

CMP262

‘Removal of SBR/DSBR Costs from BSUoS into a “Demand Security Charge”’.



Special CUSC Panel – 19 July 2016

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Background

- CMP262 was raised by VPI Immingham and was submitted to the CUSC Modifications Panel for their consideration on 18 March 2016.
- The Proposers request that the Proposal be developed and assessed against the CUSC Applicable Objectives in accordance with an urgent timetable. This was agreed to by the Panel and was approved by Ofgem on 31 March 2016
- CMP262 aims to create a new cost recovery mechanism, a “Demand Security Charge” specifically for recovery of all SBR/DSBR costs, which is only levied on demand side Balancing Mechanism Units (BMUs).

Workgroup Consultation

- Sixteen responses were received to the Workgroup Consultation and were considered by the Workgroup.
- Six respondents supported the Original proposal as better meeting the Applicable CUSC Objectives and implementation approach. Nine respondents did not support it and one did not comment against whether the Original better met the applicable CUSC objectives and highlighted a number of concerns regarding the implementation approach including concerns regarding customers potentially being charged more than 100% of the cost of utilisation and cost burden falling on standard variable tariff customers.

Proposed WACMs – 1/2

Base assumptions;

- It was highlighted that the practicalities associated with a gross charging solution would make its implementation in time for the forthcoming winter unlikely. Following these discussions, the Proposer has amended the Original Proposal, such that the “Demand Security Charge” would collect total SBR and DSBR costs from net (instead of gross) demand over the winter.
- Additionally, although the Proposer supported all costs being recovered from suppliers, they recognised that the issue is caused by the utilisation costs and therefore, practically, it made more sense to just recover these, as procurement costs should already have been factored in as they are already known.
- The Workgroup agreed to limit recovery to the current year as although future year recovery provided predictability of costs, the Workgroup recognised that this could lead to concerns with cashflow, and charging cost to future users may be considered a barrier to entry.

Proposed WACMs – 2/2

- The Proposer and Workgroup agreed variables for to the options as follows.
- **Original:** Charging demand customers only and smear recovery across whole winter, all settlement periods, Nov to Feb;
- **WACM1:** Charging demand customers only and smear recovery across 6am to 8pm on the day that the cost is occurred (28 periods)
- **WACM2:** Charging both demand and generation customers and smear recovery across whole winter, all settlement periods, Nov to Feb;
- **WACM3:** Charging both demand and generation customers and smear recovery across 6am to 8pm (whole winter cost, Nov to Feb)
- **WACM4:** Charging both demand and generation customers and smear recovery across 6am to 8pm on the day that the cost is occurred (28 periods)

Agreed WACMs

- Three WACMs were agreed by the Workgroup
 - **WACM1:** Charging demand customers only and smearing recovery across 6am to 8pm on the day that the cost is occurred (28 periods)
 - **WACM2:** Charging both demand and generation customers and smearing recovery across whole winter, all settlement periods, Nov to Feb;
 - **WACM3:** Charging both demand and generation customers and smearing recovery across 6am to 8pm (whole winter cost, Nov to Feb)

Workgroup Conclusions 1/2

- The Workgroup concluded that their Terms of Reference have been met;

Issue	Evidence
a. To investigate if there is a better risk management tool. Issue discharged by CUSC Panel.	This issue was de-scoped Panel addressed in d.
b. To look at what the impact of the proposal would be on various sectors of the market.	Section 3
c. What would be the ultimate impact on customers?	Section 3, Table 4
d. Are there any other options that can address improving the quality and timeliness of information to market participants?	Section 3
e. What are the implications on RCRC?	Section 3
f. What is the cost of implementing a new billing system and how is the benefit of this assessed against the short life of this modification proposal.	Section 3, Section 6, Table 4
g. Workgroup to consider other solutions that spread the costs to generators and suppliers over a longer period of time.	Section 3, Table 4
h. What is the impact of this proposal on competition and at which point does this prevent the market from reacting in a competitive manner.	Section 3, Table 4
i. There are currently a number of related BSC modifications in progress, the Workgroup are requested to review these and identify any impact these may have on this proposal.	Section 3, Table 4

Workgroup Conclusions 2/2

- Proposed legal text was agreed by the Workgroup.
- The Workgroup discussed the need to commence the implementation of any manual workaround ahead of any Ofgem decision due to the tight timescales to deliver this modification and identified that the costs for these works would need to be addressed as these will be incurred from July 2016.

Proposed CUSC Modification

- This Proposal seeks to amend;
 - Changes to Section 14 – Charging Methodologies, specifically Section 2 ‘The Statement of the Use of System Charging Methodology’
 - 14.29 Principles
 - 14.30 Calculation of the Daily Balancing Use of System charge.
 - 14.31 Settlement of BSUoS

Next Steps

- The Panel is invited to:
 - Accept the Workgroup Report
 - Agree for CMP262 to progress to Code Administrator Consultation

Proposed Timetable

19 July 2016	Present Workgroup Report at CUSC Modifications Panel
5 July 2016 14 July 2016 20 July 2016	Code Administrator Consultation issued (15 Working days)
26 July 2016 4 August 2016 10 August 2016	Deadline for responses
4 August 2016 11 August 2016 15 August 2016	Draft FMR published for industry comment (5 Working days) (3 Working Days)
11 August 2016 18 August 2016	Deadline for comments
18 August 2016	Draft FMR circulated to Panel
26 August 2016	Panel meeting for Panel recommendation vote
7 September 2016	FMR circulated for Panel comment (5 Working day)
14 September 2016	Deadline for Panel comment
20 September 2016	Final report sent to Authority for decision
18 October 2016	Indicative Authority Decision due (20 Working days)
1 November 2016	Implementation date