do not support the proposal. However, we also have the following concerns with the implementation approach:</p> <ul style="list-style-type: none"> • The consultation highlights a 'High Impact' on suppliers but does not provide any impact assessment. We do not believe the proposal is capable of approval without such an impact assessment. • We are particularly concerned that the consultation document states that: <i>"Majority of Workgroup members felt that cost estimation/analysis did not fall within the remit of this modification as it is seeking to clarify cost mechanisms and will not impose costs on parties."</i> The modification will clearly impose costs on supplier parties through higher BSUoS costs and this needs to be assessed as part of the modification process. • The capital cost for an asset providing many years of service should be recovered over the expected lifetime of the asset. It is intergenerationally unfair to expect near term consumers to fund this cost when the benefit will be felt by consumers over the lifetime of the asset, particularly given the current cost of living crisis. (For the avoidance of doubt, whilst we don't question the consumer benefit of the change to the Grid Code, we fundamentally disagree that the cost of complying with it should be an explicit pass-through). • The proposal appears to have the effect of passing through a specific part of the fixed/administrative costs of developing a new power station to BSUoS bill payers without an

		<p>end date (for example – a generator being built in 2040). It seems slightly ludicrous to us that this part of the fixed cost of developing a power station should be treated any differently to the remaining fixed costs forever.</p>
3	<p>Do you have any other comments?</p>	<p>The workgroup consultation suggests that generators incurring costs to comply with their Grid Code obligations should ‘not be out of pocket’. However, there is no assessment as to why this particular cost would be unrecoverable compared to other costs. The ESO procures many services and not all generators are successful with all of their bids (similarly with capacity market auctions). There is no discussion as to why this specific cost should be regarded as any different to other costs incurred by generators in terms of ability to recover.</p> <p>There is also no discussion in the document on the impact on suppliers or consumers. Given suppliers will have entered contracts with customers for up to 5 years, the effect of the proposed modification will be to leave suppliers ‘out of pocket’ to cover the costs incurred by generators to comply with their Grid Code obligations. This is a straight-forward cross subsidy and is entirely unjustified. We would expect the workgroup report to fully assess this impact and to justify the losses that would be incurred by suppliers.</p>
4	<p>Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?</p>	<p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>Click or tap here to enter text.</p> <p>Click or tap here to enter text.</p>

Specific Workgroup Consultation questions

5	<p>Given that most generators have some inherent resilience that has to be maintained regardless of this modification/regardless of ESRS, do you believe the inherent resilience should be considered when generators are requesting for funding for</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>We do not believe any explicit funding should be provided for generators complying with a change in the Grid Code. The efficient costs of complying with the Grid Code, and any changes to it, are best determined by market forces, whether that be through restoration service provider tenders or</p>
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	72hrs resilience? If so, please explain why?	through other market routes such as capacity market bidding or balancing and wholesale markets.
6	The terms of reference of the workgroup requests that the workgroup estimates a cost impact for this modification, if approved. Do you have any cost information (anonymised/hypothetical) for CMP398 that you can share with the Workgroup? if so, please do so.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No It is vital that the cost of this change is properly assessed and it is disappointing that the workgroup appears to be dismissive of the need for a cost impact. The consultation highlights a 'High Impact' on suppliers but does not provide any impact assessment. We do not believe the proposal is capable of approval without an impact assessment, particularly since the lack of an end date means that costs will be passed through to consumers forever.
7	The Proposer is considering adding this wording to CMP398: <i>"The Claimant party shall use reasonable endeavours, exercising good Industry practice, to identify if compliance with the GC0156 requirement could be achieved at a materially lower cost by meeting a lesser technical requirement (such as by providing resilience for less than 72 hours) and if so, then they shall advise the ESO accordingly and liaise with the ESO about possible solutions associated with a derogation. If appropriate, they shall seek a derogation from Ofgem on that basis. If a derogation is not forthcoming then the cost (subject to being reasonable, efficient and proportionate) shall be claimed for."</i> Do you consider there would be a lot of such cases?	<input type="checkbox"/> Yes <input type="checkbox"/> No To the extent that compliance with the Grid Code can be achieved at lower cost, this is most likely to be delivered by allowing market forces to determine the extent and ability for cost pass through, rather than relying on the goodwill of a party. An incentive to deliver at lowest cost does not exist for a cost that is explicitly pass-through, particularly if that action includes some risk of non-compliance with the Grid Code.
8	Do you agree with the proposed level of £100k for ex	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

	<p>ante pre approval or should the level be higher or lower than this, and if so, why?</p>	<p>There appears to be no basis for the £100k, and it is difficult to justify any 'pre-approval' value given the range of sizes of plant that will be affected.</p>
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