CUSC Alternative Form

CMP381 WACM3:
Defer exceptionally high Winter 2021/22 BSUoS costs to 2022/2023

Overview: This alternative would be the same as the original solution in all respects except the following:

- No retrospective implementation or application. The proposal will apply to BSUoS prices for dates which occur after the implementation date.
- The cap on prices would be set to £15/MWh.
- The limit on how much cost can be deferred to 2022/23 will be £200m.

Proposer : Paul Jones, Uniper UK Ltd

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What is the proposed alternative solution?

This alternative would work in the same manner as CMP381 original proposal in all respects except the following:

- No retrospective implementation or application. The proposal will apply to BSUoS prices for dates which occur after the implementation date.
- The cap on prices would be set to £15/MWh.
- The limit on how much cost can be deferred to 2022/23 will be £200m.

No retrospective implementation/application

The implementation approach for the original proposal is described as a prospective implementation with retrospective application. We believe that the original is in reality a retrospectively implemented modification. Up to the implementation date the legal text will describe how BSUoS is calculated and billed, and this will not refer to capping of prices. Following the implementation date this will change resulting in a retrospectively implemented modification, as the rules applying to a specific date which has already passed will be changed. Retrospective implementation will cause issues for those parties who seek to reflect expectations of BSUoS costs into their operations closer to real time, including the balancing mechanism. If those parties do not know whether the cap is to be applied or not then they will have to take a view on this. Therefore, dispatch of plant may be based simply on differing views as to whether CMP381 is to be implemented or not for the period to which retrospectivity would apply. Additionally, retrospectively applied modifications generally undermine regulatory certainty and therefore confidence in the market. Both of these aspects will undermine competition in the market. This is why we believe an alternative should be raised which removes retrospective implementation.

£200m limit on under-recovery rolled over to following year

We are not in a position to critique ESO's assessment that £200m is the limit on the cashflow exposure it is able to support, so we do not feel we are able to propose a limit higher than this. Clearly a limit of £300m would be better for market participants, but if this cannot be facilitated by ESO then this is likely to prevent the original solution from being implemented. This is why we have proposed a limit of £200m for this alternative.

£15/MWh level of cap

Clearly, some recent BSUoS prices have been exceptional and this will affect both suppliers and generators. It is likely to cause difficulties for participants operating in

different timescales. The level of £10/MWh, however, seems low to us. We accept that this was the level set for CMP350, but we originally argued in respect of CMP345 that £15/MWh was more representative of exceptionally high BSUoS prices. Also, in light of the ESO's position that £200m is likely to be the limit on how much cashflow it is able to carry, we would suggest that a £15/MWh level would seem more appropriate to ensure that the limit is not reached too quickly. Our preference would be to provide protection for the whole period to the end of March and not to frontload it at the beginning of the period by choosing too low a level of cap and reaching the limit sooner. This should allow the benefits to reach a wider range of participants and customers, not just those with volumes weighted more to earlier months.

What is the difference between this and the Original Proposal?

As mentioned above, the differences relate to the implementation approach, the level of cap and the limit on how much cost will be deferred.

What is the impact of this change?

Proposer's Assessment against CUSC Charging Objectives	
Relevant Objective	**Identified impact**
(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;	**Positive:** Removes some of the additional cost exposure and risk from parties affected by exceptionally high BSUoS levels, but shares the burden of managing this amongst Users and NGESO. Removes retrospective application of changes which would have been detrimental to market confidence and work against competition.
(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);	**None**

(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;	**None**
(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and	**None**
(e) Promoting efficiency in the implementation and administration of the system charging methodology.	**Slightly Negative:** Some small implementation effort to put in effect the new mechanism.
*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).	

When will this change take place?

Implementation date:

We suggest an implementation date of two days after a decision from Ofgem to approve the proposal.

Implementation approach:

As with CMP381 original taking into account the different parameter levels and lack of retrospective implementation.

Acronyms, key terms and reference material

Acronym / key term	Meaning
BSUoS	Balancing Services Use of System

Reference material:

1. None.