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:	*Paul Jones* *paul.jones@uniper.energy*
Company Name:	*Uniper UK Ltd*
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?**	*Yes. The present way in which BSUoS is recovered from GB generation (exporting BMUs) creates a distortion in cross border trade. This has increased as BSUoS values have risen and become more volatile in recent years. This distortion is likely to result in inefficient despatch decisions, the possible closure of GB capacity in favour of less efficient capacity in other interconnected markets and an exaggerated business case for investment in interconnection. This would result in uneconomic outcomes for all customers both within the GB market and in interconnected markets.* *By removing this distortion, CMP308 would better meet applicable objective a) in promoting more effective competition.* *We also believe that there is a case on efficiency associated with Generation having to administer BSUoS payments and reflecting its likely costs in its despatch and bidding decisions. The work of the BSUoS task force has provisionally concluded that BSUoS charging should be focussed on cost recovery rather than sending forward looking market signals. This being the case, it is inefficient for part of the cost to be recovered from customers in a disjointed manner, via generators to suppliers, through wholesale energy and balancing markets. Therefore, by charging all costs directly to suppliers, CMP308 would better meet objective e), by avoiding the transaction and risk management costs associated with the current methodology.*
2	**Do you support the proposed implementation approach? If not, please state why and provide an alternative suggestion where possible.**	*Yes.*
3	**Do you have any other comments?**	*No thank you.*

4	**Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?**	*No.*

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?**	*Yes. As we mention above, as a pure cost recovery exercise it is more efficient to recover costs directly from suppliers, than do so with only half of the cost with the other half being recovered in an indirect manner through generators and the wholesale and balancing services markets.*
6	**If CMP308 were to be implemented, what would your thoughts be in regard to combined/net risk premia?**	*There is a clear risk associated with the uncertain nature of BSUoS that parties who are exposed to the charge have to manage. Generators at the moment have to try to understand BSUoS exposure, manage the risk associated with this and factor it into decisions they make such as how to price into wholesale and balancing markets.* *Indications in the workgroup appear to be that suppliers do not specifically try to understand how BSUoS will impact on these prices, but nevertheless it will affect the level of prices they are exposed to and therefore any risk management costs associated with those markets. That is, if there is a percentage risk cost associated with market transactions and prices are £2/MWh higher than they need to be due to BSUoS, then there will be a cost which will result from this. If the costs pass through more parties/transactions, and are uncertain, then it stands to reason that the costs of managing the risk at each point along the way will add up. That is, the costs should be higher than being charged in a more direct manner with fewer uncertain transactions to manage. Therefore, we believe that in reality there will be a greater cost impact then just transactional costs. This may not be always reflected in a specific risk premium. A party may simply choose a more risk averse pricing scenario instead, meaning that it will contract at higher prices to achieve certainty with a higher overall cost for customers.*
7	**What do you feel would be a sufficient lead time**	*A two year maximum implementation time period would be sufficient. Generators and suppliers do not*

	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	*generally contract out longer than this for the majority of their volumes. This amount of notice would allow them to adapt to the new regime and reflect it in wholesale and retail market transactions.*
8	**Has the Analysis comprehensively considered consumer/system benefits, or can you identify any area which may need more consideration by the workgroup?**	*Yes it would appear to, although we would suggest that the risk management benefits are probably higher than has been suggested in the report, due to the avoidance of multiple points of risk management for the costs passed through energy and balancing markets.*
9	**Are there any thoughts on the impact of CMP308 on the generation mix, be that short or long term?**	*There should be less risk of under despatching GB based resources. There should be a similar effect on investment too.*
10	**Are there any unintended consequences of CMP308 which have not as yet been considered by the workgroup?**	*Not that we are aware of. This change can be made as a step in the direction of further BSUoS reform. We believe that additional improvements are required such as fixing costs charged to suppliers and removing BSUoS embedded benefits, but this can be achieved as incremental change on top of CMP308.*
11	**Will there be any specific impact on renewable or distributed generation, be that long or short term?**	*There shouldn't be. The analysis has shown that distributed generation should be largely held neutral by this change.*
12	**Will there be any significant IT costs to change your systems as a result of CMP308? If so please give detail.**	*Not for Uniper no. We would be surprised if there are significant costs for other parties either as the basis for recovery has not been changed, just the level of costs charged. That is, for generators a zero charge is applied and for suppliers a higher cost is recovered through the same mechanisms and systems.*