

Workgroup Consultation Response Proforma

CMP408: Allowing consideration of a different notice period for BSUoS tariff settings

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 22 May 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 Claire Goult claire.goult@nationalgrideso.com or cusc.team@nationalgrideso.com

| Respondent details | Please enter your details |
|-------------------------|----------------------------------|
| Respondent name: | Alice Taylor |
| Company name: | ESO |
| Email address: | alice.taylor@nationalgrideso.com |
| Phone number: | 07895310443 |

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 (charging) Objectives are:

- 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;*
- 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 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;*
- d. *Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and*

- e. Promoting efficiency in the implementation and administration of the system charging methodology.

**The Electricity Regulation referred to in objective (d) 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 | Do you believe that CMP408 Original Proposal better facilitates the Applicable Objectives? | Mark the Objectives which you believe the original solution better facilitates: |
| | | Original <input checked="" type="checkbox"/> A <input checked="" type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> D <input checked="" type="checkbox"/> E |
| | | <p>Overall, the ESO believes that the proposal is beneficial to both suppliers and the end consumer. By reducing the notice period to 3 months it allows for more accurate BSUoS tariff setting, removing the need to include risk premia in supplier’s cost forecasting, which is passed on to end consumers. In addition, increased accuracy of forecasting can reduce the likelihood of tariff resets within a fixed period supporting the overall aim of ex-ante fixed BSUoS.</p> <p>We consider the proposal better facilities objective (a) as a shorter notice period will allow for more accurate forecasting of BSUoS costs and can therefore allow a reduction in risk premiums for the end consumer therefore facilitating effective competition.</p> <p>For objective (b) we also consider the impact to be positive as it improves cost reflective charging by reducing the notice period and improving forecast accuracy.</p> <p>We also consider the proposal better facilities objective (c) as the proposal supports implementation of the recommendation from the Second BSUoS Task Force which addresses industry concerns regarding a shorter notice period to allow for increased accuracy of forecasting.</p> <p>For objective (d) we consider this to have no impact to the compliance with the electricity regulation.</p> <p>We consider that the proposal better facilitates objective (e) as it looks to support the overall aim of ex-ante BUSoS in which a shorter notice period reduces the risk of a tariff reset within the fixed period.</p> |
| 2 | Do you support the proposed | <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No |

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| | implementation approach? | The ESO supports the proposed implementation approach and feel that this best supports increased accuracy of forecasting to allow for reduced likelihood of tariff resets within the fixed period. |
| 3 | Do you have any other comments? | Additionally, the ESO would like to add that a 3 month notice period allows for increased accuracy of integration of any over/under recovery that has occurred within a fixed tariff period into future tariffs. This therefore allows any over recovery to be returned to suppliers and ultimately the end consumer quicker through the tariff setting process. |
| 4 | Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider? | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Click or tap here to enter text. |

Specific Workgroup Consultation questions

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| 5 | What notice period for the BSUoS tariff do you feel is appropriate? Please provide the rationale for your response. | <p>The ESO feels that a 3 month notice period is most appropriate. Based on analysis we presented, a shorter notice period allows for the potential of increased accuracy of forecasting, reducing the Mean Absolute Error (MAE). It was found that making a forecast based on a 6 month notice period, the MAE would be £130million for the first month of the fixed period. This would only increase for every subsequent month within that fixed period. When looking at a 3 month notice period, this MAE decreased to £92million. The increase in accuracy for forecasting can subsequently reduce the likelihood of tariff resets within the fixed period which aids in suppliers having to add less risk premia which is passed on to end consumers.</p> <p>Another aspect considered is that of the current volatility of BSUoS costs. As these costs are more volatile it makes accurately forecasting more difficult. By reducing the notice period, we can attempt to account for these volatilities with increased accuracy by being able to forecast tariffs closer to the start of a fixed period.</p> |
| 6 | Do you believe that the 15-month combined fixed and notice period remains appropriate and that the fixed period of the BSUoS tariff also needs to be | When assessing the findings from the Second Taskforce in relation to the 15-month combined fixed and notice period, it is important to assess how reflective these are to the current BSUoS climate. Increases in volatility and unpredictability of BSUoS costs suggests that an overall reduced total period would be more appropriate. |

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| | <p>changed? Please provide the rationale for your response.</p> | <p>When assessing the daily BSUoS Charge from the time of the Second Taskforce to the current date, there is a difference in not only volatility of the daily charge, but also the increased price variance. At the time of the Taskforce, BSUoS costs were relatively stable which reflects that of the 15-month total overall period. The ESO have provided data to the workgroup that shows over the last few years, the uncertainty and volatility of these costs have increased and therefore brings into questions whether the conclusion drawn from the Taskforce is relevant in the current climate. Therefore, the ESO's stance is that while we recognise the findings from the Taskforce, we feel that an overall shorter combined period would be more appropriate, at a 3 month notice period and 6 month fixed period.</p> <p>We understand that within the workgroup there was data presented regarding the increased risk to suppliers under a shorter overall combined period. Whilst we recognise these findings, we must also highlight that by having a longer fixed period this increases the risk of tariff resets within the fixed period, thus negating from the advantages of fixed BSUoS. This is further seen through the issue of seasonality if a 12-month fixed period was to be considered.</p> |
| <p>7</p> | <p>Do you agree that the implementation of the tariff introduced by CMP408 (if approved for implementation on 1st April 2024) should supercede any prior tariff set in the current 9-month notice period? Please provide the rationale for your response.</p> | <p>The ESO agrees with the implementation outlined for April 2024 which allows for the current tariff set under the 9-month notice period to be superseded with the new tariff under the 3-month notice period.</p> <p>This timeline falls in line with the new charging year for 2024 and with setting a tariff based on a 3 month notice period being delivered for April 2024, this would see the benefits of this modification, as previously outlined, come into force earlier.</p> |