

Workgroup Consultation Response Proforma**CMP395: Cap BSUoS costs and Defer payment to 2023/24 to protect GB customers**

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses to cusc.team@nationalgrideso.com by **5pm on 01 September 2022**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration.

If you have any queries on the content of this consultation, please contact Paul Mullen Paul.j.mullen@nationalgrideso.com or cusc.team@nationalgrideso.com

Respondent details	Please enter your details
Respondent name:	Damian Clough
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I wish my response to be:

(Please mark the relevant box)

☒ Non-Confidential☐ Confidential

Note: A confidential response will be disclosed to the Authority in full but, unless agreed otherwise, will not be shared with the Panel or the industry and may therefore not influence the debate to the same extent as a non-confidential response.

For reference the Applicable CUSC (charging) Objectives are:

- 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;*
- b. *That compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably 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;*
- d. *Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and*

- e. *Promoting efficiency in the implementation and administration of the system charging methodology.*

**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.*

Please express your views in the right-hand side of the table below, including your rationale.

Standard Workgroup Consultation questions		
1	Do you believe that the Original Proposal or any of the potential alternative solutions better facilitates the Applicable Objectives?	Mark the Objectives which you believe each solution better facilitates:
		Original <input checked="" type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E
		<p>a. <i>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;</i></p> <p>Positive</p> <p>When operating in the Balancing Mechanism and submitting Bids and Offers it's important that the Party forecasts the BSUoS cost for that Settlement Period so as to recover the costs of operating. For example if it were to offer 100MW's it would need to forecast what the extra 100MW's would cost in BSUoS. If it underforecasts then there is the danger of offering a service at a loss. This has the potential to damage competition as those Generators who are better at forecasting BSUoS move up the merit order. This may lead to less efficient Generators being dispatched ahead of those who are more risk adverse. Capping BSUoS gives more certainty over the BSUoS costs or at least a smaller range but also reduces the overall BSUoS cost which will aid those end consumers.,</p> <p>From a Suppliers perspective for domestic customers BSUoS costs are taken into account in future price cap's but it does provide some relief from a cashflow perspective as there is a lag.</p> <p>For Suppliers in the Business Market offering fixed contracts this will provide immediate relief as BSUoS costs cannot be recovered and are a lot higher than what was envisaged at the start of the fixed price contract. For those with reconciliations</p>

		<p>or pass through BSUoS costs this will provide relief to the end consumer.</p> <p>All the above will help maintain competition as some Parties may be able due to their size be able to absorb the costs whilst smaller Parties may not</p> <p><i>b. That compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably 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);</i></p> <p>Neutral</p> <p><i>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;</i></p> <p>Neutral</p> <p><i>d. Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and</i></p> <p>Neutral</p> <p><i>e. Promoting efficiency in the implementation and administration of the system charging methodology.</i></p> <p>Neutral</p>
2	Do you support the proposed implementation approach?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <p>Yes. The actual billing of the deferred revenue does not need to be in place until the start of the 23/24 charging year</p>
3	Do you have any other comments?	Click or tap here to enter text.

4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	<input type="checkbox"/> Yes <input type="checkbox"/> No Click or tap here to enter text.
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Specific Workgroup Consultation questions

1	The CMP395 Original proposes to set a £15/MWh cap on BSUoS. Do you think it is appropriate to set a BSUoS cap and if so to what value? Please provide the rationale for your response including any supporting analysis.	Yes. The last BSUoS cap introduced through CMP381 did not provide much relief therefore provided limited benefit in reducing BSUoS costs. The deferred BSUoS will be repaid so it's imperative to ensure maximum benefit is achieved.
2	Do you think it is appropriate to introduce a rules based re-assessment of the BSUoS cap on utilisation against the limit of the additional BSUoS costs that would be deferred. If so, on what basis? Please provide the rationale for your response.	Yes. The suggested cap amount is based on historic analysis. It is highly likely however that costs etc will change especially with potential market intervention etc. A reassessment will allow the cap to be changed with suitable notice period to ensure the £250m is fully utilised but over the length of the period, but also provides comfort to the ESO that it won't go over £250m. It also allows flexibility to market changes without the need to raise urgent modifications.
3	The CMP395 Original seeks to defer the additional BSUoS costs above the cap to the 2023/2024 charging year. Recovery of the deferred costs is proposed to commence from 1 April 2023. Do you agree with this approach? Please provide rationale for your response.	Yes. Collecting costs via a reconciliation process or a later settlement run will not be reflected in the current price cap calculation. For Generators; paying actual deferred costs from 22/23 will still result in the need to forecast the whole BSUoS cost when submitting offers in the BM even if part of the cost is deferred is charged at a later date. This negates a large benefit of the modifications, which is reducing overall BSUoS costs.

4	CMP308 comes into effect on 1 April 2023 and removes the payment of BSUoS from Generators. Against this backdrop, the Workgroup have considered options to recover deferred costs from Generators from 1 April 2023. Do you support any of the options proposed?. Please provide justification for your response.	<p>Yes, its important that the mod is not seen as a way of pushing costs from Generators to Demand.</p> <p>As stated previously deferring costs into 23/24 and charging on actual volumes in 23/24 will allow Generators to submit lower BM Offers and lower any risk premia.</p> <p>If actual 22/243 liabilities are calculated but charged in 23/24 this will remove that benefit.</p>
5	Do you think it is appropriate to introduce a Supplier BSUoS cap only or a BSUoS cap for Suppliers and Generators?. Please provide the rationale for your response.	A Supplier only cap removes the ability to reduce the overall BSUoS costs in the BM.
6	The CMP395 Original seeks to limit the additional BSUoS costs that would be deferred to £250m. Do you think it is appropriate to introduce a limit and if so to what value? Please provide the rationale for your response.	Yes, its crucial that the ESO can cover the deferred costs. Ofgem cannot approve a modification which puts at risk the ESO.
7	Do you agree that reporting of the percentage utilisation of the deferred amount should be in line with that introduced for CMP381. Please provide justification for your response.	Yes. This will aid any future forecasts of BSUoS for 23/24, and also allow the ESO to monitor if and when to potentially suggest a different Cap amount.
8	Does the CMP395 Original proposal or	The proposal has the ability to reduce the overall BSUoS costs thus benefitting Business Customers

	<p>any of the potential alternative solutions impact your business and/or end consumers. If so, how?</p> <p>Confidential Information can be shared with Ofgem directly particularly where it relates to Ofgem's Urgency Criteria.</p>	
9	<p>Do you support the view that CMP395 would mean reduced overall BSUoS costs (as a result of reduced risk premia) and therefore benefit consumers. Please provide the rationale for your response.</p> <p>Confidential Information can be shared with Ofgem directly particularly where it relates to Ofgem's Urgency Criteria.</p>	<p>Yes, it does. Our businesses have to forecast BSUoS costs. Capping BSUoS does reduce risk premia. However this is more relevant to Generation submitting Offers into the BM.</p>