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 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 or cusc.team@nationalgrideso.com

Respondent details	Please enter your details
Respondent name:	Andy Manning
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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	Do you believe that the CMP381 Original Proposal and/or WACM1, WACM2, WACM3, WACM4, WACM5 better facilitates the Applicable Objectives?	We believe that WACM5 better facilitates Applicable Objective (a). We believe that it is in consumers' interests for suppliers and generators to have some protection against extreme BSUoS prices. In the current price environment, an open-ended exposure to BSUoS prices could lead to industry participants pricing in additional risk including, for example, generators bidding into the Balancing Mechanism. WACM5 provides assurance that BSUoS prices will not increase above a certain level, removing the open-ended exposure. The other WACMs and the Original Proposal do not provide this assurance as, under those, there is real possibility that the available funding would be used up, meaning the cap no longer applies. The Original Proposals and WACM1-3 would all have exceeded the available funding within 2 months if commencing from September 2021. We also are concerned the additional costs that consumers will incur (by parties being able to pass-through more costs to consumers) will be higher (with the probable exception of WACM5) than the benefits of reducing risk premia. We have attempted to roughly estimate illustrative impacts on consumers, making use of the analysis provide

		alongside CMP361 and CMP362[1]. Our illustrative analysis shows costs to consumers of up to £50m, with potential benefits of around £8m. Using the data provided in figures 29, 32-33, we estimate around 75% of volume can be viewed as being on 'pass-through'[2] terms, including customers on the retail price cap (and so industry parties are neutral to BSUoS), and 25% on fixed price contracts. This indicates the overall additional costs to consumers, based on an overall limit on amount deferred of £200m, are up to around £50m. This would be offset by fixed price contracts already in place for the period that costs are being deferred to (April 2022-March 2023) as industry parties will still be unable to pass-through any deferred costs to those consumers. We are unable to estimate the percentage of fixed price contracts for that but are confident that it will be considerably below the percentage for the period costs are being deferred from (Q1 2022). This is because we expect the number of customers under the retail price cap to be increasing due to the lack of competitive fixed price deals. We can also use CMP361/2 to estimate the potential benefit to consumers from risk premia. In the CMP 361/2 analysis, the cost of risk capital is around £15.5m[3] under a P95 scenario[4]. Under a P99 scenario, it is stated that the capital requirement increases by

[1] CMP361/362 Annex 4 https://www.nationalgrideso.com/industry-information/codes/connection-and-use-system-code-cusc-old/modifications/cmp361-cmp362

[2] Assuming '6-month fixed contracts' for Domestic and '1-year fixed' for non-Domestic as pass-through
[3] Figure 46 'counterfactual' shows risk capital requirement of around £175m. Applying 9.6% cost of capital gives £15.5m
[4] Assume that parties will hold sufficient capital to guard against all but the worst 5% of potential outcomes (i.e. at a P95 level) and price this into customer tariff offerings

		roughly 50%[5], making the cost of risk capital around £23.2. If we assume that CMP381 would lead to reduction in risk premia from P99 to P95 then this would reduce costs by around £7.7m. We do not believe this can be considered to be an enduring benefit given that CMP361/2 may be implemented from April 2023 (and will manage this risk). In practice, we do not believe parties are likely to price at P99 and so this benefit may well be overstated. Overall, while we accept this analysis can only provide illustrative values, it does clearly show there are legitimate concerns over those proposals that expect to defer significant amounts (£200m or £300m). Industry parties have had the opportunity to provide evidence relating to both their exposure to fixed price contracts and their approach to risk (and how this modification may change it). If sufficient evidence has not been provided, we believe the Original Proposal and WACM1-4 have not been shown to be in the interests of consumers. We believe it is in the interests of consumers for there to be confidence that the cap will remain in place throughout the period, and that there is also confidence that costs outweigh benefits. As the value of the proposed caps increase, confidence also increases. As WACM5 is likely to defer a much smaller amount than all the other options, concerns over costs outweighing benefits are much smaller

[5] Section 5.1.5 (Sensitivity: Parties hold capital for P99 risk)

		whilst effectively removing the open-ended BSUoS price risk. .
2	Do you support the proposed implementation approach?	Click or tap here to enter text.
3	Do you have any other comments?	Click or tap here to enter text.