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Dear Ruben

CMP308 - CONSULTATION ON MINDED-TO DECISION ON A PROPOSED CHANGE TO THE WAY THAT THE BALANCING SERVICES USE OF SYSTEM (BSUOS) CHARGES ARE COLLECTED FROM ELECTRICITY NETWORK USERS.

We welcome the opportunity to respond on Ofgem's Consultation on CMP308 Minded-to Decision on a proposed change to the way that the Balancing Services Use of System (BSUoS) charges are collected from electricity network users. Our answers to the consultation questions are in Annex 1 attached.

In summary, we are in support of the proposals and are of the opinion this proposed change facilitates more effective competition as it aligns GB market charges and arrangements with the majority of its interconnected counterparts, where generation is typically not subject to these charges. As a result, this change will level the playing field between GB and EU generators as well as transmission and distribution connected generators by removing the BSUoS liability from transmission connected generators.

It has been proven as part of the work undertaken by the CUSC Working Group, that GB is disadvantaged by the current charging arrangements, therefore it makes sense to remove the risks of BSUoS affecting cross-border trade and to allow GB to compete on a comparable basis with its interconnected markets.

However, if all BSUoS costs are to be imposed on suppliers, it is even more important that that suppliers have greater advance certainty of the charge. This proposal therefore has strong links with CMP361 and CMP362 (BSUoS Reform: Introduction of an ex ante fixed BSUoS tariff and Consequential Definition Updates) and Ofgem must ensure that there are no delays in their decision making process so that they can be implemented on 1 April 2023 alongside CMP308. We do not believe there was any need for a "minded to" consultation on CMP308 and we would strongly recommend that a similar "minded to" consultation is not carried out on CMP361 and CMP362.

Yours sincerely,

A handwritten signature in blue ink that reads "Richard Sweet". The signature is written in a cursive, flowing style.

Richard Sweet
Head of Regulatory Policy

CMP308 - CONSULTATION ON MINDED-TO DECISION ON A PROPOSED CHANGE TO THE WAY THAT THE BALANCING SERVICES USE OF SYSTEM (BSUOS) CHARGES ARE COLLECTED FROM ELECTRICITY NETWORK USERS.

Q1. Do you agree with our assessment that CMP308 better facilitates the Applicable CUSC Objectives?

We agree with the assessment made, that CMP308 better facilitates the applicable CUSC objectives. It is our view that the proposal is positive against objectives a), c) d) and e) and neutral against b). We agree that this proposal facilitates more effective competition as it aligns GB market charges and arrangements with the majority of its interconnected counterparts, where generation is typically not subject to these charges. Therefore, this change will level the playing field between GB and EU generators. In addition, it will level the playing field between transmission and distribution connected generators by removing the BSUoS liability from transmission connected generators.

Q2. 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, we agree that only charging BSUoS to final demand reduces distortions between large generators and other forms of generation. The current charging system has created distortions between different types of generators, including between generators located in Great Britain and interconnectors with mainland Europe. For example, currently, behind-the-meter generators and generators connected to the distribution system do not pay BSUoS charges on exports, while those connected to the transmission system do. The work undertaken by the Second Balancing Services Task Force identified found that comparatively lower charges were levied on interconnectors nationally as compared with transmission-connected generators in Great Britain. Such distortions could be remedied by removing the levying of BSUoS charges on all generators.

Q3. Do you have any views on the impact of this proposal on behind the meter generation and its competitiveness?

Under the current charging system, distortions are created between different types of generators, including between generators located in Great Britain and interconnectors with mainland Europe. Currently, behind-the-meter generators and generators connected to the distribution system do not pay BSUoS charges on exports, while those connected to the transmission system do. We believe these damaging distortions could be remedied by removing BSUoS charges from all generators. The proposed solution therefore should be extended to include behind the meter generation by removing the final BSUoS Embedded Benefit and aligning final demand with final consumption.

Q4. Do you have any views on our reasoning on this proposal's effect on price signals or generation dispatch?

We have no comments at this stage on Ofgem's reasoning.

Q5. Do you have any views on our reasoning on this proposal's effect on competition between different generator types?

It is our view that the removal of BSUoS from generators will deliver more effective competition between different generator types, resulting in overall benefit to the consumer by more efficient dispatch and investment in new generation.

Q6. Do you have views on our assessment of the decarbonisation impacts of this proposal, both in respect of emissions from the GB energy system and of overall emissions?

We have no comments at this stage on Ofgem's assessment.

Q7. Do you have views on whether and the extent to which the changes proposed in this modification have already been incorporated into supplier decisions?

As a supplier we are reliant on the accuracy of the forecasts provided to us. While we can make our own predictions, however, these are still based on the forecasts provided. As such we are limited in our ability to accurately incorporate BSUoS costs into our contracts and tariffs. Further, as a general rule, we only include changes to BSUoS, and other charges once a final determination has been made.

Q8. Do you have views on the impact of this proposal on existing supply contracts, including the possibility of costs or delayed benefits to consumers stemming from windfall gains to industry parties, or double payments?

This will depend on the type of contract the customer agreed at the time. As many larger customers take pass-through contracts this risk should be limited. The risk of delayed benefit could have been reduced if a decision had been made sooner.

Q9. Do you have views on this proposal's impacts on generator and supplier risks, including on exposure to volatile charges?

For generators this will remove the risk of exposure to volatile and difficult to forecast BSUoS charges. For suppliers it would double the risk if it were to go ahead before CMP361 and CMP362 (hence the importance of these being implemented at the same time as CMP308).

Q10. Do you have views on the interactions between this proposal and other changes in the sector, including other BSUoS charging reform proposals?

As with other charging reforms, we strongly recommend that the changes are explained to consumers centrally either by Ofgem or by the ESO.

Q11. Do you have views on the modelled assessment of consumer and energy system benefits? Please provide quantitative analysis and any further information.

We have no views to provide at this time. We note that if the benefit is looked at on a simple per MPAN per year basis the benefit at a customer level is small (perhaps £1-2 per MPAN per year).

Q12. Is our assessment of non-monetised costs and benefits reasonable? Are there any other factors we should consider?

We have no comments on the non-monetised costs and benefits at this time. We accept the key benefit is transparency as charges to generators were passed onto suppliers and ultimately consumers via wholesale costs.

Q13. 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?

Yes, we are comfortable with the benefits identified.

Q14. 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, as far as we are aware, Ofgem has considered all relevant benefits and we have nothing to add.

Q15. 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?

We agree with the assumptions set out and have previously responded with our support of the proposal and for the implementation to be progressed as soon as is reasonably possible to avoid any generator and/or developer risk premia being included in the next CfD rounds.

Q16. Do you have views on the impacts of this proposal on end consumers, including large users and vulnerable users?

BSUoS costs are already passed through to consumers, since the charges to generators are included in wholesale costs. We do not foresee any specific impact for vulnerable users at this time. The impact on larger users will depend on the type of contract they have been signed up to. If they receive full pass-through charges, again the overall impact should be nil or positive. If they receive a 'bundled charge', fixed for the term of the contract, there will be no impact during the contract. As Ofgem notes, there should be a positive overall benefit for consumers, albeit small on a £ per MPAN per year basis.

Q17. Do you agree with our assessment that reduced costs to generators are likely to feed through into lower wholesale prices?

Yes we agree with the assessment.

Q18. Do you agree with our assessment that this policy will not have any significant material impacts on vulnerable users?

Yes, we agree with the assessment.

Q19. Do you agree with our assessment that this modification is unlikely to lead to any significant impacts on essential services or supply chains?

Yes, we agree with assessment.

Q20. 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?

We agree with Ofgem's views that increases in demand costs will have to be incorporated into the Price Cap methodology. We will support Ofgem as required to ensure the methodology is updated for CMP 308 as well as CMP 361 and CMP362.

Q21. Do you agree with our proposed implementation date of 1 April 2023? Please provide your reasoning.

Yes, we are comfortable with the planned implementation date of 1 April 2023, provided CMP 361 and CMP362 are implemented at the same time. Further, we believe this consultation on Ofgem's minded to position was not required and we are concerned that it has added a risk of delay.

We would welcome regular forecasts from ESO from now on to allow the market to be ready for the changes.

Q22. Do you have any other information which is relevant to this consultation?

We have nothing to add at this time.

ScottishPower
January 2022