

Code Administrator Consultation Response Proforma

CMP361 & CMP362: BSUoS Reform: Introduction of an ex ante fixed BSUoS tariff & Consequential Definition Updates

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 7 January 2022**. 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 Jennifer Groome Jennifer.groome@nationalgrideso.com or cusc.team@nationalgrideso.com

Respondent details	Please enter your details
Respondent name:	Joshua Logan
Company name:	Drax Group PLC
Email address:	Joshua.logan@drax.com
Phone number:	07934296838

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.

CMP361

For reference the Applicable CUSC (charging) Objectives are:

- 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;*
- 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);*
- 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.*

**Objective (d) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).*

CMP362

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.*

**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).*

Please express your views in the right-hand side of the table below, including your rationale.

Standard CMP361 Code Administrator Consultation questions		
1	Do you believe that the CMP361 Original Proposal or WACM1, WACM2, WACM3, WACM4, WACM5, WACM6 or WACM7 better facilitates the Applicable Objectives?	<p>We believe the CMP361 Original Proposal and all WACM's better facilitate the Applicable CUSC Charging Objectives, albeit to varying degrees. Our preferred option is WACM2.</p> <p>Our support for the BSUoS fund is based on the ESO's analysis showing that without it, tariffs would frequently be re-opened approximately 1 in 4 years. Re-opening tariffs would significantly undermine the benefits associated with this modification and should be a last resort.</p> <p>We strongly prefer options with a longer notice period than 3 months and a P-value of 90 or greater. This will enable suppliers to remove a greater proportion of BSUoS risk from consumer prices and mitigate the risk of tariffs being re-opened. Therefore, our preferred option is WACM2.</p> <p>Applicable Objective A – All Positive to varying degrees</p> <p>BSUoS is volatile and difficult to forecast. Adopting an ex-ante fixed charge as per the Original Proposal and WACM's would go some way to addressing this issue.</p> <p>Market participants attempt to forecast BSUoS but given the uncertainty, there is risk premia factored into retail contracts which is ultimately borne by end consumers. Whilst difficult to quantify, it is reasonable to assume it would be a significant amount in aggregate across the sector. Fixing BSUoS should reduce that risk premia and thus reduce this additional cost to the end consumer.</p> <p>The current methodology results in an inefficient allocation of costs across all market participants including consumers. Due to the volatility of BSUoS, there will be times when market participants incorrectly forecast BSUoS and as a result will be unable to recover the cost. Fixing BSUoS should improve competition as it allows market participants to more effectively compete on price (wholesale market hedging, cost to serve, etc.) rather than be influenced by their ability (or inability) to forecast BSUoS charges which are outside of their control.</p>

	<p>In summary, volatility and unpredictability of BSUoS charges causes uncertainty for market participants, has a negative impact on competition and increases costs for consumers.</p> <p>Providing tariffs are not frequently re-opened, CMP361 would reduce the BSUoS risk faced by market participants. This should have a positive impact on competition in the retail market to the benefit of consumers.</p> <p>Applicable Objective C – All Positive</p> <p>The ESO forward plan commits to reviewing BSUoS charges and exploring the possibility of fixing BSUoS. CMP361 does this and therefore takes account of developments in the licensee's business.</p> <p>Applicable Objective E – All Positive</p> <p>Fixing BSUoS simplifies the recovery of BSUoS costs and unlocks process efficiencies for market participants compared to the status quo. As explained above, CMP361 would reduce whole system costs and have a beneficial impact on end consumers. Fixing BSUoS also removes the potential for a perverse incentive on demand to reduce consumption when high BSUoS costs are driven by issues related to low demand. Overall, the proposals promote efficiency in the administration of the charging methodology.</p> <p>Preferred Option – WACM2</p> <p>None of the options would fully remove the BSUoS risk from all supply contracts. Especially in the non-domestic market where it's common practise for contracts to have a duration of 2 years and be agreed several months prior to the supply start date. That said, options with a notice period greater than 3-months are most effective. A notice period of only 3-months, as per the ESO's Original, wouldn't maximise the benefits of fixing BSUoS.</p> <p>Options providing 12-months' notice and 3-month fixed give sufficient notice to industry but would result in the BSUoS tariff changing frequently (potentially every 3 months).</p> <p>When comparing the Original and WACM's, our view is that 9-months' notice and 6-month fix strikes the optimum balance and would best minimise the BSUoS risk faced by suppliers when entering into fixed contracts</p>
--	---

		<p>with customers. This combination has the most beneficial impact on competition.</p> <p>Re-opening tariffs would undermine the benefits associated with this modification. If a P99 fund is required to mitigate the risk of this occurring, we would support a BSUoS Fund built up over 2 years.</p> <p>For the reasons set out above, we believe WACM2 best facilitates the Applicable CUSC Charging Objectives.</p>
2	Do you support the proposed implementation approach?	Yes. We support April 2023 implementation and support the implementation of CMP361 even if CMP308 is rejected.
3	Do you have any other comments?	<p>BSUoS Fund Transparency</p> <p>We support quarterly forecasts of the upcoming BSUoS tariff and increased transparency more generally in relation to the ESO's forecasting. This will provide market participants with a view of the next BSUoS tariff prior to the notice period.</p> <p>Transparency of the BSUoS fund amount is important to suppliers for forecasting. The ESO should notify industry as soon as practicable what the amount to be funded by industry will be from April 2023. We also welcome the proposed monthly updates on the total ESO working capital, BSUoS fund utilisation and ongoing over/under-recovery. Provision of other information may be needed for each market participant to ensure that each party's contribution to the fund remains appropriate and equitable.</p> <p>BSUoS Fund Amount</p> <p>We are concerned that if Balancing costs continue to rise in future years, the level of BSUoS fund required from industry will increase. This needs to be monitored closely as the more industry contributes, the more the benefit of this modification is eroded.</p> <p>We note that Table 4 in the Workgroup Report provides an indication of the BSUoS fund requirement at different P-values. This analysis was conducted by the ESO and is its assessment of the BSUoS fund requirement at different confidence levels. However, comparing the ESO's January 2021 annual forecast with the outturn for</p>

		<p>the year 2021, indicates a large degree of error in the ESO's current forecasting. We understand the ESO is reviewing its forecasting approach which is expected to result in a marked improvement. However, if there is no improvement in the ESO's forecasting of balancing costs, it may be appropriate to revisit the methodology to ensure risk is not unduly and inefficiently being transferred from the ESO to industry participants.</p> <p>ESO Self-Financing</p> <p>Despite our support for this modification, our absolute preference would be to not have an industry funded "BSUoS fund", but to still have certainty that tariffs would not be re-opened during a fixed period. We believe it is highly likely that the ESO's effective cost-of-capital is lower than the average cost-of-capital of active Suppliers, which would mean it would be overall cheaper for the ESO to self-fund than for Suppliers to fund. Although, we accept we have no evidence to support this conjecture.</p> <p>If the ESO is able to finance a greater amount, this would reduce the contributions required by industry and increase the benefit of this modification to consumers. If there is no or little improvement in the ESO's forecasting, it may be appropriate to increase the ESO's contribution, rather than require additional contributions to be borne by suppliers and end consumers.</p>
--	--	---

Standard CMP362 Code Administrator Consultation questions

1	Do you believe that the CMP361 Original Proposal or WACM1, WACM2, WACM3, WACM4, WACM5 or WACM6 better facilitates the Applicable Objectives?	<p>The CMP362 Original and all WACM's will better facilitate the Applicable CUSC Objectives. In line with our preference for CMP361, our preferred option for CMP362 is WACM2.</p> <p>Applicable Objective D – All Positive</p> <p>CMP361 will require consequential changes to definitions in CUSC Section 11. CMP362 will address these changes to Section 11 and other non-charging Sections of the CUSC. This will ensure the efficient implementation and administration of the CUSC.</p>
2	Do you support the proposed	We support April 2023 implementation to coincide with the implementation of CMP308, assuming that

Published on 3 December 2021- respond by 5pm on 7 January 2022

	implementation approach?	modification is approved. Given the interactions between these modifications, it's important they are implemented simultaneously.
3	Do you have any other comments?	N/A