



CMP361 Workgroup 6

16th August 2021

Update on WG5 actions

Providing transparency to industry

- If using a 3 month notice, 12 month fix approach – the ESO will provide draft BSUoS tariff forecasts to industry each quarter
- The ESO will provide monthly updates to industry on the usage of the funds available (i.e., ESO WCF and BSUoS fund)
- The ESO will provide a rolling 24 month ahead forecast of BSUoS costs (as today)

BSUoS fund

- Following Workgroup 5 we have updated our Business Rules, reflecting the discussion had in that session
 - Propose to use annual variability to derive the required BSUoS fund rather than biannual
 - Propose to build the BSUoS fund over a 2 year period rather than a 1 year period
- Those updates can be seen in the document circulated ahead of this workgroup

Update on WG5 actions - variability

Percentile	Quarterly (£m)	Annual (£m)	Odds in years
p50	43	163	1 in 2
p55	55	186	
p60	66	210	
p65	78	234	~ 1 in 3
p70	91	259	
p71	94	265	
p72	97	270	
p73	99	276	
p74	102	282	
p75	105	287	1 in 4
p76	108	293	
p77	111	300	
p78	115	307	
p79	118	313	
p80	122	321	1 in 5
p85	137	352	
p90	165	408	1 in 10
p95	203	483	1 in 20
p99	264	574	1 in 100

Cost variability numbers over a wider range of percentiles

- Following feedback, we have provided a broader range of variability analysis. This shows what different P levels equate to from both a financial perspective, and then the likelihood of tariffs being reset in years
- The table shows estimated variability of BSUoS costs in FY2023/24 for a new BSUoS forecast model
- Our assumption, is that the higher the P level, the less likely it is that Suppliers will continue to hold risk premia. Therefore we believe there is greater consumer benefits in the longer term of a higher P value.
- In addition, our understanding is that greater certainty of tariffs is important to both Suppliers and demand users. We are very concerned that less than P90 i.e. less than 1 in 10 years for tariffs being reset would not provide the intended certainty of fixed BSUoS

Resetting tariffs

- The proposal is tariffs would be reset within the fixed period if the ESO forecasts that it will not have sufficient funds available
- This is based on:
 - $\text{ESO's remaining WCF} + \text{the remaining BSUoS fund} + \text{incoming funds from tariff} < \text{forecast outgoing costs}$
- The ESO can only borrow a fixed amount of money for its WCF and therefore it requires the BSUoS fund to meet credible levels of risk
- The ESO would require certainty of the extent of its liability in supporting fixed BSUoS – in effect a cap. This would facilitate being able to secure credit facilities with banks and support maintaining ESO's current credit rating.
- There is a link between a cap being stated, and how tariffs are re-set within the fixed period. The cap only holds weight, if the ESO has the automatic right to re-set tariffs. Should Ofgem approve the need for tariffs being reset, then inherently there is not a cap, as Ofgem may not allow tariffs to be re-set and the ESO could then be exposed above its agreed level. This then has impacts on the business going-concern requirements and its licence obligation regarding Availability of Resources.
- Our original solution will therefore remain as the ESO having the automatic right to reset tariffs & to state in the CUSC that there is a cap as agreed between the ESO & Ofgem, to ensure that we can finance & therefore implement the fixed BSUoS solution.

Modification timings

Prices being reflected in wholesale price

- We are aware that parties are already buying volumes for April 2023 and beyond
- Has BSUoS Reform been factored into wholesale prices? If not, what implications could this have?

Final Demand Data availability for forecasting purposes

- To set the first tariff the ESO will need the declarations process to be completed to accurately forecast final demand
- Based on the timeframe for P419 we are aiming to start processing declarations in early 2022 and complete this by September
- We should receive SVA data in October 2022 following on from TDR work (assuming CMP363/4 is approved)
- This would make forecasting in December 2022 more achievable

P419: Next Steps

Event	Date
Present IWA to Panel	13 May 2021
Workgroup meeting 1	23 July 2021
Workgroup meeting 2	W/C 27 September
Assessment Procedure Consultation	11 Sep 21 – 29 Oct 21
Workgroup Meeting 3	W/C 15 Nov 21
Present Assessment Report to Panel	9 Dec 21
Report Phase Consultation	13 Dec 21 – 4 Jan 21
Present Draft Modification Report to Panel	13 January 21
Issue Final Modification Report to Authority	19 January 21

Suggested Workgroup Consultation Questions

The following questions are suggested for discussion in today's workgroup:

1. What would the preferred combination of notice period and fixed period be? And why?
2. What would the correct balance be between setting BSUoS fund requirements, and the probability of tariffs being reset within the fixed period due to under recovery?
3. Do you agree with the proposed approach to recover half of the BSUoS fund in the first fixed period and the rest in the second fixed period?
4. Do you agree with the proposed data transparency approach set out in the workgroup report?
5. Have you seen the proposed BSUoS reforms being taken into account in wholesale prices for 2023 and beyond?
6. In order to fix BSUoS, do you think that a BSC mod looking at RCRC has to be considered alongside this mod?