

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:	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 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>

Yes, we believe the Original Proposal and all WACM's better facilitate the Applicable Objectives, albeit to different extents. Our preferred option is for the Original Solution.

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 to November have consistently and materially been higher than the ESO's forecast.

Looking ahead into Q1 2022, we expect exceptionally high BSUoS costs to continue as system margins continue to look tight.

Based on the analysis, we believe a BSUoS cap of £10/MWh is appropriate and will provide the best level of protection for market participants against unforeseeably high BSUoS costs. In our view, a total deferral limit of £300m is proportionate. We would support the cap being applied from 1st January since the bill isn't issued until the 26th January. As such, our preferred solution is the Original.

Applicable Objective a – All positive to varying extents

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.

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.

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.

A BSUoS price cap 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 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.

In summary, all CMP381 solutions will reduce extreme market volatility which will benefit competition and has the potential to promote long-term market confidence.

Preferred Option

£/MWh Cap

Figure 3 shows various distributions of BSUoS costs over different time periods. It can be seen from the distribution covering September to 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>Setting the cap at a higher level as per some of the WACM's, would result in market participants incurring some unforeseeable BSUoS costs. This reduces the benefit CMP381 has on competition and Applicable Objective (a).</p> <p><u>Deferral Limit</u></p> <p>We believe introducing a limit of £300m is proportionate. This strikes a balance between providing near-term relief to market participants and not disproportionately impacting the ESO's financial position. The ESO has indicated in modifications CMP361/362 that they can provide a £300m working capital facility to manage the cost of fixing BSUoS.</p> <p>Some WACM's propose a lower cap of £200m, 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 some exceptional BSUoS costs.</p> <p><u>Effective Date</u></p> <p>The bill for BSUoS costs incurred on 1st January isn't issued until 26th January. As such, it is possible to have the cap in place from 1st even though an Ofgem decision isn't expected until the 14th. Having the cap in place over the entire period rather than starting from one day after an Ofgem decision provides more protection to market participants from high BSUoS costs. This has a greater positive impact on competition.</p> <p>As per the reasoning set out above, our preferred option is the Original Solution.</p>
2	Do you support the proposed implementation approach?	Yes, we are happy with the proposed implementation approaches for both the Original and WACM's.
3	Do you have any other comments?	N/A