

Code Administrator 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 16 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:

- 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;*
- 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);*
- 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;*
- 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 Code Administrator Consultation questions							
1	Do you believe that the Original Proposal and/or WACM1, WACM2, WACM3, WACM4 and WACM5 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
		WACM1	<input checked="" type="checkbox"/> A	<input type="checkbox"/> B	<input checked="" type="checkbox"/> C	<input type="checkbox"/> D	<input type="checkbox"/> E
		WACM2	<input checked="" type="checkbox"/> A	<input type="checkbox"/> B	<input checked="" type="checkbox"/> C	<input type="checkbox"/> D	<input type="checkbox"/> E
		WACM3	<input checked="" type="checkbox"/> A	<input type="checkbox"/> B	<input checked="" type="checkbox"/> C	<input type="checkbox"/> D	<input type="checkbox"/> E
		WACM4	<input checked="" type="checkbox"/> A	<input type="checkbox"/> B	<input checked="" type="checkbox"/> C	<input type="checkbox"/> D	<input type="checkbox"/> E
		WACM5	<input checked="" type="checkbox"/> A	<input type="checkbox"/> B	<input checked="" type="checkbox"/> C	<input type="checkbox"/> D	<input type="checkbox"/> E
		<p>The Original and all alternatives are better than the baseline for objectives a and c for the reasons described below, and in line with previously approved modifications.</p> <p><i>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;</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 terms. If it under-forecasts 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 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, to absorb some of these BSUoS costs whilst smaller Parties may not</p> <p><i>a. 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>b. 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>Positive</p> <p>As well as introducing a BSUoS cap for these new exceptional circumstances, all options also reflect 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. Furthermore, WACM5 alone amongst the options allows for the benefits of CMP395 to be extended if further funding (beyond the initial £250m) is available (such as from the recently announced Bank of England facility for energy market participants, such as the ESO, namely the 'Energy Markets Financing Scheme').</p>
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		<p><i>c. 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>d. Promoting efficiency in the implementation and administration of the system charging methodology.</i></p> <p>Neutral</p> <p>Overall, WACM5 is our preferred option of the seven available (Original, five WACMs and the baseline). If BSUoS is as forecasted, then the £15/MWh cap and £250m (as per the original and WACM5) is a reasonable balance between providing sufficient relief for the whole period.</p> <p>However, if there are large periods of market disruption this winter the whole £250m fund will be used up very quickly regardless of the cap in place, be it £15 or £40. Under WACM5, the Authority could provide immediate reassurance to the market and end consumers, that a cap (at a level determined, at the time, by the Authority) will continue, thus saving millions in Balancing Costs per Settlement period, due to not having to forecast BSUoS during what would, in that scenario, be turbulent times. Those cost reductions will flow through to the end consumer on top of the relief automatically provided by deferring BSUoS to 2023/24.</p> <p>In such a scenario (based on the experience to date with CMP345, CMP381 and now CMP395) this immediate reassurance to stakeholders could not realistically be achieved through an urgent modification process, especially if an event happened outside of working hours. WACM5 therefore is; in the circumstances being envisaged as possible this winter; an appropriate solution to this concern.</p> <p>In terms of funding the Energy Markets Financing Scheme make this WACM5 alternative a practical reality.</p>
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?	<p>We feel that the £15/MWh cap is appropriate to cover the whole October to March period based on the £250m fund. However, if there is a market event such as July 16th 2022 (or worse) then that fund limit could be used within a day regardless of the cap in place. Without the ability to readjust the fund (above £250m) at very short notice the motivation will be to then choose a far higher cap amount to reduce the risk of the cap not applying for the whole period. This then risks severely diluting any benefit arising from the modification (as we'd seen with CMP381). This was why we brought forward WACM5. With the option (via WACM5) to utilise new funds (over £250m) immediately with no modification this covers those unforeseen events, i.e. constraints around London, interconnector flow issues, gas emergencies, etc., etc., whilst providing the benefits and relief a different cap delivers i.e. BAU (albeit BAU with higher than average BSUoS charges). In terms of evidence and the modification process industry and interested parties have been consulted and provided their views on this same subject and the Authority will have made a decision, three times within the last two years. This is not something new. The ability to react very quickly, in extremis, to an event and provide reassurance to stakeholders, far outweighs essentially what could (if a further modification had to be raised this winter) be considered as no more than a box ticking exercise. WACM5 is different, it's unique but its suitable and appropriate for the current times. Otherwise it could either be accepting ski high BSUoS, suspending the market or choosing an alternative which provides little benefit.</p>