

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:	George Moran
Company name:	Centrica
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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>To varying degrees, I believe the Original and all WACMs better facilitate applicable objectives (a) and (c) for the reasons set out in more detail below. The key differences in the options relate to the level of the cap and whether there should be an in-period review mechanism. The benefits 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>On balance I consider the best option to be WACM4 (£25/MWh cap with an in-period review mechanism). A £25/MWh cap reasonably represents an exceptional HH BSUoS price – it is broadly equivalent to the mean plus two standard deviations of HH BSUoS prices over the most recent 12 month period. I also consider 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. The review mechanism included with WACM4 provides further mitigation against the £250m not lasting for the whole winter.</p> <p>Objective (a): Positive Impact For Parties (suppliers and generators) with longer term contracts, all options 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</p>					

		<p>effective competition in the generation and supply of electricity. In my view this will, as a result, lower the long-term costs to consumers. If the cap is set too high, it may limit the degree of cost pass-through achieved and so reduce the beneficial impact on future risk premia.</p> <p>For Parties operating in shorter term markets all options will reduce, to varying degrees, 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. 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. On the other hand, if the cap is set too low, the £250m deferral limit could be reached early and so 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>As set out above, I consider WACM4 to provide the best balance between these competing objectives.</p> <p>Applicable Objective (c): Positive Impact 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.</p>
2	Do you support the proposed implementation approach?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No The legal text for WACM4 reflects the intent of the proposal.
3	Do you have any other comments?	No