

Workgroup 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 24 September 2021**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

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:	Lauren Jauss
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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, the Workgroup 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:**

- 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.*

**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 regarding the Workgroup Consultation in the right-hand side of the table below, including your rationale.

CMP361 Standard Workgroup Consultation questions			
1	Do you believe that the CMP361 Original Proposal better facilitates the Applicable Objectives?	<input checked="" type="checkbox"/> Yes, it better facilitates objectives: <input checked="" type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input checked="" type="checkbox"/> E	<input type="checkbox"/> No, it has a negative effect on objectives: <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E
		We agree that the CMP361 will result in lower consumer bills through reduced Generator and Supplier risk premia and will make the BSUoS recovery process simpler and more efficient.	
2	Do you support the proposed implementation approach?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
		Ideally CMP361 & 362 would be implemented at the same time as CMP308. However, it is most important that CMP308 is implemented in April 2023 as planned so that Suppliers' and Generators' cost forecasts include the correct proportion of their BSUoS charge liability. The detail in determining the BSUoS charge itself, as	

		addressed by this modification, is less material and therefore secondary to the changes in CMP308. If not implemented at the same time, CMP361&362 should be implemented after CMP308 because the solution has only been designed for Suppliers, and the impact on Generators should they be liable has not been considered.
3	Do you have any other comments?	We do not have any further comments.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Click or tap here to enter text.

CMP362 Standard Workgroup Consultation questions

5	Do you believe that the CMP362 Original Proposal better facilitates the Applicable Objectives?	<input checked="" type="checkbox"/> Yes, it better facilitates objectives: <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input checked="" type="checkbox"/> D	<input type="checkbox"/> No, it has a negative effect on objectives: <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D
		Click or tap here to enter text.	
6	Do you support the proposed implementation approach?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No We agree that CUSC Section 11 is likely to require updating to reflect the correct definitions for CMP361.	
7	Do you have any other comments?	We do not have any further comments.	
8	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No We do not wish to raise an alternative request.	

CMP361 & CMP362 Modification Specific Workgroup Consultation questions

9	The Original solution has 3 months' notice and 12 months fixed, what would your	<input type="checkbox"/> 3-month notice period and 12-month fixed period <input checked="" type="checkbox"/> 9-month notice period and 6-month fixed period <input type="checkbox"/> 12-month notice period and 3-month fixed period <input type="checkbox"/> Other (please describe below)
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	preferred combination of notice period and fixed period be? Please provide your justification.	We agree with the results of Frontier Economic's analysis and consider that the most consistently optimal arrangement to minimise overall industry risk capital cost, taking into account the base case and sensitivity scenarios, is a 9-month notice, 6-month fixed period.	
10	Do you support the use of an industry-funded BSUoS Fund to reduce the probability of re-setting tariffs?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Other / Don't know <p>We do not believe this is an efficient solution.</p> <p>This fund is similar to the risk capital already held by Suppliers themselves to cover their BSUoS risk.</p> <p>However, as the fund is a ringfenced collateral requirement rather than part of a portfolio of risk, it is likely to result in a greater demand for Supplier capital and be less cost efficient overall.</p> <p>The quantification of a P99 level of risk will be highly uncertain and subjective in our view given that the cost of BSUoS is likely to be higher in future than it has been in the past.</p> <p>However, we note that in the absence of a fund the cost of third party Supplier default may be higher, and in this respect a fund is beneficial.</p>	
11	What would the appropriate balance be between the level of the BSUoS Fund requirement, and the probability of tariffs being reset within the fixed period due to under recovery (in the Original solution is this set at P99 – see table on pages 15-16)?	<input type="checkbox"/> P99 <input type="checkbox"/> P95 <input type="checkbox"/> P90 <input type="checkbox"/> P77	<input type="checkbox"/> P75 <input type="checkbox"/> P65 <input type="checkbox"/> P50 <input checked="" type="checkbox"/> Other / Don't know <p>The benefit of fixed BSUoS in our view is the use of the ESO's access to a lower cost of capital than many Suppliers. Once the Balancing Service spend exceeds the ESO WCF, then the liability to fund these cash flows is transferred back to Suppliers and the limit of the benefit of a fixed BSUoS mechanism has probably been reached. In this case we believe it would be more cost efficient if the BSUoS charge reverted to a variable cost.</p>
12	Do you agree with the proposed approach to recover half of the BSUoS Fund in the first financial year and the rest in the second financial year?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> Other / Don't know <p>If the BSUoS fund is implemented, it is likely to be relatively large and form a significant part of the overall BSUoS tariff during the initial fixed periods, whilst the required size of the fund will be difficult to estimate. It may be more appropriate to aim to accumulate the BSUoS fund over a longer period, and make the collection period</p>	

		flexible depending on the level of over-recovery during the first few years.
13	Do you agree with the proposed data transparency approach set out in the Workgroup consultation?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Other / Don't know
		<p>Instead of forecasting BSUoS, Suppliers will need to forecast the ESO's BSUoS forecast in order to account for BSUoS costs and set appropriate risk premia for contracts beyond the notice period. In order to minimise this risk premia as far as possible, the ESO should provide maximum transparency as to the methodology used to make their forecasts. The ESO should also publish its forecasts more frequently (for example monthly) so that industry can gain an understanding of the variability of these forecasts and how they may change. We believe the resource required to ensure regular forecast updates is likely to be cost beneficial to reducing risk premia across customer fixed contracts.</p>