

Code Administrator 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 13 September 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 cusc.team@nationalgrideso.com

Respondent details	Please enter your details	
Respondent name:	Alice Taylor	
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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 type="checkbox"/> Supplier <input checked="" type="checkbox"/> System Operator <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 (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.

The ESO recommend that our consultation responses to CMP408 and CMP415 be read in conjunction to understand our views of the proposed changes as a whole.

Standard Code Administrator Consultation questions				
1	Please provide your assessment for the proposed solution against the Applicable Objectives?	<p>Mark the Objectives which you believe the proposed solution better facilitates:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 40%;">Original</td> <td style="text-align: center;"> <input checked="" type="checkbox"/>A <input checked="" type="checkbox"/>B <input checked="" type="checkbox"/>C <input type="checkbox"/>D <input checked="" type="checkbox"/>E </td> </tr> </table> <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 Applicable 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 Applicable 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 Applicable Objective (c) as the proposal supports implementation of the recommendation from the Second BSUoS Task Force which addresses industry concerns regarding a shorter</p>	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
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>notice period to allow for increased accuracy of forecasting.</p> <p>For Applicable 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 Applicable 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	<p>Do you have a preferred proposed solution?</p>	<p><input checked="" type="checkbox"/>Original <input type="checkbox"/>Baseline <input type="checkbox"/>No preference</p> <p>The ESO feels that the Original proposal to amend the notice period from 9 to 3 months is the best solution. It offers balance between providing suppliers with enough notice of those charges, whilst allowing the ESO to provide a forecast for these charges closer to the fixed period. The data on Mean Absolute Error (MAE) that the ESO presented shows that the further out that you forecast the higher the MAE is, supporting the change to a shorter notice period for increased forecasting accuracy.</p> <p>The volatility of BSUoS costs is also a factor to take into consideration. There has been an increase in volatility of BSUoS costs since 2020 which increases the difficulty in forecasting accurately. Having a reduced notice period can help to factor volatility over a shorter period and this combined with the MAE evidence shows that a shorter notice period can reduce the likelihood of tariff resets within a fixed period. Reducing the likelihood of tariff resets is a fundamental feature of Fixed BSUoS to ensure that suppliers can build less risk premia into prices that are passed onto end consumers.</p> <p>It is also important to note that this proposal is in line with Ofgem’s minded to decision where they referenced that a 3 month notice period mitigates the risk of inaccuracy in forecasting whilst also providing suppliers with sufficient advance notice of charges.</p> <p>The ESO believes that the current Baseline of a 9-month notice period reduces the accuracy of forecasting for any given fixed period. If the set tariffs are less accurate this introduces risk of tariff resets due to the ESO Working Capital Facility (WCF) being fully utilised within a fixed period. Under the 9-month notice period you increase the</p>

		<p>risk of under-recovery within the fixed period which again would lead to the full utilisation of the WCF and lead to tariff resets. Consequentially this leads to negative effects on suppliers and end consumers. Suppliers have to build in risk premia into their prices to account for the uncertainty of the forecast which is then passed onto end consumers. This further supports the argument that a shorter notice period is beneficial to suppliers, end consumers and the ESO.</p>
<p>3</p>	<p>Do you support the proposed implementation approach?</p>	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>The ESO supports the implementation approach that if CMP408 is approved, then the new notice period should come into effect in April 2024, in line with the new charging year. This would mean superseding the existing tariff set on the 9-month notice period in July 2023, with a new tariff using the 3-month notice period that would be released in January 2024 for the fixed period starting April 2024. The proposed implementation best supports increased accuracy of forecasting to allow for reduced likelihood of tariff resets within the fixed period.</p>
<p>4</p>	<p>Do you have any other comments?</p>	<p>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. In the case of an over recovery, this therefore allows the funds to be returned to suppliers and ultimately the end consumer quicker through the tariff setting process.</p> <p>The change in risk management should also be noted if CMP408 change is implemented. Under the current circumstance with a 9-month notice period and 6-month fixed period, there is an increased risk of the ESO's WCF being depleted within a fixed period. The 9-month notice does not allow consideration of any over-recovery within the next tariff setting process which means that this is increasingly difficult to return funds to end consumers in a timely manner. A shorter notice would facilitate the ability to be able return any over-recovery to consumers in the next fixed period.</p>