

SSE's Energy Businesses welcome the opportunity to respond to this consultation on CMP308 – Minded-to decision and draft impact assessment.

SSE's Energy Businesses comprise the generation assets developed, owned and operated by SSE Renewables and SSE Thermal; Business Energy, SSE's non-domestic energy supply business; and the distributed energy solutions provided by SSE Enterprise. In this response, the terms "SSE's Energy Businesses", "SSE" and "we" are used interchangeably.

For the avoidance of doubt, this response does not represent the views of SSE's Networks Businesses (SSEN Transmission and SSEN Distribution).

Please find views below on specific questions answered within the consultation document.

**1. Do you agree with our assessment that CMP308 better facilitates the Applicable CUSC Objectives?**

Yes.

**2. Do you agree that charging BSUoS charges only to Final Demand reduces distortions between Large Generators and other forms of generation? Please explain why.**

Yes. BSUoS as determined by the BSUoS Taskforce is not a useful price signal, it therefore turns into pure cost recovery. If it is all about cost recovery there is zero rationale for some Generators to pay BSUoS and some Generators to not pay BSUoS. This is because the difference in charges would tend to cause harmful market distortions to both investment and operational dispatch decisions for competition within GB and also competition with generators in interconnected markets.

If CMP308 were not to be implemented, further work would need to be done to reduce distortions by charging Generators who currently do not pay BSUoS, including both distribution connected generators and generators behind customer meters. Licence Exempt Generation can avoid BSUoS by registering as Export Exempt, despite also participating in the Balancing Mechanism. BEIS is currently considering licence exemption. It is beneficial for the System Operator and future Distribution Operators to have sight over and control of Generation assets. Any lowering of the Exemption criteria in terms of MW's would push BSUoS recovery onto a new set of Generators.

With the variability of BSUoS this needs to be forecasted when submitting Bid Prices and generators will tend to add a risk premium to take account fact that that the actual BSUoS charge is not known until after the event. The end consumer ends up paying for this cost of generator risk premium, which is an unnecessary and distortionary cost to customers which could be reduced, or avoided entirely if generators were no longer liable to pay BSUoS

The simplistic and most easily implementable solution to avoid distortions would be to remove BSUoS from Generation as opposed to try and make all Generation pay BSUoS. By contrast, it would not be practical to charge BSUoS to all generators, especially those behind customer meters, which would leave in place the competitive distortion with generators in interconnected countries.

With the recent rise in BSUoS which is forecasted to remain high for a number of years this distortion is likely to increase. The distortion costs the end consumer as costs increase if Generation is used out of merit.

### **3. Do you have any views on the impact of this proposal on Behind The Meter Generation and its competitiveness?**

Behind The Meter Generation (BTMG) does currently receive an economically unjustified double embedded with regards to BSUoS. Firstly, generator BSUoS increases the value of the wholesale power price, which BTMG benefits from because it does not pay generator BSUoS. Secondly, BTMG benefits from being able to net off Demand thus reducing demand BSUoS charges, as BSUoS is charged based on flows at the Boundary. By moving BSUoS to be wholly from final demand, this modification would leave the combined value of these BTMG embedded benefits broadly unchanged because it would simply shift the value away from the first wholesale price benefit and correspondingly increase the value of the second demand BSUoS avoidance benefit in such a way that will tend to cancel each other out.

Work is being done to increase participation in the BM such as Virtual Lead Parties and reviewing the minimum threshold for participation i.e. 1MW. If significant amounts of BTM Generation start to participate in the BM and/or the Wholesale market through P415 then consideration may need to be made over whether BSUoS should be charged on true gross Final Demand. Impending BSC Solutions like P375 and adjustments of Boundary flows for Imbalance charging could also be used for charging BSUoS, so changes could be made if deemed necessary. However, it is far better to implement CMP308 first as it moves us in the right direction and then consider if this needs to be further extended at a later date.

An alternative solution to substantially reduce, or remove the BTMG BSUoS distortion would be to charge demand BSUoS on a per site basis in an equivalent way to the Targeted Charging Review solution for TNUoS and DUoS.

### **4. Do you have any views on our reasoning on this proposal's effect on price signals or generation dispatch?**

BSUoS does not provide a useful, or efficient price signal so there will be minimal effect if any. If a set of charges are levied only on a subset of Generators which do not relate to actual costs this will lead to inefficient investment decisions and will lead to Generation being operationally dispatched out of economic merit. P354 and Non BM STOR was a similar distortion corrected.

### **7. Do you have views on whether and the extent to which the changes proposed in this modification have already been incorporated into supplier decisions?**

Yes, we understand they have already been priced into Supplier decisions as well as Generation wholesale decisions.

If a number of other Suppliers undertook this decision within fixed price contracts the end consumer will be paying if CMP308 is delayed or cancelled. As stated in CMP381 Suppliers are expected to be able to accurately forecast BSUoS

**9. Do you have views on this proposal's impacts on generator and supplier risks, including on exposure to volatile charges?**

Exposure to volatile charges creates a risk premium. CMP381 has admitted that there are elements of BSUoS charges which are unforecastable but the volatility should be priced in. To cover those costs.

**10. Do you have views on the interactions between this proposal and other changes in the sector, including other BSUoS charging reform proposals?**

If pushing costs onto Suppliers, it is crucial that CMP361 is implemented at the same time in April 23.

**11. Do you have views on the modelled assessment of consumer and energy system benefits? Please provide quantitative analysis and any further information.**

We agree with the results based on the assumptions for each scenario. However, the scenarios vary and none may actually reflect future reality.

**12. Is our assessment of non-monetised costs and benefits reasonable? Are there any other factors we should consider?**

Yes.

**13. Do you consider the consumer and system benefits identified in our consultants' modelling to represent a reasonable view of the potential effects of this modification?**

We agree with the results based on the assumptions for each scenario. However, the scenarios vary and none may actually reflect future reality.

**14. Do you consider that Ofgem has duly considered all relevant consumer and system benefits? Are there any areas which could benefit from further analysis?**

Yes. Industry is now fully expecting this modification to be implemented in April 23, and the evidence supports the implementation.

**15. Our modelling assumes that CfD adjustment payments designed to compensate contract holders for the BSUoS charges they face will no longer be paid in the event**

**generation is not liable for BSUoS charges. Do you agree with this assumption, and do you have views on our assessment of the risks associated with existing CfD contracts?**

Yes.

**16. Do you have views on the impacts of this proposal on end consumers, including large users and vulnerable users?**

We anticipate that this proposal will have a small beneficial impact on end consumers.

**17. Do you agree with our assessment that reduced costs to generators are likely to feed through into lower wholesale prices?**

Yes.

**18. Do you agree with our assessment that this policy will not have any significant material impacts on vulnerable users?**

Yes.

**19. Do you agree with our assessment that this modification is unlikely to lead to any significant impacts on essential services or supply chains?**

Yes.

**20. We would note that increases in demand costs will need to be incorporated into the Price Cap methodology. Do you have any views on this area?**

Yes, agree that the Price Cap methodology would need to appropriately take into account any step change increase in demand BSUoS cost caused by this modification.

**21. Do you agree with our proposed implementation date of 1 April 2023? Please provide your reasoning.**

Yes. This implementation date has been strongly and clearly indicated for a number of years. If implementation were delayed, especially at such late notice, then this would undermine industry confidence in any future Ofgem guidance regarding implementation dates for other code changes.

**22. Do you have any other information which is relevant to this consultation?**

No.

