

Workgroup Consultation Response Proforma

CMP381: Defer exceptionally high Winter 2021/22 BSUoS costs to 2022/2023

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 **29 December 2021**. 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:	Joshua Logan
Company name:	Drax Group Plc
Email address:	Joshua.Logan@drax.com
Phone number:	07934296838

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.*

**Objective (d) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).*

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>Yes, we believe the original proposal would better facilitate the Applicable Objectives.</p> <p>The current market conditions are driving extremely high BSUoS prices which couldn't have been reasonably forecast by a prudent market participant. This is supported by the fact BSUoS costs from August – November have consistently and materially been higher than the ESO's forecast.</p> <p>Looking ahead into Q1 2022, we expect exceptionally high BSUoS costs to continue as system margins continue to look tight.</p> <p>Applicable Objective a - Positive</p> <p>A significant proportion of BSUoS costs in Q1 2022 will not have been priced into wholesale market power sales or fixed consumer supply contracts. As such, market participants will be unable to recover these exceptionally high costs in the near-term.</p> <p>For the market to operate efficiently, suppliers and generators need to forecast and pass through third party costs such as BSUoS. Volatile and unforeseeably high BSUoS costs can disrupt competition in both the generation and supply markets and affect the financial resilience of market participants.</p> <p>If no action were taken, we agree with the proposer that there would be a significant financial exposure for market participants. This risks further insolvencies and consequential mutualisation costs being borne by suppliers, and ultimately consumers. This would cause further disruption to the market and have a detrimental impact on competition and consumers.</p> <p>A BSUoS price cap as proposed would provide some relief to market participants over Q1 2022. By spreading costs above the cap into the 2022/23 charging year, they will be more stable and</p>

		<p>forecastable compared to the status quo. Suppliers and generators would be able to recover a greater proportion of costs through wholesale market transactions and fixed contracts with consumers.</p> <p>In summary, CMP381 will reduce extreme market volatility which will benefit competition and has the potential to promote long-term market confidence.</p> <p>Applicable Objectives b, c, d & e – Neutral</p> <p>We believe this proposal is neutral against all other CUSC objectives.</p>
2	Do you support the proposed implementation approach?	We support implementation from 17 th January 2022 effective from 1 st January 2022. Given BSUoS for the 1 st January isn't billed until 26 th January, the cap can be applied to settlement periods from the 1 st January even if the modification isn't implemented until the 17 th .
3	Do you have any other comments?	No.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No.

Specific Workgroup Consultation questions

5	The CMP381 Original proposes to set a £10/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>Yes, a BSUoS price cap will protect market participants from exceptionally high BSUoS cost settlement periods over the period. It will also reduce average BSUoS over Q1 2022 which is anticipated to outturn at exceptionally high levels – far greater than parties could have reasonably forecast.</p> <p>Figure 3 shows various distributions of BSUoS costs over different time periods. It can be seen from the distribution covering September – November 2021 that BSUoS costs are out-turning higher than £10/MWh considerably more than they were in previous periods. This data suggests that BSUoS above £10/MWh can be regarded as exceptional. The statistical analysis supports setting a cap at the £10/MWh level.</p>
6	The CMP381 Original seeks to limit the	Yes, we believe introducing a limit of £300m is proportionate. This strikes a balance between providing

	<p>additional BSUoS costs that would be deferred to £300m. Do you think it is appropriate to introduce a limit and if so to what value? Please provide the rationale for your response.</p>	<p>near-term relief to market participants and not disproportionately impacting the ESO's financial position. The ESO has indicated in modifications CMP361/362 they can provide a £300m working capital facility to manage the of fixing BSUoS.</p> <p>If the deferral limit is set lower, this increases the risk of the limit being reached and the scheme ending before 31st March 2022. This would erode the benefits of this modification as market participants would still be exposed to exceptional BSUoS costs.</p>
7	<p>The CMP381 Original seeks to defer the additional BSUoS costs above the cap to the 2022/23 charging year. Recovery of the deferred costs is proposed to commence from 1 April 2022. Do you agree with this approach? Please provide rationale for your response.</p>	<p>Yes, deferring BSUoS costs above the cap to 2022/23 is practical and proportionate. Recovering the deferred money across the whole charging year would give generators and suppliers a better opportunity to recover the costs from consumers and wholesale market transactions. Suppliers would be able to price the deferred cost into fixed contracts which haven't yet been agreed.</p>
8	<p>What reporting frequency and end of CMP381 BSUoS Support Scheme notification would be of most use to you? Please provide justification for your response.</p>	<p>We support the ESO's proposal for weekly reporting, transitioning to daily once 80% of the total limit has been reached.</p> <p>Under CMP350, the ESO was required to provide the market two business days' notice prior to ending the BSUoS support scheme, our preference is for the same approach to be used in CMP381. However, given the exceptional level of current BSUoS volatility, we acknowledge it will be much more challenging for the ESO to establish exactly when the deferral limit will be met. We are comfortable with the ESO's proposal to provide two business days' notice on a reasonable endeavours basis.</p>
9	<p>CMP381 Original would apply to BSUoS prices with effect from 1 January 2022. Do you have any concerns with this approach? Please provide</p>	<p>No, we're comfortable that given the exceptional circumstances, the BSUoS price cap can be applied from 1st January 2022. Given the bill for the 1st isn't issued until the 26th, the cap can effectively be applied from the 1st.</p> <p>Should Ofgem approve any alternatives which take effect after the 1st, we would also be comfortable with a consistent approach.</p>

	rationale for your response.	
10	<p>Does the CMP381 Original Proposal or any of the potential alternative solutions impact your business and/or end consumers. If so, how?</p> <p><i>Confidential Information can be shared with Ofgem directly particularly where it relates to Ofgem's Urgency Criteria.</i></p>	<p>Yes, we will incur less BSUoS costs in Q1 2022 and more BSUoS costs in the 2022/23 charging year. The primary benefit of this is that we are better able to recover exceptionally high BSUoS costs from our customers.</p> <p>Additionally, our large customers on passthrough contracts are currently exposed to the exceptionally high and volatile BSUoS charges. We would anticipate that deferring costs and spreading them across the 2022/23 charging year would provide some relief and stability to these customers.</p>