Deborah

CUSC Alternative Form

CMP415 Alternative Request 1: Amending the Fixed Price Period from 6 to 12months with two seasonal tariffs

Overview: This alternative is a change to the definition in Section 11, amending the Fixed Price Period from 6 months to 12 months with two seasonal tariffs.

Proposer: Alice Taylor, ESO

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What is the proposed alternative solution?

The original proposal looks to amend the Fixed Price Period from 6 months to 12 months, meaning one tariff in a 12 month period. This solution seeks to amend the definition of the Fixed Price Period from 6 months to 12 months but with two seasonal tariffs: a spring summer tariff and an autumn winter tariff. The split tariff would prevent excessive under-recovery of costs in the summer in comparison to the winter. An under-recovery would mean a tariff reset is needed which would mean increased costs to suppliers and end consumers.

The proposed change is being made to Section 11 amending the definition of the Fixed Price Period from 6 months to 12 months, with two seasonal tariffs: a spring summer tariff (1 April to 30 September) and an autumn winter tariff (1 October to 30 March). The split tariffs over a 12 month fixed period provides increased accuracy to suppliers when setting BSUoS related costs over that of one tariff within a 12 month fixed period, while still providing the sufficient notice of these tariffs for suppliers to price contracts. The allowance of two tariffs within a 12 month Fixed Period, can reduce the likelihood of the ESO's working capital fund being depleted mid-year while still providing the certainty to suppliers of BSUoS costs. The impact is that suppliers can further reduce risk premia being built into their prices which lowers costs to end consumers.

What is the difference between this and the Original Proposal?

This change is different to that of CMP415 as it allows for two 6 month tariffs within one fixed period which addresses the potential issue of seasonality for a 12 month fixed period.

A fixed BSUoS charge applied on a £/MWH basis means the value of BSUoS recovered across a financial year by the ESO is directly related to BSUoS volume. However, the BSUoS costs incurred are not related to this and can be relatively flat across the year. With a single fixed £/MWh charge (one tariff), this may result in the ESO significantly under-recovering during the summer months with this shortfall recovered over winter.

Given the higher BSUoS costs that have been seen in 2022/2023 there is a risk that the ESO's working capital fund is depleted, requiring a mid-year tariff change, which erodes the benefits of fixed BSUoS to suppliers and end consumers on price certainty. This solution is therefore proactive in preventing this from happening by allowing a spring summer tariff (1 April to 30 September) and an autumn winter tariff (1 October to 30 March).

What is the impact of this change?

This change would help support the ESO's working capital and market mechanisms while ensuring that the result will be cash neutral across the whole of the financial year so that there is no additional cost to suppliers and end consumers. This therefore offers suppliers the longer fixed period, whilst providing additional certainty over BSUoS costs via the two tariffs which not only reduces the need for risk premia but also reduces the likelihood of the ESO working capital fund being depleted within a fixed period, subsequently reducing the likelihood of tariff resets within a fixed period.

Proposer's Assessment against CUSC Non-Charging Objectives	
Relevant Objective	**Identified impact**
(a) The efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence;	**None**
(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;	**Positive** The two split tariffs within the 12 month fixed period accounts for the potential issue with seasonality. The split tariff would prevent possible under-recovery of costs in the summer in comparison to winter, reducing the likelihood of tariff resets within a fixed period compared to one tariff for a 12 month fixed period. This change provides the certainty required from suppliers but also allows for a better risk management method of the ESO's working capital fund. A longer fixed period allows for suppliers to reduce the risk premia being built into BSUoS prices due to a longer period of certainty. By increasing the fixed period and reducing the notice period this falls in line with the results from the Second BSUoS Taskforce of a 15month overall combined period.
(c) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and	**None**
(d) Promoting efficiency in the implementation and administration of the CUSC arrangements.	**None:**

*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.

When will this change take place?

Implementation date:

Implementation date is to be aligned with that of CMP408 which is 1st April 2024.

Implementation approach:

The modification can only be approved and implemented in conjunction with CMP408.

Acronyms, key terms and reference material

Acronym / key term	Meaning
CMP	CUSC Modification Proposal
CUSC	Connection and Use of System Code
EBR	Electricity Balancing Regulation
T&Cs	Terms and Conditions
BSUoS	Balancing Services Use of System charges

Reference material:

1. CMP408: Allowing consideration of a different notice period for BSUoS tariff settings | ESO
2. Link to the seasonality analysis