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:	*Laurence Barrett* *Laurence.Barrett@eon-uk.com*
Company Name:	*E.ON UK*
Please express your views regarding the Workgroup Consultation, including rationale. (Please include any issues, suggestions or queries)	**For reference, the Applicable CUSC Objectives for the Use of System Charging Methodology 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. These are defined within the National Grid Electricity Transmission Plc Licence under Standard Condition C10, paragraph 1*; and (e) Promoting efficiency in the implementation and administration of the CUSC arrangements. *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

1	**Do you believe that CMP308 Original proposal, better facilitates the Applicable CUSC Objectives?**	*E.ON does not believe that CMP308 Original proposal better meets the Applicable CUSC Objectives. In particular, the proposal is worse against Objective (a) and (b). This is due to the current methodology used to set the various retail Price Caps by Ofgem. As the report correctly identifies, the Price Cap methodologies use historical BSUoS charges to forecast the costs to Suppliers for the period ahead but uses forward-looking wholesale costs. Therefore, the expected fall in wholesale costs from this modification would be reflected immediately in the Price Caps (at their review point), but the increase in supplier BSUoS costs would not. This modification would therefore create a distortion between the costs that Suppliers face and the costs they are allowed to recover under the Price Caps. This would be significantly detrimental to competition for Suppliers and would reduce cost reflectivity. These impacts far outweigh any potential benefits of the modification.* *Furthermore, this modification places the full BSUoS costs on to Suppliers. BSUoS charges are unpredictable and volatile and therefore represent a significant risk to Suppliers. Effectively doubling the size of the charge therefore doubles the size of the risk that Suppliers face. Whilst E.ON recognises that this is offset to some degree by the reduction in risk that Generators face, Suppliers have limited ability to manage increases in risk under the Price Cap methodologies. Therefore, this modification will be detrimental to competition and cost reflectivity.* *Given that modifications must be assessed on the status quo or baseline, E.ON does not believe that this modification can be approved until such a time as the Price Cap methodologies are adjusted to allow changes to BSUoS charges to be immediately reflected and to account for the increased risk that Suppliers would face with regards to BSUoS charges.*

2	**Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.**	*As described above, E.ON believes the modification cannot be approved prior to required changes to the Price Cap methodologies.* *Notwithstanding the above point, any implementation of the modification must be clearly cognisant of the forward purchases made by energy suppliers, and the structure of the wholesale traded markets.* *As suppliers hedge energy purchases ahead of time, expected generator BSUoS costs will form part of this agreed forward energy price contracted. As BSUoS costs are only paid after delivery, should implementation of the modification occur too quickly, suppliers, and ultimately consumers, will face paying the same BSUoS costs twice, once as part of the forward energy purchase price, and once as an explicit BSUoS cost post-delivery.* *Customer fixed contracts and hedges to support them can reach out to 5 years forward. However, the vast majority of contracted volume runs 3 years forward and these timeframes should be respected in terms of any implementation. Failing to do so could harm consumers and result in a generator windfall where revenues based on expected costs are much higher than the actual costs seen.* *In addition, to enable effective and efficient reflection of the BSUoS changes as part of the wholesale costs stack, implementation should occur only in April or October to align to the seasonal products traded on the wholesale market.* *Taking all these factors into account we believe that any change to BSUoS charging should not be implemented prior to October 2022 at the earliest (assuming immediate change to the Price Cap methodologies). Given it is likely to take time to change the Price Cap methodologies, implementation should be no earlier than April or October, 3 years after the change to the Price Cap methodologies.*
3	**Do you have any other comments?**	*Not at this time.*

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

Specific questions for CMP308

5	**Do you feel it is more efficient for BSUoS to be handled by customers / suppliers rather than customers / suppliers and generators?**	*As described in our response to Q1, BSUoS charges are unpredictable and volatile which creates risks for those who face these charges. Placing the entirety of the charge on Suppliers significantly increases this risk, rather than spreading it more equally. This could significantly impact some market participants, particularly smaller suppliers/customers who have less ability to manage this risk. E.ON does not believe that the workgroup report has conducted clear analysis to show whether the proposal would result in a more efficient outcome or not.*
6	**If CMP308 were to be implemented, what would your thoughts be in regard to combined/net risk premia?**	*No comment.*
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**	*Please see our response to Q2.*
8	**Has the Analysis comprehensively considered consumer/system benefits, or can you identify any area which may need more consideration by the workgroup?**	*The analysis is based upon the assumption of a competitive energy market such that the reduction in Generator costs due to the removal of BSUoS charges would be reflected in a corresponding reduction in wholesale costs. It also highlights that due to the current BSUoS charging split between Generation and Demand, the reduction does not have to be quite as large (in £/MWh terms) as the increase in BSUoS costs. Whilst on average, this logic appears sound, there may be times when this does not hold true.*

		Increased exports from GB due to reduced Generator costs may result in a more marginal plant setting the price and this may result in the wholesale price not falling by enough to offset the increase in BSUoS charge to Suppliers and customers. Furthermore, given the fact that BSUoS is a HH ex-post charge and yet is often smeared in forward power sales, there may be some HHs where the BSUoS charge is very high and/or the system is near or at peak demand, that may result in the increase in costs that Suppliers face not being fully mitigated by a corresponding reduction in wholesale price. Therefore, this may result in times of consumer detriment. Whilst such analysis may be commercially sensitive, the workgroup should be mindful of these impacts. *Care should also be taken to not overstate the cross-border impacts due to increasing amounts of interconnection. The original proposal states potentially up to 18GW of interconnectors by the early 2020s, whereas Ofgem publish a far lower figure on their website: https://www.ofgem.gov.uk/electricity/transmission-networks/electricity-interconnectors* *This suggests 11.7GW of interconnection by the early 2020s, or around a fifth of peak demand (rather than the third that the proposal claims).*
9	**Are there any thoughts on the impact of CMP308 on the generation mix, be that short or long term?**	*No comments.*
10	**Are there any unintended consequences of CMP308 which have not as yet been considered by the workgroup?**	*Please see our responses to earlier questions.*
11	**Will there be any specific impact on renewable or distributed generation, be that long or short term?**	*No comments.*
12	**Will there be any significant IT costs to change your systems as a result of CMP308? If so please give detail.**	*No comments.*