

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:	Damian Clough
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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 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 – we believe the Original Proposal will better facilitate the Applicable Objectives. Our rationale is detailed below.</p> <p><i>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;</i></p> <p>At the start of the charging year BSUoS costs were forecasted to be £1.9bn. Now, some nine months on, the latest BSUoS forecasts show estimated costs to be £3.5bn. Forecasts for the forthcoming charging year 2022/23 are immediately back down to £1.9bn with the average BSUoS charge back to 3.8 £/MWh dropping from 6.5-8 £/MWh seen in January 2022 to March 2022 as shown in the latest BSUoS forecasts dated December 2021.</p> <p>This shows how difficult it is to forecast BSUoS, how reliant Industry is on the ESO forecasts, and when these drastically change how those changes drive losses into various businesses at a time when they are under severe pressure. Some customers/users are isolated from these costs as they are either on non-pass through (of costs) contracts, or do not pay BSUoS, or are on Fixed Price domestic contracts. Some Users will pay these higher BSUoS costs in the future due to how the domestic price cap works. There are however some I&C customers who will be impacted directly by these costs, between January and March 2022, as they are on pass through contracts.</p> <p>Capping the BSUoS charge will aid competition within the market by producing a more level playing field amongst all users and end consumers. It will also allow Suppliers and Traders to recover BSUoS</p>

		<p>costs from the end user in a timely manner which is ultimately the purpose of BSUoS.</p> <p>If Industry has the expectation that they will be exposed to unpredictable extremes this increased risk will manifest itself in increased risk margins (and associated risk premium) which results in increased costs to the end consumer.</p> <p>b) Neutral</p> <p>c) Neutral</p> <p>d) Neutral</p> <p>e) Neutral</p>
2	Do you support the proposed implementation approach?	<p>Yes – we support the proposed implementation approach.</p> <p>If Ofgem were to approve the modification this would involve capping the Daily BSUoS charge. The Daily BSUoS charge is not known or calculated ahead of time. Rather it can only be determined when the ESO receive the chargeable BSUoS demand data from ELEXON which is 16 Working Days after the relevant Settlement Day. If, therefore, Ofgem approved this modification on the 17th January 2022 the Daily BSUoS charge relating to the 1st January 2022 (and onwards, up to the 31st March 2022, as the modification intended) could be capped (using this approved Modification’s solution) without there being a retrospective change.</p>
3	Do you have any other comments?	<p>Capping the BSUoS charge could also help to bring down BSUoS costs in other ways. Currently within Bids and Offers an assessment of the likely BSUoS charge is made so as to forecast and therefore cover costs (and this will also include a risk premium). If BSUoS was capped it would likely reduce the cost of offers (as well as of risk premia) which would in turn reduce BSUoS costs putting less strain on the ESO’s fund.</p>
4	Do you wish to raise a Workgroup	No

<p>Consultation Alternative Request for the Workgroup to consider?</p>	
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Specific Workgroup Consultation questions	
5	<p>The CMP381 Original proposes to set a £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>Yes, we do support setting a BSUoS cap, to transfer high and unpredictable costs to 2022/23.</p> <p>The cap needs to be set at a rate which transfers a reasonable amount of BSUoS costs from 2021/22. Given the current circumstances, £300m is reasonable. Higher caps risk transferring far less. When considering what is appropriate it is useful to remember the difference between the ESO’s BSUoS forecasts at the start of the year compared to its current forecasts is £1.6bn or circa 84%.</p> <p>It is also clear that £10/MWh, when examining historic BSUoS charges, is <i>extreme</i>. The information contained in Annex 5 to this consultation shows that during periods of unpredictable and <i>extreme</i> BSUoS prices, what is ‘classified’ as <i>extreme</i> drastically increases. This doesn’t mean that the cap should therefore be higher. What is classed as <i>extreme</i> should be based on what Industry could reasonably have expected to have priced into contracts, costs etc, not what is currently happening within an <i>extreme</i> period.</p> <p>Given the ESO’s detailed knowledge and understanding of BSUoS; compared to industry stakeholders; and therefore the reliance that the industry can, up to now, place on their forecast of BSUoS (and thus what industry would, reasonably, have considered adding into their costs/prices) then £10/MWh is therefore an appropriate cap.</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</p>
	<p>As the under recovery is being funded by the ESO’s credit facilities then a limit must be made. The work undertaken previously with respect to CMP361 has indicated that an under recovery of £300m could be supported by the ESO’s own credit facilities. This is only a small proportion (circa 19%) of the change in current forecast outturn costs for 2021/22 when compared to historic forecasts of the same year; i.e. an extra £1.6bn on top of the ESO’s March 2020 forecasts. Ideally therefore more funds would be available but the under recovery is limited by the ESO’s own credit facilities</p>

	rationale for your response.	
7	The CMP381 Original seeks to defer the additional BSUoS costs above the cap to the 2022/23 charging year. Recovery of the deferred costs is proposed to commence from 1 April 2022. Do you agree with this approach? Please provide rationale for your response.	Yes, as it's the simplest, quickest and most predictable approach. The costs need to be recovered in 2022/23 to allow the credit facilities to be cleared for the introduction of CMP361 in April 2023.
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.	Minimal to start off with but daily if the limit is in danger of being breached. Updating stakeholders for every 10% increment from 0% to 70% would be a helpful indicate and then from 70% onwards the updates should be in 3% increments up to 90% when each 1% incremental change should be reported. This will allow BSUoS to be accurately reflected in Bids and Offers etc. In contrast, limited reporting may result in increased Balancing costs as Users cover their risk (and the associated premia for this) of the £300M credit line being used up.
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.	Yes, it should apply (if approved / implemented circa 17 th January 2022) for the settlement invoices for 1 st January 2022 onwards to the invoices for 31 st March 2022. We do not have any concerns with such an approach as the issuing of invoices by the ESO to Users (and their payment) is a well tried & tested procedure.

10	<p>Does the CMP381 Original Proposal or any of the potential alternative solutions impact your business and/or end consumers. If so, how?</p> <p><i>Confidential Information can be shared with Ofgem directly particularly where it relates to Ofgem's Urgency Criteria.</i></p>	<p>From Workgroup discussions it is clear this modification benefits the end Consumer</p>
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