

# CUSC Panel - 28 August 2015

*CMP250 - Stabilising BSUoS with at least a twelve month notification period*

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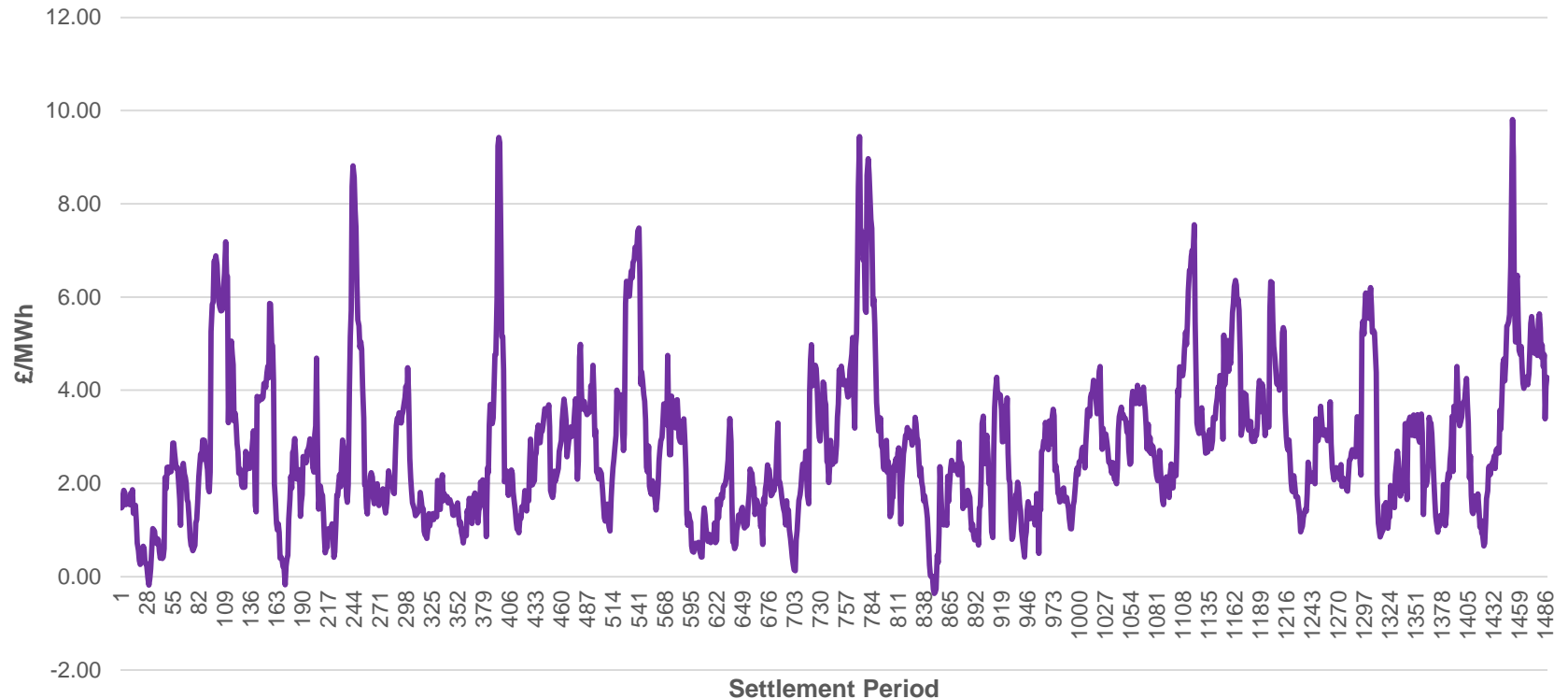


# Introduction

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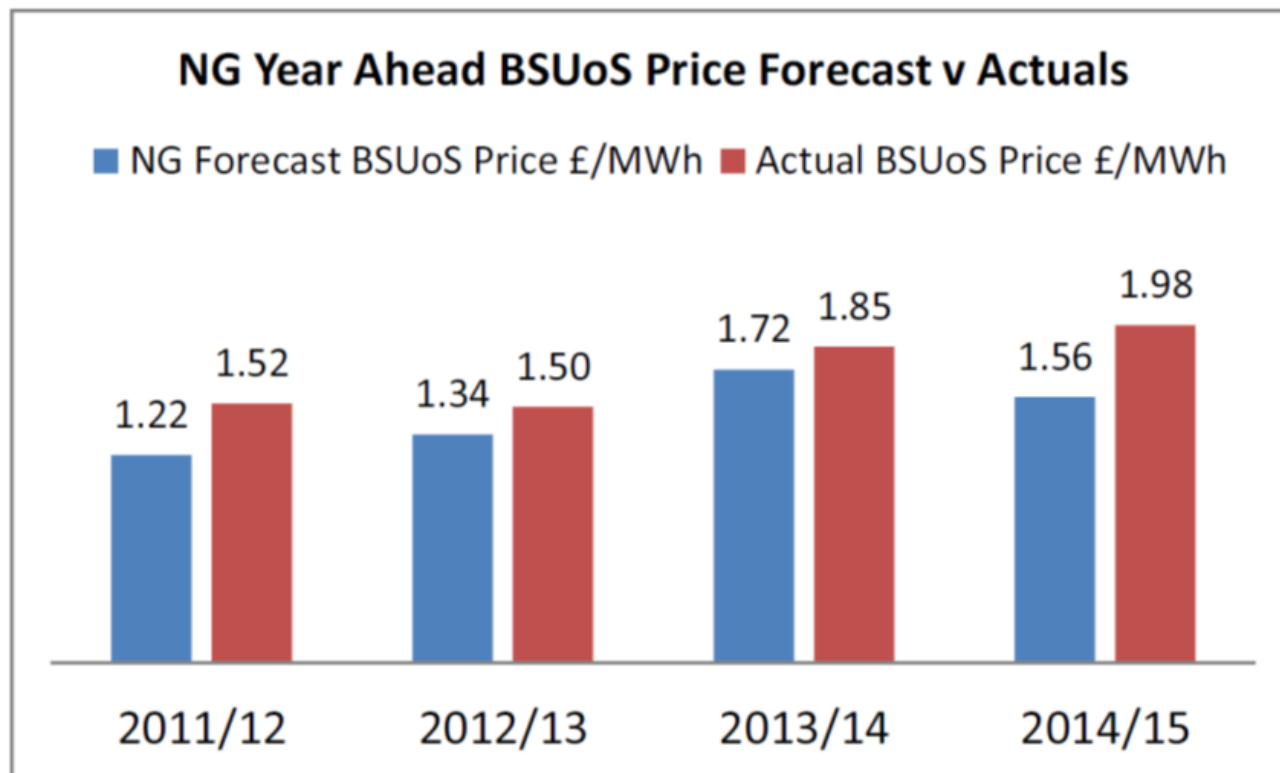
- BSUoS is not known ahead of time – ex post charge
- In the past BSUoS was relatively stable, but it is becoming significantly more volatile and unpredictable
- Market participants must take account of BSUoS when determining their SRMC
- If market participants get it wrong, then they could make a loss in a given Settlement Period
- As the generation mix evolves this volatility is expected to increase, further exacerbating the problem for the foreseeable future

# BSUoS by Settlement Period – May



- BSUoS price ranged between <£0/MWh and £10/MWh during May 2015

# Outturn BSUoS vs NG Forecast



- Average BSUoS price was 42p (27%) higher than forecast for Charging Year 2014/15

# Impacts

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- Increased volatility and unpredictability leads to under and/or over estimates of BSUoS by market participants when trading in the forward market
  - The vast majority of power is sold at or before the day ahead stage.
  - A significant proportion of this is sold season and month ahead
- This leads to market participants:
  - Being exposed to loss making activity
  - Applying additional risk premia, potentially pricing themselves out of (or distorting) the market
- Where risk premia are uniformly applied, this results in increased cost to the end consumer
- Increased risk premia is highly likely
  - No individual market participant has a significant comparative advantage in forecasting BSUoS

# Defect summarised

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- BSUoS is increasingly volatile and unpredictable
- Users have no certainty of BSUoS costs ahead of time
- Market participants must protect their businesses when trading in the forward market
- A change is needed which provides Users certainty of BSUoS charges
- This should allow Users to trade ahead of time with confidence

# Proposed Solution

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- The value of BSUoS should be fixed ahead of time
  - Initially propose that this is over a traded Season, but this is open to workgroup consideration
  - How the value is profiled is also open for consideration
- A notification period of at least 12 months ahead of time
  - The exact notification period is open for consideration
- BSUoS cost under or over recoveries will be subject to a reconciliation process in subsequent periods
  - The detail of the reconciliation process is open for consideration

# Impacts to consider

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- CUSC
  - BSUoS Forecasting, i.e. CMP208 solution
- External (but worthy of consideration)
  - RIIO-T1 price control determination
  - SO Incentive
  - Potential BSUoS Incentive



# Justification

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- CUSC Charging Objective (a):
  - Allows Users to trade forward with confidence, reducing risk premia
  - Facilitates effective competition and competitive entry
  - As forecasting risk is passed to a party better able to manage it, the total cost to the consumer will be lower than the Baseline



# Any questions?

# CMP250 Progression

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- The Panel is asked to agree:
  - Whether CMP250 should be progressed through Self-Governance
  - How to progress CMP250
    - Workgroup
    - Code Administrator Consultation

## CMP250 Indicative timetable (Workgroup)

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<b>4<sup>th</sup> September 2015</b>	Deadline for comments on Terms of Reference / nominations for Workgroup membership
<b>W/C 28<sup>th</sup> September 2015</b>	Workgroup meeting 1
<b>W/C 12<sup>th</sup> October 2015</b>	Workgroup meeting 2
<b>16<sup>th</sup> October 2015</b>	Workgroup consultation issued for Workgroup comment
<b>23<sup>rd</sup> October 2015</b>	Deadline for comment
<b>27<sup>th</sup> October 2015</b>	Workgroup Consultation published (15 Working days)
<b>17<sup>th</sup> November 2015</b>	Deadline for responses
<b>20<sup>th</sup> November 2015</b>	Workgroup meeting 3
<b>30<sup>th</sup> November 2015</b>	Circulate draft Workgroup Report
<b>7<sup>th</sup> December 2015</b>	Deadline for comment
<b>10<sup>th</sup> December 2015</b>	Submit final Workgroup Report to Panel
<b>18<sup>th</sup> December 2015</b>	Present Workgroup Report at CUSC Modifications Panel

## CMP250 Indicative timetable (Workgroup)

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<b>4<sup>th</sup> January 2015</b>	Code Administrator Consultation issued (15 Working days)
<b>25<sup>th</sup> January 2015</b>	Deadline for responses
<b>28<sup>th</sup> January 2015</b>	Draft CUSC Modification Report issued for Industry comment (2 Working days)
<b>4<sup>th</sup> February 2015</b>	Deadline for comment
<b>18<sup>th</sup> February 2015</b>	Draft CUSC Modification Report issued to CUSC Panel
<b>26<sup>th</sup> February 2015</b>	CUSC Panel recommendation vote
<b>29<sup>th</sup> February 2015</b>	Draft FMR circulated for comment
<b>7<sup>th</sup> March 2015</b>	Deadline for responses
<b>10<sup>th</sup> March 2015</b>	Final CUSC Modification Report sent to Authority

## CMP250 Indicative timetable (CA Consultation)

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<b>10<sup>th</sup> September 2015</b>	Code Administrator Consultation issued (15 Working days)
<b>1<sup>st</sup> October 2015</b>	Deadline for responses
<b>5<sup>th</sup> October 2015</b>	Draft CUSC Modification Report issued for Industry comment
<b>12<sup>th</sup> October 2015</b>	Deadline for comment
<b>22<sup>nd</sup> October 2015</b>	Draft CUSC Modification Report issued to CUSC Panel
<b>30<sup>th</sup> October 2015</b>	CUSC Panel recommendation vote
<b>2<sup>nd</sup> November 2015</b>	Draft FMR circulated for comment
<b>9<sup>th</sup> November 2015</b>	Deadline for responses
<b>12<sup>th</sup> November 2015</b>	Final CUSC Modification Report sent to Authority