

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:	George Moran
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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 checked="" type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E
		<p>Yes.</p> <p>Objective (a): Positive Impact</p> <p>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 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> <p>Applicable Objective (c): Positive Impact</p> <p>As well as introducing a BSUoS cap for these new exceptional circumstances, the modification also reflects the latest view of the ESO of the amount of support than can be provided (£250m). Such a limit to the amount of exceptional BSUoS costs that can be deferred will help to ensure the continued financeability of the ESO.</p>

2	Do you support the proposed implementation approach?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <p>It isn't clear what is meant by "<i>The Proposer requests that the change, if approved, is applied prior to the 1 November 2022 BSUoS bills (for the preceding month of October 2022) issued by the ESO</i>".</p> <p>As BSUoS is billed daily, the change will need to be implemented before the BSUoS bills are issued for the 1st October.</p>
3	Do you have any other comments?	No
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <p>We wish to raise two alternatives.</p> <ul style="list-style-type: none"> Alternative 1: Identical to the Original except it sets the cap at £25/MWh Alternative 2: Identical to Alternative 1 but with the ability for the ESO to review the level of the cap once 60% of the funding limit has been used up and set a higher cap if deemed necessary to facilitate the cap being in place for the whole winter period.

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.	<p>We believe a cap is necessary and will bring material benefits in the form of lower overall balancing costs this winter and lower overall BSUoS rates included in retail tariffs over the long term.</p> <p>Lower winter 2022 balancing costs:</p> <p>Without CMP395 Parties submitting offers into the balancing market this winter will need to factor in the potential for exceptional levels of Half Hourly BSUoS prices. The modification will cap the Half Hourly BSUoS price that will need to be factored in and will therefore reduce overall balancing costs this winter. These reduced costs will flow directly to consumers on pass-through contracts and to those on the domestic default tariff (with a lag).</p> <p>Lower long term BSUoS rates:</p> <p>The modification will also allow Parties to reflect a portion of the exceptional Winter costs into future tariff offerings. Such protection, for exceptional events, that are high impact and low probability, will reduce the level of risk</p>
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		<p>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>Level of the cap:</p> <p>The cap should be set at a level that is likely to provide the greatest reduction in risk premiums for winter 2022 and for longer term retail tariffs. If the cap is set too high it will reduce the benefits of the modification by limiting the reduction in risk premia included in offer prices, as well limiting the amount of exceptional costs deferred to a future period. On the other hand, if the cap is set too low, the benefit of lower risk premia could end well before the end of the winter period, leaving Parties exposed once again to exceptional HH BSUoS prices. This would also reduce the benefits of the modification.</p> <p>We believe a £25 cap strikes the right balance between seeking to ensure the cap is not set too high and seeking to ensure that the £250m lasts for the duration of the winter period. We also consider that a review mechanism that would allow the ESO to increase the cap would provide further mitigation against the £250m not lasting for the whole winter. While, as outlined, there is a trade-off between setting a higher cap and the benefits that can be achieved from this change, we consider it is very important to seek to ensure that a cap is still in place in the final months of winter, when weather and prices have historically been volatile and high.</p>
2	<p>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.</p>	<p>Yes, the benefits we highlight above of introducing a cap are diminished if:</p> <ul style="list-style-type: none"> a) The cap is set too high and as a result limits the reduction in risk premia in offer prices and affects too few settlement periods; or, b) The cap is set too low and as a result the £250m is utilised too quickly <p>Therefore, the ability to re-assess the level of the BSUoS cap at set points during the period is an obvious solution to protecting against both of these undesirable outcomes. It allows a less conservative cap to be set up front, with the ability to adjust this if necessary if the limit is being utilised too quickly.</p> <p>Our view is that it would be better to set the cap at a less conservative level to begin with to seek to maximise the</p>

		<p>benefits of lower offer prices, but with the ability to adjust the cap upwards if the limit is being utilised too quickly.</p> <p>We believe an upwards only adjustment is appropriate as it prevents the potentially perverse outcome of the cap being reduced (to target a £250m deferral) because overall balancing costs return to normal levels (e.g. if geo-political developments result in a material reduction in gas prices).</p>
3	<p>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.</p>	<p>The approach seems reasonable.</p>
4	<p>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>	<p>It is imperative that Generators pay for their share of the deferred costs – otherwise we do not consider the change better facilitates the objectives. It would simply move a material cost (the deferred amount) from one group of parties (generators) to another group of parties (suppliers) at short notice and so with a limited ability for those incurring the additional cost to pass them through to customers. To the extent that Suppliers and Generators have already contracted for Winter 2022 and 2023/24 it would represent a windfall gain to generators and loss to suppliers.</p>
5	<p>Do you think it is appropriate to introduce a Supplier BSUoS cap only or a BSUoS cap for Suppliers and Generators?. Please</p>	<p>Our preference is for the cap to be applied to both Suppliers and Generators. This is because applying the cap to suppliers only will not deliver the benefit of significantly reduced BSUoS risk being factored into offer prices in the balancing market this winter. This will lead to higher overall balancing costs over the winter period compared to a cap that also applies to Generators.</p>

	provide the rationale for your response.	
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.	<p>Yes, we believe introducing a formal limit of £250m, based on the ESO's view of the amount of support it can provide, is an efficient and appropriate mitigation to build into the CUSC.</p> <p>We note the point in the consultation that £250m is a relatively small portion of the forecast BSUoS costs. We consider that in an ideal world the amount that could be deferred would be higher, but this cannot be at the expense of the financeability of the ESO. We also consider £250m to be a material amount and that the introduction of a cap will also reduce total balancing costs this winter.</p>
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 seems sensible.
8	<p>Does the CMP395 Original proposal or 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>	<p>We consider the workgroup's assessment of impacts to be reasonable with one exception. The benefit of reduced winter balancing costs as a result of CMP395 has not been captured in the consumer impacts section.</p> <p>For customers on the default tariff cap BSUoS costs are passed through on a lagged basis. Therefore, any reduction in winter balancing costs as a result of CMP395 will be fully passed through to these consumers.</p> <p>Similarly, business customers on pass-through contracts will fully benefit from this reduction in winter balancing costs.</p>
9	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	<p>Yes, this seems obvious, although it is difficult to quantify.</p> <p>Generators submitting offers into the balancing market will need to make an assumption on BSUoS prices and in the current environment will need to factor in the potential for exceptional levels of Half Hourly BSUoS prices. The modification will cap the Half Hourly BSUoS price that will need to be factored in and will therefore reduce offer prices and overall balancing costs this winter.</p>

	<p>for your response.</p> <p><i>Confidential Information can be shared with Ofgem directly particularly where it relates to Ofgem's Urgency Criteria.</i></p>	
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