

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:	Phil Broom
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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 Click or tap here to enter text.
2	Do you support the proposed implementation approach?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No Click or tap here to enter text.
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 checked="" type="checkbox"/> No Click or tap here to enter text.

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.	A cap on BSUoS is likely to be risk reducing in the near term and as such should lessen risk premia in the electricity cost stack (both for generators and suppliers). Any deferred cost in 2023/24 charging year should not introduce additional risks in the charge recovery period because the deferred costs (or the vast majority of the deferred costs) will be known prior to the delivery period. Therefore, on the whole the cost deferral should be risk reducing and provide better cost transparency for consumer budgeting. This is true to some extent irrespective of the cap value, whether £15 or some other amount.

		However, any deferred costs will add to consumer bills (both domestic and non-domestic) at a very sensitive time, given rising wholesale prices.
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.	No, the BSUoS cap should be set at a fixed amount for the duration of the measure, subject to the ESO's funding capability. An in-period re-assessment of the cap would undermine the risk reducing element of the proposal and hence a fixed cap is preferred even if for a shortened duration.
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, because this provides better visibility and notice of future costs and allows for a degree of budgeting.
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.	Any deferred costs should be repaid according to the charging methodology when the costs originate. Therefore if costs are deferred from 22/23 charging period then generators and suppliers should repay on 50/50 basis, otherwise any cost transfer would unfairly burden consumers (if the CMP308 method was applied).

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 BSUoS cap still has value because it is likely to be risk reducing by reducing the level of BSUoS risk premia in supplier pricing models. Additionally a benefit of a supplier-only cap model then it is likely that the ESO funding cap would not be reached or would be reached much later. Also, under a supplier only cap the administration would be much simpler as generators would not be required to repay in 2023/24 charging year. It is possible that a combined generator and supplier cap will deliver extra value via a reduced generator risk premia, although this assertion assumes that generator pricing is cost based rather than relative pricing.
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 the ESO should inform the funding limit within reasonable bounds such that it does not inhibit their operations.
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, weekly reporting initially followed by daily reporting when nearing the funding limit.
8	Does the CMP395 Original proposal or any of the potential alternative solutions impact your business and/or end consumers. If so, how? Confidential Information can be shared with Ofgem directly particularly where it relates to Ofgem's Urgency Criteria.	Capping BSUoS has the potential to be risk reducing for future fixed price consumer contracts.

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><i>Confidential Information can be shared with Ofgem directly particularly where it relates to Ofgem's Urgency Criteria.</i></p>	<p>Yes, as discussed in Q1 and Q5.</p>