

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:	George Moran
Company name:	Centrica
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Phone number:	07557 611983

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.*

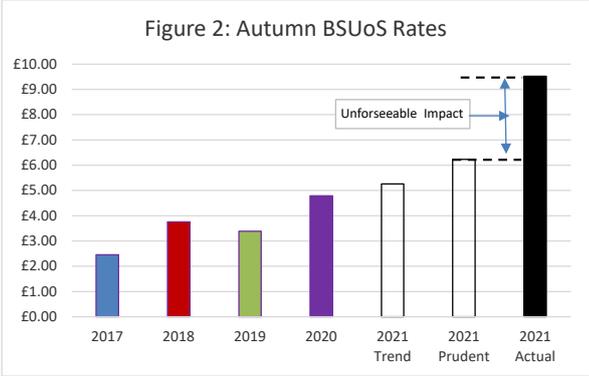
**Objective (d) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).*

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.</p> <p>Objective (a): Positive Impact</p> <p>The proposal will provide some mitigation against the exceptional losses likely to be being incurred by Parties because of the current levels of BSUoS costs.</p> <p>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.</p> <p>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).</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?	No.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	Yes – our Alternative will be identical to the Original, but with implementation 1 business day after an Ofgem decision.

Specific Workgroup Consultation questions		
5	The CMP381 Original proposes to set a	Yes, it is appropriate to set a cap and we consider £10/MWh is the appropriate cap value.

<p>£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>The issue, as we understand from the Proposal, is that the totality of BSUoS costs observed to date in Winter 2021 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 is exceptional.</p> <p>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. This is demonstrated by Figure 3 in the consultation document. 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 to one which could have been reasonably foreseen?'.</p> <p>We have produced analysis which:</p> <ol style="list-style-type: none"> 1. Objectively derives £6.23/MWh as an average BSUoS rate which a prudent market participant could have reasonably foreseen for Autumn 2021. 2. Derives the HH cap (£9.87/MWh) which would have delivered this prudent average BSUoS rate. <p>Objectively derived prudent BSUoS rate - £6.23/MWh:</p> <p>Using a trend of observed BSUoS rates over previous autumns to project what a market participant could have anticipated for autumn 2021 provides an estimated BSUoS rate of £5.26/MWh. This 'central' view is not too dissimilar, but is higher, than the forecast provided by National Grid ESO in August (just prior to the autumn) of £4.95/MWh. We use this as a sense check for the objectively constructed trend estimate of £5.26/MWh. It is not surprising that this is higher than the ESO forecast since it includes unadjusted exceptional BSUoS costs from the Covid lockdown period in Autumn 2020 to derive the trend value and so could already be considered to include an element of prudence.</p> <p>We then build in an error margin to reflect the likely actions a prudent market participant would take when seeking to price BSUoS for autumn 2021 ahead of time. For this, we have used the BSUoS variability analysis conducted by the ESO and published as Table 4 in the</p>
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		<p>CMP361 Code Administrator consultation. That analysis estimates a quarterly P80 level of BSUoS cost variability of £122m, which equates to £0.97/MWh for Autumn 2021. Adding this P80 variability risk to the central view above gives a prudent BSUoS estimate of £6.23/MWh. The chart below shows how this prudent estimate compares with Autumn 2021 outturn BSUoS rates.</p>  <p>Cap to deliver prudent BSUoS rate - £9.87/MWh:</p> <p>To find the cap level required to produce the prudent BSUoS rate for Autumn 2021 (i.e. £6.23/MWh as described above), we have taken published half hourly SF BSUoS prices for Sep-21 to Nov-21 and utilised Excel’s goal seek functionality. The resulting HH BSUoS cap required is £9.87/MWh. We therefore consider the £10/MWh cap proposed in the Original is appropriate.</p> <p>We have included a spreadsheet with our response (CMP381 – supporting data.xlsx) which provides the supporting data and calculations behind this analysis.</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>Yes, it is appropriate to set a limit. The 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.</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</p>	<p>We agree.</p>

	deferred costs is proposed to commence from 1 April 2022. Do you agree with this approach? Please provide rationale for your response.	
8	What reporting frequency and end of CMP381 BSUoS Support Scheme notification would be of most use to you? Please provide justification for your response.	We are comfortable with the approach proposed by the ESO of weekly reporting, turning to daily reporting once 80% of the limit has been reached.
9	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.	We consider it would be more appropriate to apply any cap to the BSUoS prices one business day after an Ofgem decision to reduce the uncertainty faced by market participants ahead of a decision.
10	Does the CMP381 Original Proposal or any of the potential alternative solutions impact your business and/or end consumers. If so, how? <i>Confidential Information can be shared with Ofgem directly particularly where it relates to Ofgem's Urgency Criteria.</i>	We consider the workgroup assessment of impacts presented in the consultation reasonably captures the main impacts on parties and on consumers. For the reasons given in reply to question 1, we believe this impact will be one of long-term benefit to consumers.