Code Administrator Consultation Response Proforma

CMP415: Amending the Fixed Price Period from 6 to 12 months

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?	☐Consumer body ☐Demand ☐Distribution Network Operator ☐Generator ☐Industry body ☐Interconnector	☐Storage ☐Supplier ☒System Operator ☐Transmission Owner ☐Virtual Lead Party ☐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:

a) *The efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence;*
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;*
c) *Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and*
d) *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.

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.

<table>
<tr><th colspan="4">Standard Code Administrator Consultation questions</th></tr>
<tr><td rowspan="4">1</td><td rowspan="4">Please provide your assessment for the proposed solution(s) against the Applicable Objectives?</td><td colspan="2">Mark the Objectives which you believe the proposed solution(s) better facilitates:</td></tr>
<tr><td>Original</td><td>☐A ☐B ☐C ☐D</td></tr>
<tr><td>WACM1</td><td>☐A ☒B ☐C ☐D</td></tr>
<tr><td colspan="2">The ESO’s response to this consultation is taking into consideration that any version of CMP415 cannot be approved without the approval of CMP408, an amendment to the notice period from 9 months to 3 months. Therefore, when considering that of the Original, Baseline or WACM1 we are assessing the change to the fixed period in conjunction with the change to the shorter notice period.

We have compared CMP415 (12-month fixed period), WACM1 (12-month fixed period with two tariffs) and instead of referencing the baseline, we refer to CMP408 Original (6-month fixed period) as CMP415 can only be approved along with CMP408, the amendment to a 3-month notice period.

We do not believe the Original CMP415 solution of a 12-month fixed period better facilitates any of the Applicable Objectives compared to the CMP408 Original of 6 months fixed period. A longer fixed period increases the risk of tariff resets and increases the risk of the ESO Working Capital Facility (WCF) being fully utilised before the end of a fixed period. Under the Original change there is no mitigation for risk against the utilisation of the WCF, which further increases the risk of tariff resets within a 12-month fixed period. The issue of seasonality plays a role with one tariff over a 12-month period increasing the risk of a BSUoS tariff reset mid fixed period. This is due to the ESO potentially significantly under-recovering during the summer months with the shortfall recovered over winter. This possibility and the potential for higher than expected BSUoS costs (such as in 2022/2023) means there is a risk that the ESO’s WCF is depleted, requiring a mid-year tariff change to maintain market cashflows. This overall increase in risk of tariff resets and the utilisation of the</td></tr>
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		WCF is why the ESO is not supportive of this Original solution. The ESO supports WACM1, a 12-month fixed period with two seasonal tariffs, and we believe that it better facilitates Applicable Objective (b). Increasing the fixed period from 6 months to 12 months increases the price certainty for suppliers for a longer period of time. This longer fixed period may reduce the need for suppliers to build in risk premia whilst also taking into account how suppliers price contracts. Suppliers tend to price contracts of 12 months and therefore this change enables increased certainty over BSUoS costs. Whilst the Original solution to 12 months and one tariff, increases price certainty for suppliers, it also increases the risk of the ESO WCF being fully utilised before the end of a fixed period. WACM1 offers a better risk management method through the two tariffs within a 12-month fixed period to account for the issue of seasonality which is seen under a single tariff for a 12-month period.
2	Do you have a preferred proposed solution?	☐Original ☒WACM1 ☐Baseline ☐No preference
		The ESO's preferred solution is WACM1 (amending the fixed period from 6 to 12 months but with two seasonal tariffs). The two 6-month tariffs: spring summer and autumn winter, is a proactive approach to the seasonality issue highlighted in the workgroup. Both tariffs would be set at the same time to maintain a 12-month period of certainty for suppliers with the requisite notice period being observed of 3 months. This solution helps support the ESO's WCF by allowing the two tariffs to take into account different criteria over the 6 months and account for the potential under recovery in summer. With the financial year split into two 6-month tariffs, the effects of any under recovery due to volume are halved because you get to that point where revenue and costs should equal each other, at the end of each fixed tariff period. This change would help support the ESO's WCF 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.

		WACM1 provides suppliers the longer fixed period with increased certainty over BSUoS costs, falling in line with the results of the Second BSUoS Taskforce of a 15-month total combined period. This increased certainty of BSUoS costs over a longer period reduces the need for risk premia whilst also reducing the likelihood of the ESO WCF being fully depleted within a fixed period, which subsequently reduces the likelihood of tariff resets within a fixed period. The ESO also shows support for the Original CMP408 of a 6-month fixed period. A shorter notice period reduces the likelihood of the ESO WCF being fully utilised and therefore reduces the risk of tariff resets within a fixed period. Being able to assess the current market and consider any over-recovery that might have occurred in a previous fixed period, the CMP408 Original 6-month fixed period, offers the most flexible approach for the ESO to set tariffs to ensure there is a lower risk of a tariff resets and a reduced risk of full utilisation of the WCF compared to that of the Original CMP415 change and WACM1. However, on balance and considering the request from suppliers for increased price certainty over a longer period of time, we believe that WACM1 best facilitates the needs for suppliers to reduce risk premia being built into prices for end consumers, whilst also providing a manageable risk management method of the ESO's WCF.
3	Do you support the proposed implementation approach?	☒Yes ☐No
		The ESO agrees with the implementation approach for CMP415. CMP415 is contingent on the approval of CMP408 in which the implementation approach is for the changes to come into effect in April 2024, in line with the next charging year. The proposed implementation best supports that of a cohesive change to Fixed BSUoS.
4	Do you have any other comments?	The ESO would like to draw attention to the risk management differences between that of the CMP408 Original, CMP415 Original change and WACM1. There is increased uncertainty around winter costs which makes setting a tariff to cover a longer period increasingly difficult especially when that fixed period begins with the spring summer months (April 2024). With a fixed BSUoS charge applied on a £/MWh basis this means that the value of BSUoS recovered across a financial year is directly related to BSUoS volume. However, these

		BSUoS costs incurred are not related to this and can be relatively flat throughout the year. A single tariff over 12 months can therefore result in the ESO under-recovering in the first half of the year with this shortfall needing to be recovered in the second half. This directly impacts the risk to the ESO WCF being fully utilised, which passes on the risk of tariff resets and an uncertainty from suppliers which could cause risk premia to be added to prices for end consumers. If we consider that in relation to WACM1 (12-month period with two seasonal tariffs), this risk of the utilisation of the WCF, tariff resets and uncertainty to suppliers is reduced. Whilst there is a longer fixed period and so the risk is higher than that of the Original CMP408 of a 6-month fixed period, WACM1 can account for the seasonality risk by setting two tariffs to take into account the two different times of year where there can be a significant difference in BSUoS costs. This leads to a lower risk profile for suppliers and can reduce the need to include risk premia in their prices to end consumers. To conclude, the Original CMP415 change to a 12-month fixed period is considered to be the highest risk. Whilst the longer fixed period is in line with how suppliers price contracts, the longer period increases the risk of tariff resets within a fixed period due to the increased risk of utilisation of the WCF, which can cause risk premia to be built into prices which can be passed onto end consumers. The Original CMP408 change of a 3-month notice period with a 6-month fixed period is considered to be the lowest level of risk. The shorter fixed period means the risk of utilisation of the WCF within a fixed period is less, reducing the likelihood of tariff resets. However, this does not align with the Second BSUoS Taskforce of 15-month total combined period and is less favourable to suppliers taking into consideration how they price contracts. WACM1 of a 12-month fixed period with two seasonal tariffs, although is considered to be a higher level of risk than CMP408 Original, it is considered to be a more manageable risk that that of CMP415 Original change to 12-month fixed period with one tariff. On balance, WACM1 takes into account the issue of seasonality previously mentioned and offers a compromise between suppliers needs for a longer period of price certainty, which can lower risk premia passed onto end consumers, whilst also providing a risk management method to

		protect the utilisation of the ESO’s WCF within a fixed period. The ESO is happy to explain any of our reasoning further if needed.