

CUSC Alternative Form

CMP395 WACM5:

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

Overview:

Seeks to cap BSUoS per Settlement Period from 1 October 2022 to 31 March 2023 and recoup the money in charging year 2023/2024;

Set a de-minis amount of £250m and associated maximum £15/MWh cap.

Ofgem can propose a different cap amount if new funds are made available.

Proposer: Damian Clough, SSE Generation

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What is the proposed alternative solution?

- Limit the liability on the ESO to an amount as determined by GEMA to a minimum of £250m (as per the Original) which gives GEMA headroom to seek new funds for the ESO to fund an amount greater than £250M if GEMA believes, taking into account its wider statutory duties, that it is better for existing and future consumers.
- CMP395 BSUoS Support Scheme will fall away on the earlier of 31 March 2023 or when the £XM limit (if revised by GEMA) has been reached.
- There will be daily reporting of the percentage utilisation of the deferred amount.

The limit is a minimum of £250m and the cap a maximum of £15/MWh up until the £250M has been fully utilised.

GEMA can, in advance of the £250M being fully used up, propose a different cap (£/MWh) amount (which may be higher or lower or the same as £15/MWh) and fund limit if more funds (£M) are subsequently made available to the ESO, with the agreement of GEMA, without the need industry to raise a modification.

When choosing £15/MWh, this is in line with the Original and provides an appropriate balance between allowing the cap to be in place throughout the winter whole period, whilst ensuring the funds are utilised.

The cap on the BSUoS charge has two benefits; it caps individual settlement periods, but also at the same time reduces the average BSUoS price for the period, which at current forecasts can also be classed as exceptional. To put the £250m in context, ESO BSUoS forecasts have gone up by £1.8bn over a 6 month period, and the coal contingency contracts could add another £420m (so circa £2.2bn).

If the £250m (Original) fund is utilised before the end of the winter period, this further strengthens the need case for this alternative modification and provides a mechanism when seeking further funds (over and above the £250m) that it can be applied in a way GEMA considers is appropriate, in terms of the £/MWh figure for the additional funding (over and above the £250m). If a high £/MWh figure is applied to this additional fund this has a significant risk of not utilising the additional funding, and therefore having little effect on average BSUoS charges.

The scenarios where the original £250m fund plus the further funding (determined by GEMA as appropriate) is fully utilised, at a higher cap level, BSUoS costs will have risen far greater than forecasted and it is highly likely that separate further intervention or additional intervention will be required.

What is the difference between this and the Original Proposal?

As per the original but allows GEMA to set a different cap (£/MWh) amount at any time with sufficient notice, if or when new funds (£M) over and above £250M become available.

This appropriately moves the overview of the scheme to GEMA at these time of uncertainty.

If the £250m is used up quickly it provides a simple mechanism to apply alternative funding (if obtained) in a way consistent with the original solution.

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;	<p>Positive: For Parties (suppliers and generators) with longer term contracts, the proposal will provide some mitigation against the losses likely to be incurred because of the exceptional levels of BSUoS costs forecast by the ESO which are over and above what a prudent market operator could have foreseen. Deferring costs to a future period will allow Parties to reflect a portion of these exceptional costs into future tariff offerings. Such protection, for exceptional events, that are high impact and low probability, will reduce the level of risk that will need to be factored into future tariffs and facilitate effective competition in the generation and supply of electricity. In our view this will, as a result, lower the long-term costs to consumers.</p> <p>For Parties operating in shorter term markets the change will significantly reduce the BSUoS risk that will need to be factored into offer prices and will allow more fundamental drivers of costs to determine the merit order of offers. This has the potential to materially lower overall balancing costs over the winter period.</p>
(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);	None:

(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;	Positive: By Ofgem determining the limit this allows more time for funding to be determined and doesn't restrict Ofgem to the WACM's put in front of it. By setting a limit to the amount of exceptional BSUoS costs that can be deferred will help to ensure the continued financeability of the ESO.
(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:
*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.	

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
GEMA	Gas and Electricity Markets Authority
WACM	Workgroup Alternative CUSC Modification

Reference material:

None