

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.i.mullen@nationalgrideso.com or cusc.team@nationalgrideso.com

Respondent details	Please enter your details
Respondent name:	Lauren Jauss
Company name:	RWE Supply & Trading GmbH
Email address:	lauren.jauss@rwe.com
Phone number:	07979 933445

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	<p>Do you believe that the Original Proposal or any of the potential alternative solutions better facilitates the Applicable Objectives?</p>

We agree that the Original Proposal better facilitates Applicable Objectives a), b) and c) than the Baseline because we believe that this proposal is likely to result in fewer insolvencies of energy market participants that would have otherwise occurred and which would have led to greater costs for consumers, and further disruption of the market.

The first BSUoS Taskforce concluded that it was not feasible to charge any of the elements of the BSUoS charge on a forward-looking basis to positively influence behaviour. The Second BSUoS Taskforce noted that businesses struggle with BSUoS uncertainty as it adds to cost and makes it more difficult to plan. The now exceptionally high energy market prices, including BSUoS, have made this defect more acute and more urgent to address.

In our view this proposal is a relatively simple and short term solution to partially deliver some of the BSUoS Taskforce recommendations which are more fully addressed in CMP361&362, but not due to be implemented until April 2023.

We would highlight that in the CMP361&362 Final Modification Report, National Grid ESO have estimated and presented a P99 Quarterly BSUoS cost variability for Financial Year 2023/24 (where we might normally have expected more rather than less variability than this financial year) of £264m. Meanwhile the table in the workgroup consultation report for this proposal illustrates that there is already a difference of £411m in BSUoS costs between this Q4 to date and Q3 this year (which had been the highest ever quarter) and £500m between this Q4 to date and Q1 this year. We believe this is a good illustration of the fact that no parties will have been reasonably expected to account for BSUoS costs at

		<p>these levels when prudently hedging their Q1 2022 power price exposure in the forward energy market.</p> <p>We also believe it is indisputable that this is an exceptional year because the step change in energy prices, including BSUoS, is largely as a result of an exceptionally rapid global economic recovery from the Covid pandemic and could not have been foreseen.</p>
2	Do you support the proposed implementation approach?	Yes
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	<p>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>	<p>We believe setting a cap, as opposed to for example a blanket reduction, is a particularly effective approach because it will significantly reduce pricing of unpredictable tail risk into prompt wholesale electricity prices. It is very difficult to forecast the frequency and level of price spikes, but we think the practice of removing all prices above an historic P99 level of approximately £10-£15/MWh (depending on the period chosen) is appropriate and we agree that £10/MWh is a reasonable value at which to set a cap.</p>
6	<p>The CMP381 Original seeks to limit the 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>We recognise that there is probably a limited amount of cash available to fund the deferral, and £300m would be a reasonable source of funding in the circumstances. It is entirely possible that this limit will be exceeded during the proposed timescales for the scheme. We note that the ESO has indicated that only £200m might be available. Any uncertainty in the total amount of cash available will be incorporated into increased uncertainty of reduced BSUoS prices towards the end of Q1 2022 and also increased BSUoS prices during FY2022/23. This may be appropriate if the ESO is not able to commit up to £300m.</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>The deferral of the cash payment associated with these BSUoS costs may be a significant benefit to some parties to help them avoid insolvency and allow them to plan their cash flow with more notice.</p> <p>If market prices for FY 2022/23 increase to take up to £200-300m increased BSUoS cost into account, then deferral of the charges will have limited P&L benefit for parties depending on how much of this delivery period they have already hedged.</p> <p>This increase in wholesale prices for FY 2022/23 may have further positive and/or negative implications for credit and collateral requirements for different parties. We consider that it is important to avoid deferral of BSUoS costs in this urgent modification beyond March 2022, in order to avoid interaction with the anticipated implementation of CMP308 and CMP361&362 which would require further consideration and review to identify any unintended consequences.</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 believe the ESO should ideally commit a specific figure towards BSUoS deferral and that there should be a daily report of the percentage utilisation of the facility. We are not aware of any reason not to provide full transparency. This will be required so that entities can appropriately price their wholesale market bids and offers to account for BSUoS costs as best they can for the balance of Q1 2022.</p> <p>If the level of the cash facility is uncertain and in the absence of a regular report, parties are likely to price in more BSUoS cost risk. Parties will estimate higher BSUoS costs when transacting in the market beyond a few days ahead when there is a risk that the scheme will have ended.</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 rationale for your response.</p>	<p>We believe the main objective of this proposal is to reduce unforeseen costs that could not have been accounted for when forward hedging - it is largely addressing margins that will have been fixed months ago and are now negative due to exceptional circumstances. This aspect will not be impacted by uncertainty of an Ofgem decision. However, it is difficult to say how this proposal and any WACMs will impact prices in the short term between 1 Jan and an Ofgem decision if there is a chance that high BSUoS prices (which we have established are difficult to predict anyway) have a chance, but are not certain, of being capped.</p>

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>CMP381 will defer a proportion of our BSUoS payment and therefore along with all other CUSC parties liable for BSUoS, it is likely it will increase our cash reserves available during the charging year.</p>
----	---	--