# 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.

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| **Respondent:** | *John Tindal, john.tindal@sse.com* |
| **Company Name:** | *SSE plc* |
| Please express your views regarding the Workgroup Consultation, including rationale.<br><br>(Please include any issues, suggestions or queries) | **For reference, the Applicable CUSC Objectives for the Use of System Charging Methodology are:**<br><br>(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;<br><br>(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);<br><br>(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;<br><br>(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency. These are defined within the National Grid Electricity Transmission Plc Licence under Standard Condition C10, paragraph 1*; and<br><br>(e) Promoting efficiency in the implementation and administration of the CUSC arrangements.<br><br>*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). |

**Standard workgroup consultation questions**

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| **1** | **Do you believe that CMP308 Original proposal, better facilitates the Applicable CUSC Objectives?** | ***a) Effective Competition***<br><br>Yes, the Original proposal will better facilitate effective competition due to:<br><br>i) Better aligns GB generation market with those in other EU member states. This will remove an existing harmful market distortion where GB transmission connected generators have an artificially higher short-run marginal cost because these GB generators pay BSUoS, but generators in interconnected countries selling power into GB do not pay BSUoS.<br><br>***b) Cost Reflectivity***<br><br>Yes, the Original proposal will better meet the objective of cost reflectivity due to:<br><br>i) Generation BSUoS does not provide a useful forward looking price signal which reflects either short-run, or long-run marginal cost. Any incentive which BSUoS may provide is spurious and will tend to result in distortions to investment and operational decisions rather than giving appropriate investment or operational signals. The appropriate cost reflective price signal for generation BSUoS would be £zero, so by removing BSUoS charges from generators, this would make any price signal provided by generation BSUoS more cost reflective. This position is supported by the draft report published by the Charging Futures BSUoS Task Force.<br><br>**c) Developments in transmission licensees' transmission businesses;**<br><br>Yes, the original proposal will better take account of developments in the licensees' transmission business. In particular, the benefit of the proposal will become increasingly important over time as:<br><br>i) Capacity of interconnection increases.<br><br>*ii)* Competition in European markets continue to develop such as Project TERRE, which has subsequent impacts on interconnector capacities and flows.<br><br>***d)* Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency**<br><br>Yes, the Original proposal will better meet objective |

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| | | d. The proposal will better meet requirements set out in the EU Third Package including reducing economically inefficient market distortions. This is necessary to realise the full benefits of international competition to deliver the best value for customers over the long-term. The changes introduced by this proposal will become increasingly important as the capacity of interconnection is expected to increase rapidly in the next 5-10 years.<br><br>*e)* **Efficiency in implementation and administration**<br><br>Yes, the Original proposal will better meet the objective of efficiency in implementation. The changes would be expected to simplify the charging and billing arrangements by substantially reducing the number of parties the BSUoS charge applies to. |
| **2** | **Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.** | Yes, we support the implementation approach. |
| **3** | **Do you have any other comments?** | We agree that the impact on customers should be broadly neutral in the short-term and beneficial to customers in the longer-term.<br><br>i) The increase in demand BSUoS charges should be less than double the BSUoS price because demand already pays more than 50% of total BSUoS cost, and this increase will be offset by:<br><br>a. Reductions in wholesale price<br><br>b. Lower Low Carbon Contract for Difference Strike Prices.<br><br>c. Net reduction in BSUoS risk premium because demand is better placed to manage BSUoS price risk (as described in answer to question 5).<br><br>d. Lower total system cost over the long-term due to more efficient generation competition. |

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| 4 | **Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?** | Not at this time. |

**Specific questions for CMP308**

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| 5 | **Do you feel it is more efficient for BSUoS to be handled by customers / suppliers rather than customers / suppliers and generators?** | Yes it should be more efficient for BSUoS to be handled by customers/suppliers due to:<br>i) A key driver of risk to the BSUoS price is the volume of the charging base it is collected from. Demand volume (annual and half hourly) is much more predictable than transmission generation volume, so the proposal should make the BSUoS price easier to accurately forecast. This is because while the transmission generation volume is a function of demand volume, it is also a function of embedded generation volume and interconnector flows which add additional uncertainty to the baseline charging base in both the short-term and long-term.<br>ii) The harmful distortions caused by spurious variation in half hourly BSUoS should be easier to handle for customers/suppliers than generators. This is because in the baseline, generators are exposed to the current BSUoS price signal on an outturn half hourly basis which causes uncertainty and distorts operational dispatch decisions. However, most customers tend to be exposed to BSUoS prices over a longer-term basis, which tends to reduce the risk faced by individual parties. |
| 6 | **If CMP308 were to be implemented, what would your thoughts be in regard to combined/net risk premia?** | We agree with report conclusion that the proposal should reduce the cost of managing risk. In addition, the combined/net risk premia should be lower compared with the baseline approach due to:<br>i) Reduced GB charging base risk - Following the proposal, the BSUoS cost would be applied to a more predictable charging base, so the BSUoS price will become less volatile and easier to forecast.<br>ii) Better potential for further reductions in risk premia. The proposal will make it easier for subsequent modifications to further reduce |

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| | | BSUoS demand risk premia, for charging BSUoS according to the TCR principles for revenue collection. |
| **7** | **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** | We support an Early decision date. It will be helpful for Ofgem to announce the decision as early as possible and ideally at the same time as an Ofgem decision regarding the TCR/SCR on Residual charging.<br><br>We do not support a non-April implementation date We would prefer an April implementation date so as to align with other charging arrangements changes. We would not support an October implementation unless a particularly compelling reason emerged.<br><br>Implementation year - It is important to consider the balance between realising the benefits of the proposal as quickly as possible, compared with allowing sufficient lead time to enable participants to adequately respond regarding:<br>i) Retail price cap adjust to account for the change<br>ii) Enable suppliers to adjust tariffs.<br>We would agree that a reasonable approach would be a minimum of 2 years notice from the decision which suggests an implementation from April 2022. |
| **8** | **Has the Analysis comprehensively considered consumer/system benefits, or can you identify any area which may need more consideration by the workgroup?** | The Original proposal is better than baseline on a standalone basis. Further, it would also support and complement other charging reforms, including:<br><br>i) The proposal would support and complement Ofgem's proposed <u>partial</u> BSUoS embedded benefits reform as described in the TCR minded to decision on residual charges. Firstly, the TCR partial reform may rectify the market distortion that smaller embedded generators receive demand BSUoS avoidance credits, while transmission connected generators do not. Secondly, CMP308 Original proposal would complete the process of levelling the playing field with regard to BSUoS, by bringing transmission connected generators into line with both distribution connected and interconnected generators whereby no generators or sources of generation pay BSUoS.<br>ii) CMP308 is consistent with and would complement |

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| | | the findings of the Charging Futures BSUoS Task Force. The Task Force draft report concludes that BSUoS does not provide a useful forward looking price signal and should be treated according to Ofgem's TCR principles for revenue recovery. This would be consistent with the CMP308 proposal to apply BSUoS wholly to final consumption.<br><br>iii) CMP308 is consistent with Ofgem's observations that in as far as the purpose of BSUoS is for revenue collection, then the TCR principles should apply. This would be consistent with removing BSUoS from generation as per CMP308. This would also be consistent with any future decision from Ofgem which may change the definition of the demand charging base from which BSUoS is collected.<br><br>CMP308 Original proposal would not appear to be compatible with Ofgem's suggested <u>full</u> BSUoS embedded benefits reform which would make smaller embedded generators pay BSUoS, since this would contradict the intention of CMP308 that no generators should pay BSUoS. In this regard, we would suggest that the eventual solution of TCR <u>partial</u> BSUoS reform plus CMP308 would be the best combination for a more efficient system and best value for customers |
| **9** | **Are there any thoughts on the impact of CMP308 on the generation mix, be that short or long term?** | CMP308 would have two key benefits for a more economically efficient GB generation mix which should both result in lower total system cost and better value to customers over both the short and the long term. These are:<br><br>i) More efficient generation mix between GB generation and interconnected generation – The proposal will level the playing field between GB generation and interconnected generation.<br><br>ii) More efficient generation mix between GB transmission connected generation and GB distribution connected generation (including storage) – In the baseline, GB transmission connected generation is liable to pay BSUoS, but <u>smaller distribution connected generation is not.</u> |

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| | | There is no economic justification for this difference in charging treatment. CMP308 will remove this economically unjustified distortion, which should result in more economically efficient investment decisions regarding the scale and voltage of connection for generation assets. |
| **10** | **Are there any unintended consequences of CMP308 which have not as yet been considered by the workgroup?** | We do not highlight any at this time.<br><br>We would suggest that if there were to be unintended consequences on the incentives faced by final demand customers, or behind the meter generators, then this would be better addressed through the application of Ofgem's TCR principles of revenue collection to BSUoS. This would be outside of the scope of this modification, but Ofgem may want to consider such potential solutions in a similar timeframe. |
| **11** | **Will there be any specific impact on renewable or distributed generation, be that long or short term?** | See answer to question 9.<br><br>This will tend to result in a more economically efficient GB generation investment and operational dispatch decisions. This will include investment decisions such as the best value design, scale and voltage of connection for renewable generation assets and storage assets. This will tend to result in a more economically efficient capacity and technology mix at a lower total system cost and better value for customers over the long term. |
| **12** | **Will there be any significant IT costs to change your systems as a result of CMP308? If so please give detail.** | No. |