

## 1. CUSC Workgroup Consultation Response Proforma

### **CMP311 Reassessment of CUSC credit requirements for Suppliers, specifically for “User Allowed Credit” as defined in Section 3, Part III section 3.27 of the CUSC**

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 by **29 October 2019** to [cusc.team@nationalgrideso.com](mailto:cusc.team@nationalgrideso.com)  
Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

Any queries on the content of the consultation should be addressed to Chrissie Brown at [christine.brown1@nationalgrideso.com](mailto:christine.brown1@nationalgrideso.com)

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

<b>Respondent:</b>	<i>Chris Alliot</i>
<b>Company Name:</b>	<i>Pure Planet Limited</i>
Please express your views regarding the Workgroup Consultation, including rationale.  (Please include any issues, suggestions or queries)	<b>For reference, the Applicable CUSC Objectives for the Use of System</b>  (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.  <i>*Objective (c) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).</i>

### **Standard Workgroup consultation questions**

Q	Question	Response
---	----------	----------

1	<b>Do you believe that CMP311 Original proposal (revised since originally proposed to just remove the Payment Record Sum) better facilitates the Applicable CUSC Objectives than current arrangements?</b>	<p>No.</p> <p>As the working group suggested, the proposal is not likely to deliver reduced costs to energy consumers or facilitate market competition. Passing the cost of raising this capital to suppliers will result in a higher overall cost of capital for the industry and therefore higher costs for consumers.</p> <p>Based on the recent webinar, there is currently £708m available credit with PHA, of which £187m is being utilised. Only £1.5m needs to be recovered for 2018/19, a year when 10 suppliers failed. Furthermore, these are understood to be recoverable costs for NGESO.</p>
2	<b>Do you support the proposed implementation approach, both in terms of allowing at least 12 months to make arrangements and the Workgroup suggestion to commence in April with the Financial Year?</b>	<p>No. We do not support the proposed change, regardless of the approach of implementations. The current proposal will significantly and disproportionately disadvantage smaller suppliers that will need to find substantial amounts of additional capital.</p> <p>If the proposal was adopted at least 12 months would be required to allow smaller suppliers, who would be the only market participants affected, make the necessary adjustments to cover the additional capital requirement.</p>
3	<b>Do you have any other comments?</b>	<p>In our opinion, removing the PHA will increase the cost of capital for smaller suppliers, reduce competition and increase costs for energy consumers.</p> <p>In practice, we suspect the PHA results in a very small potential bad debt exposure for NGESO, which itself is mitigated by the ability of NGESO to recover these costs over time. We suspect this bad debt risk is lower than the risk required to be carried by other industry participants such as suppliers.</p> <p>If this proposal, or either of the alternatives offered, is introduced, the calculation of the security amount will also need to be adjusted so as to be significantly less volatile. We believe the way the security amount is calculated disadvantages new and smaller suppliers who may grow relatively quickly with the result that forecasts change frequently. The forecast accuracy element of the VAR calculation can result in significant volatility for smaller suppliers. Removing the PHA would also remove some insulation against this volatility.</p>
4	<b>Do you wish to raise a Workgroup Consultation</b>	<i>If yes, please complete a WG Consultation Alternative Request form, available on National Grid's ESO</i>

	<b>Alternative Request for the Workgroup to consider?</b>	<i>website<sup>1</sup>, and return to the CUSC inbox at <a href="mailto:cusc.team@nationalgrideso.com">cusc.team@nationalgrideso.com</a></i> No.
--	---	---

### Specific questions for CMP311

Q	Question	Response
5	<b>What impact do you think this modification would have on suppliers entering the market?</b>	It will significantly impact the cost of capital for smaller and new suppliers.
6	<b>What impact do you think this modification would have on existing suppliers and what would be the cost to your business?</b>	Removing the PHA will tie up valuable investment capital in the energy supply market in order to mitigate a small bad debt risk to a subsidiary of National Grid.  As noted above, this will likely increase costs for energy consumers more than the alternative of NGE SO managing the recovery of these costs in the instances when suppliers fail.
7	<b>Two potential solutions other than that Proposed have been discussed by the Workgroup, what are your views on these?</b>	1. While we have a preference for maintaining the status quo, at least this option retains a proportion of the PHA, enabling new and smaller suppliers to build a reasonable level of cover through good payment history. It is a compromise solution, which at least should provide most smaller suppliers with some insulation against the volatility of the VAR calculation.  2. We have requested clarification on what this option offers and await a response. We will provide a view once we have clarification of the proposed solution.
8	<b>What impact do you believe this modification would have on the Consumer?</b>	As noted above, we believe it will have a disproportionate impact on new and smaller suppliers, increase costs for energy consumers and reduce competition in the supply business.

---

<sup>1</sup><https://www.nationalgrideso.com/codes/connection-and-use-system-code-cusc>