

Code Administrator 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 **09 June 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 Milly Lewis Milly.Lewis@nationalgrideso.com or cusc.team@nationalgrideso.com

Respondent details	Please enter your details	
Respondent name:	George Moran	
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Which best describes your organisation?	<input type="checkbox"/> Consumer body <input type="checkbox"/> Demand <input type="checkbox"/> Distribution Network Operator <input type="checkbox"/> Generator <input type="checkbox"/> Industry body	<input type="checkbox"/> Interconnector <input type="checkbox"/> Storage <input checked="" type="checkbox"/> Supplier <input type="checkbox"/> Transmission Owner <input type="checkbox"/> Virtual Lead Party <input type="checkbox"/> Other

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 Code Administrator Consultation questions		
1	Please provide your assessment for the proposed solution(s) against the Applicable Objectives?	Mark the Objectives which you believe each solution better facilitates:
		Original <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D
		WACM1 <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D
		WACM2 <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D
		<p>We do not believe any of the proposals better facilitate any of the applicable objectives and consider they will have a negative impact on Applicable Objectives (a), (b) and (d).</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 above efficient levels. As all proposals require this inefficient cost to be paid by the ESO it will have a negative impact on the efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence. The fact that this inefficient cost is subsequently recovered by the ESO through BSUoS does not exempt it from facilitating the inefficiency in the first instance.</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,</p>

		<p>distribution and purchase of electricity: Negative Impact</p> <p>As above, all of the proposals effectively remove 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 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’ (or in the case of WACM1 the need for additional ESO resource), will add further inefficiency and cost to the CUSC.</p>
2	Do you have a preferred proposed solution?	<p><input type="checkbox"/>Original <input type="checkbox"/>WACM1 <input type="checkbox"/>WACM2 <input type="checkbox"/>No preference</p> <p>We don’t believe any of the solutions are better than the baseline. WACM1 and WACM2 (to a lesser extent) mitigate some of the problems with the original but both are still much worse than the baseline.</p>
3	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 any of the proposals. 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 Workgroup decided that no CBA was required despite us raising our concern in our workgroup consultation response. The modification will clearly impose

		<p>costs on supplier parties through higher BSUoS costs and this needs to be assessed as part of the modification process.</p> <ul style="list-style-type: none"> • 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 Original proposal will 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 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>4</p>	<p>Do you have any other comments?</p>	<p>The proposal 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.</p> <p>We raised these concerns in our response to the workgroup consultation and we would have expected the workgroup report to fully assess this impact and to justify</p>

		the losses that would be incurred by suppliers. We are disappointed our concerns have not been acknowledged or addressed by the workgroup.
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