

CUSC Alternative Form

CMP395 WACM2:

Cap BSUoS costs and Defer payment to 2023/24 to protect GB customers

Overview: Seeks to cap BSUoS (proposed to be set at £30/MWh) per Settlement Period from 1 October 2022 to 31 March 2023 for generators and suppliers, recoup the money in charging year 2023/2024; and set the liability carried by the ESO at £250m.

Proposer: Iwan Hughes, VPI

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What is the proposed alternative solution?

Set a £30/MWh cap on BSUoS from 1 October 2022 until 31 March 2023 for generators and suppliers.

What is the difference between this and the Original Proposal?

The only difference with the Original is the level of the cap (set at an evidence based, £30/MWh – analysis sent to Ofgem). However, the proposer does not believe £250m is sufficient to remove risk premium from the market so requests Ofgem states [in any decision] that it will continue to work with the ESO, and other stakeholders, closely to review the size of the deferral fund should it need to be increased. VPI has sent confidential analysis to Ofgem around the size of deferral fund anticipated. Confidence in the continuation of the deferral fund throughout the whole implementation period is critical to remove risk premium.

The key driver of this alternative recommendation is to:

- Remove inefficient risk premium being factored in by Generators and Suppliers in wholesale markets and the Balancing Mechanism (i.e. on both sides of a trade)
- Ensure that Generators and Suppliers continue to take on a fair level of risk (i.e. cap set at a level which is not “business as usual”)
- Reflect the perceived inflection point whereby the Electricity Network Control Centre is a price taker when accepting system or energy actions
- Encourage increased liquidity in the wholesale markets by reducing risk around forward hedges
- Reflect the ongoing high commodity environment and tight GB-European electricity and gas markets
- Sets a cap based on average Baseload BSUoS

What is the impact of this change?

Proposer's Assessment against CUSC Charging Objectives

Relevant Objective	Identified impact
(a) That compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity;	Positive: A £30/MWh cap will result in reduced BSUoS risk premia (being factored into achieved wholesale prices by both GB generators and suppliers) as well as contribute to increasing the efficiency in GB wholesale markets. Increased certainty will result in a better outcome for GB consumers via both the cost of energy and the cost of balancing the system.
(b) That compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably	None

practicable, the costs (excluding any payments between transmission licensees which are made under and accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard licence condition C26 requirements of a connect and manage connection);	
(c) That, so far as is consistent with sub-paragraphs (a) and (b), the use of system charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses;	<p>Positive: The cap and deferral fund should be set at an appropriate level to remove inefficient BSUoS risk premium being applied by both Generators and Suppliers this winter.</p> <p>The settlement period cap has been set at a level which does not defer BSUoS below what can be considered in 'business as usual'.</p>
(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and	None
(e) Promoting efficiency in the implementation and administration of the system charging methodology.	None
<p>*The Electricity Regulation referred to in objective (d) is Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity (recast) as it has effect immediately before IP completion day as read with the modifications set out in the SI 2020/1006.</p>	

When will this change take place?

Implementation date:

As per the Original solution

Implementation approach:

As per the Original solution

Acronyms, key terms and reference material

Acronym / key term	Meaning
BSUoS	Balancing Services Use of System charges
ESO	Electricity System Operator

Reference material:

None