

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:	Simon Vicary
Company name:	EDF Energy Customers Limited
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Phone number:	07875110961

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?	<p>Mark the Objectives which you believe each solution better facilitates:</p> <table border="1"> <tr> <td>Original</td> <td><input checked="" type="checkbox"/>A</td> <td><input checked="" type="checkbox"/>B</td> <td><input checked="" type="checkbox"/>C</td> <td><input type="checkbox"/>D</td> <td><input type="checkbox"/>E</td> </tr> </table> <p>We consider the proposal better facilitates Applicable Objectives a, b and c.</p> <p>a. Positive: We believe this proposal will have a positive impact on consumers as, during this exception period where the conflict in Ukraine is driving energy prices to extreme highs, it spreads the recovery of a portion of the exceptional BSUoS costs into a future year. Despite the relatively small cost being deferred against exceptional wholesale costs (£250m limit), any relief provided to consumers would be welcome. It reduces the risk of further destabilisation of industry participants, to mitigate against further insolvencies that would simply lead to greater costs for consumers, and further disruption of the market.</p> <p>b. Positive: This enables all costs incurred by transmission licensees to be recovered, but over a period of time that is more manageable and will drive greater payment from industry participants. Paradoxically, seeking to recover costs in a shorter period (i.e. by not introducing this modification) could ultimately result in less cost being recovered by transmission licensees due to the risk of driving further industry insolvency and non-payment leading to stranded costs.</p> <p>c. Positive: This is fully consistent with para (a), similar in approach to previous modifications that have been approved and adopted successfully.</p> <p>d. Neutral</p>	Original	<input checked="" type="checkbox"/> A	<input checked="" type="checkbox"/> B	<input checked="" type="checkbox"/> C	<input type="checkbox"/> D	<input type="checkbox"/> E
Original	<input checked="" type="checkbox"/> A	<input checked="" type="checkbox"/> B	<input checked="" type="checkbox"/> C	<input type="checkbox"/> D	<input type="checkbox"/> E			

		e. Neutral: There should be little, if any, system impact as the change could use relatively simple manual processes based on those from CMP381.
2	Do you support the proposed implementation approach?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <p>The urgency granted by Ofgem clearly demonstrates the significant impact this modification can have on industry participants. Furthermore, based on our own forecasts of BSUoS we think it is important to implement this change.</p>
3	Do you have any other comments?	Without this modification we believe that that excess unbudgeted BSUoS costs could contribute to more industry insolvencies that will increase further the risks to the system regarding safety and reliability. We consider this modification to be one of many critical actions that are required urgently to stabilise the energy sector during a period of unprecedented crisis. Protecting the sector, and ensuring it is able to operate through and beyond this crisis period, will bring benefits to society as a whole who are dependent on a stable energy market to function.
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 <p>Not at this time, but we reserve our right to do so as a workgroup member.</p>

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>The ESO's September forecast is for BSUoS to average £15/MWh across Winter 2022, whereas in July their forecast for the same period was only £8/MWh. This equates to an increase in cost of £1.8bn.</p> <p>Consumers and industry parties are no better placed than the ESO to forecast such an increase so we consider a cap lower than the proposed £15/MWh would be more appropriate.</p> <p>Winter 2021 out-turned at an average of only £9/MWh, significantly below the ESO's current forecast for Winter 2022.</p> <p>Across Winter 2021 there was £360m of cost where BSUoS exceeded £15/MWh.</p> <p>This compares to £800m of cost where BSUoS exceeded £8/MWh and £630m of cost where BSUoS exceeded £10/MWh.</p>
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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.	We think that any mechanism for re-assessment of the BSUoS cap will make deferral over complex and not give consumers and industry parties certainty of how high BSUoS could be.
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, we agree with the proposed approach to defer the additional BSUoS costs above the cap to the 2023/2024 charging year, commencing from 1 April 2023.
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.	It is clear that CMP395 must not impact the implementation of CMP308. Therefore, any recovery of deferred costs from both generation and demand must be through a separate methodology from the one being introduced into the ESO systems by CMP308 from 1 st April 2023.
5	Do you think it is appropriate to introduce a Supplier BSUoS cap only or a	A BSUoS cap for Suppliers and Generators is appropriate as giving Generators more certainty over their BSUoS costs may help to limit Offer prices, and therefore balancing costs.

	BSUoS cap for Suppliers and Generators?. Please provide the rationale for your response.	We do not think it is appropriate to just introduce a Supplier BSUoS cap as it will not achieve this potential balancing costs benefit for consumers.
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>The overall £250m limit is small compared to the overall impact on the energy industry, although it could provide time for consumers to budget for these exceptional costs at a time of already extreme power prices.</p> <p>The ESO's September forecast is for BSUoS to be £3.8bn across Winter 2022, compared to the out-turn for the same period in 2021 of £2.2bn. This is a difference of £1.6bn.</p> <p>Therefore, we would like to see the ESO and Ofgem seek more innovative funding arrangements, such as from HM Treasury, to increase the limit significantly above £250m.</p> <p>We appreciate that this may not be possible within the Urgent timescale of this mod but could be done during the Winter period with a subsequent amendment.</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, we agree that reporting of the percentage utilisation of the deferred amount should be in line with that introduced for CMP381 as it seemed to work well.
8	Does the CMP395 Original proposal or any of the potential alternative solutions impact your business and/or end consumers. If so, how? <i>Confidential Information can be shared with Ofgem directly particularly where it relates to Ofgem's Urgency Criteria.</i>	We believe this proposal will have a positive impact on consumers and all industry parties by reducing uncertainty and risk.

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>A cap on BSUoS across Winter 2022 should reduce the levels of risk premia that parties would otherwise need to charge.</p>
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