

Workgroup Consultation Response – Pro-Forma

CMP308: Removal of BSUoS charges from Generation

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 **8 May 2019** to 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 CUSC Modifications Panel when it makes its final determination.

These responses will be included in the Final CUSC Modification Report which is submitted to the CUSC Modifications Panel.

Respondent:	Melissa McKerrow mmckerrow@intergen.com
Company Name :	InterGen
Do you believe that the proposed original or any of the alternatives better facilitate the Applicable CUSC Objectives? Please include your reasoning.	<p>InterGen believes that the proposal CMP308 better facilitates the CUSC objectives for the following reasons:</p> <ul style="list-style-type: none"> i) It better aligns the GB charging arrangements faced by GB generators with those of most other interconnected countries (and those of most European countries as a whole). Introducing CMP 308 will go some way to enabling GB generation to compete on an equitable basis and reduces distortion in cross-border trade, thereby facilitating more effective competition in the generation and supply of electricity across GB by providing a level playing field. ii) CMP 308 also ensures compliance with the European Commission in respect to the EU Third Package. Removing BSUoS from generation reduces market distortions to deliver the full benefits of a competitive internal market in electricity. This becomes increasingly important as the level of interconnection between Europe and GB is set to increase by 100% within the next 2 years (4GW today, 8GW by 2021). iii) InterGen believe the impact on consumers will be neutral as a result of this change. We also agree that the reduction in the wholesale power price will offset any increase in the BSUoS liability of a supplier. BSUoS is difficult to forecast and has over recent years become very volatile, this has led to it being necessary for generation parties to embed a risk

	<p>premium into their short run generation costs to account for the BSUoS forecasting inaccuracies. This in itself leads to higher balancing costs across the system. Hence removal should reduce these balancing costs in the system as a whole.</p>
<p>Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.</p>	<p>Yes, InterGen agrees that a proposed implementation of 2 years after a decision is made is reasonable and prudent in order to take account of contracts already entered into on both the generation and supply sides, and also time for Ofgem to make the necessary adjustments to the Price Cap to allow suppliers to recoup the increased levels of BSUoS from customers.</p>
<p>Do you have any other comments?</p>	<p>No.</p>
<p>Do you feel it is more efficient for BSUoS to be handled by customers / suppliers rather than customers / suppliers and generators?</p>	<p>InterGen agrees with the conclusions of the Workgroup that it would be a more efficient process to have BSUoS recouped from suppliers. As an independent generator, InterGen has to account for BSUoS within generation costs for electricity sales up to two years ahead. BSUoS price forecasts have proven to be highly inaccurate, and parties are required to build their own forecasting models and generators such as InterGen build in a risk premium to the forecasts. As generators move closer to dispatch and have a more informed view of likely BSUoS, this can mean that positions that may have been economic season/year ahead become uneconomic in the closer months and particularly through day ahead and intraday. This risk premium is then reflected dispatch prices for balancing which ultimately leads to an increase in costs for the consumer.</p> <p>Removing BSUoS from generation removes that risk and market prices can more accurately reflect the actual cost of generation as a function of fuel costs and fixed generation costs.</p>
<p>If CMP308 were to be implemented, what would your thoughts be in regards to combined/net risk premia?</p>	<p>See above.</p>
<p>What do you feel would be a sufficient lead time for the implementation of this modification? Would you support a non-April (i.e. October) implementation date in any given year? Please provide an explanation for your response</p>	<p>Assuming the two year implementation approach is adopted, InterGen do not believe there would be a detrimental effect on implementing a non-April commencement date. However we would state that any date should commence at the beginning of a relevant traded season i.e. Summer or Winter to ensure that parties can execute trades in line with this.</p>

<p>Has the Analysis comprehensively considered consumer/system benefits, or can you identify any area which may need more consideration by the workgroup?</p>	<p>InterGen believes that the workgroup has accurately considered the benefits for system and consumers. We agree that there may need to be a 2 year implementation schedule in order to allow for existing contractual commitments on both the generation and supply side.</p> <p>The current arrangements are highly detrimental to GB generators, who faced an extra cost of c. £600 million in 2017, which will be set to increase significantly as interconnection increases in the 2020's.</p> <p>We absolutely agree that the removal of BSUoS from GB generators creates a more level playing field in the GB and European markets.</p>
<p>Are there any thoughts on the impact of CMP308 on the generation mix, be that short or long term?</p>	<p>We do not believe that the introduction of CMP 308 will have any significant impact on the generation mix. However given the price risk associated with BSUoS forecasting, there may be smaller new entrants to the market who are currently unable to weather this risk due to tight margins, hence the removal would be a positive effect on the generation mix.</p>
<p>Are there any unintended consequences of CMP308 which have not as yet been considered by the workgroup?</p>	<p>None that we are aware of.</p>
<p>Will there be any specific impact on renewable or distributed generation, be that long or short term?</p>	<p>None that we are aware of.</p>
<p>Will there be any significant IT costs to change your systems as a result of CMP308? If so please give detail.</p>	<p>For InterGen the costs to adjust the IT systems will be negligible, and may ultimately reduce longer term costs as we remove the requirement for additional modelling and systems to predict the fluctuations in BSUoS.</p>