

**Code Administrator 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](mailto:cusc.team@nationalgrideso.com) by **5pm on 10 January 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](mailto:paul.j.mullen@nationalgrideso.com) or [cusc.team@nationalgrideso.com](mailto:cusc.team@nationalgrideso.com)

Respondent details	Please enter your details
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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:**

- 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 Code Administrator Consultation questions	
1	<p>Do you believe that the CMP381 Original Proposal and/or WACM1, WACM2, WACM3, WACM4, WACM5 better facilitates the Applicable Objectives?</p>

**All options better facilitate ACO (a)** by providing some mitigation against the exceptional losses likely to be being incurred by Parties because of the current levels of BSUoS costs. Deferring costs to a future period will allow Parties to reflect 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 effective competition in the generation and supply of electricity. In our view this will, as a result, lower the long-term costs to consumers. The change will also mitigate against the risk of further insolvencies that would lead to greater costs for consumers in both the short term (SoLR costs) and long term (reduced competition).

**Original:** We do not support retrospective implementation and so the benefit of the Original is reduced due to this aspect of the proposal.

**WACM1 (or WACM2 depending on the support limit) is the best option** as it does not include retrospective implementation and is based on the analysis we included with our workgroup consultation response which objectively justifies £10/MWh as the level of cap required to return the overall average BSUoS rate to one which a prudent market participant could have

		<p>reasonably foreseen (based on a P80 risk adjustment). The support limit will need to be assessed and agreed between Ofgem and the ESO, but we consider industry should be provided with as much support as possible at this exceptional time and so consider £300m is appropriate. However, if support is limited to £200m then WACM2 would be best.</p> <p><b>WACM3</b> – applies a £15/MWh cap – this would have resulted in a capped average BSUoS rate of £7.23/MWh for Autumn 2021, which, based on the analysis included in our workgroup consultation response, would be equivalent to a market participant applying a risk adjustment of just under the P99 level (£5.26/MWh central view + £2.11/MWh P99 adjustment = £7.37/MWh). We consider a P99 risk adjustment to be excessive and unrepresentative of a prudent market participant acting reasonably.</p> <p><b>WACM4 and WACM5</b> – apply a £20/MWh cap and £50/MWh cap respectively which would equate to a risk adjustment in excess of a P99 level. We do not believe that such an adjustment can be considered as appropriate to capture exceptional BSUoS costs which could not have been reasonably foreseen by a market participant acting prudently. For this reason, we assess these WACMs as delivering the least benefit.</p>
2	Do you support the proposed implementation approach?	We would recommend implementation 1 business day after an Ofgem decision.
3	Do you have any other comments?	<p>We note the continued conflation in the consultation document between exceptional Half-hourly BSUoS rates and exceptional total BSUoS costs.</p> <p>The issue, as we understand from the Proposal, is that the <b>totality</b> of BSUoS costs observed to date in Winter 2021</p>

have been much higher than consumers and industry parties could have reasonably forecast. The totality of BSUoS costs is represented by the average BSUoS rate and so the issue is that the **average BSUoS price level** is exceptional.

The average BSUoS price is exceptional due to the increase in the frequency of 'high' BSUoS prices across the distribution curve, not just at the extreme end of the distribution curve. Therefore, we believe that debate surrounding what constitutes an exceptional Half Hourly BSUoS rate, or data point, fails to properly address the issue raised by the Proposal. The question is not '**what constitutes an exceptional HH BSUoS price?**' but rather '**what HH cap is required to reduce the exceptional average BSUoS price level to one which could have been reasonably foreseen?**'.

The analysis we provided with our workgroup consultation response objectively derives **£6.23/MWh** as an average BSUoS rate which a prudent market participant could have reasonably foreseen for Autumn 2021 and shows that a £9.87/MWh cap would have been necessary to deliver this prudent average BSUoS rate. We therefore believe that a **£10/MWh cap** is necessary to reduce average BSUoS prices to a level which could have been foreseen by a prudent market participant acting reasonably. It is not necessary for £10/MWh to be regarded as an 'exceptional' half-hourly BSUoS rate to accept that such a cap on half-hourly rates is required to defer the appropriate amount of 'exceptional' total BSUoS costs.