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.j.mullen@nationalgrideso.com or cusc.team@nationalgrideso.com

Respondent details	Please enter your details
Respondent name:	Mick Farr
Company name:	Triton/Saltend
Email address:	mick.farr@tritonpower.co.uk
Phone number:	Click or tap here to enter text.

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?	Yes, we agree that the original proposal better facilitates competition in the energy market. The mod will minimise the speculative addition of BSUoS costs into the wholesale power price, ensuring the price reflects appropriate market dynamics. The recent increase in BSUoS volatility has increased the risk premia that generators must add to their offer prices in the forward market and the BM. This feeds directly into higher BSUoS costs through BM accepted offers, and becomes self-fulfilling, adding increased incentive to include higher and higher risk premia, spiralling out of control as we see now. The high outturn BSUoS experienced this winter has significantly impacted hedges therefore the current system of BSUoS deters parties from forward hedging at prices which (with hindsight) have been loss making. This system where a significant part of short run marginal cost is unknown until after delivery undermines the typically risk managed strategy of hedging as hedges can ultimately be more risky than leaving all volume to the prompt/spot market when parties can react better, albeit not with absolute confidence, to volatile BSUoS. It is not just generators that have to face the risk of getting stung with high BSUoS costs that they cannot recoup (as it is unknown until after the settlement period of generation, well after offer prices are submitted). It is also suppliers that will likely find that forward price liquidity diminishes as generators are less willing to take a bet on what forward prices are, and so price in high to mitigate the risk, or not at all. This feeds through to suppliers not only having to face BSUoS costs they cannot recoup (as they are unknown at the time of setting the tariff), but also to consumers through higher wholesale prices, and

		suppliers that are left financially unstable due to higher BSUoS they cannot recover, and positions that are harder and more expensive to hedge. This feeds through to the types of insolvencies that we are seeing now – not just from high gas prices. Implementing a cap will also go some ways toward levelling the playing field between types of generators – those that pay BSUoS and those that do not (embedded). This will have an obviously beneficial impact on competition. To this end we eagerly await the implementation of CMP308 – and ask Ofgem to implement much earlier than the minded-to April 2023 timeline. This modification should also be considered urgent. The usual consideration to give suppliers a delay before implementation so that such changes in costs can be priced into their tariffs is nolonger relevant. All tariffs currently on offer are at the Ofgem price cap therefore as long as the new price cap in spring encompasses the change to BSUoS then the implementation of CMP308 can be brought forward to coincide with the new price cap.
2	Do you support the proposed implementation approach?	Yes
3	Do you have any other comments?	No
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	Click or tap here to enter text.

Specific Workgroup Consultation questions		
5	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	Yes. A cap is necessary for the reasons that we laid out in our response to question 1. The cap is sensible level. It is in a range that will give parties comfort of risk mitigation when setting offer prices yet not so high as to be all but useless (parties may just use the cap in offers in the face of uncertainty), yet not so low that the limit will be breached too soon. The market

	any supporting analysis.	cannot have the risk of a too-early breach of the limit as that would undo much of the benefit of the cap. Prices can easily range within a day between £1-£100/MWh or more – all when the system remains long! One cannot simply add ~£100/MWh to wholesale prices to ensure runs on such days are not loss making, so parties are forced to add a higher BSUoS risk enhanced add-on cost to all Settlement Periods in the hopes that on average one is not losing too much. This is no way to operate a market that is so critical to the wellbeing on not just consumers, but the economy, and long-term net zero investment. Again, we ask Ofgem to Change the status of CMP308 to urgent and to implement ASAP.
6	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.	We laid out in our response to question 1 that we agree that the current BSUoS prices have spiralled out of control and are self-fulfilling. We think that introducing the cap will mitigate the risk premia that parties bid into the wholesale market and the BM, thereby muting the underlying spiral of BSUoS costs that would be covered by this limit. In other words, without the cap, the value of BSUoS that would have fed into the £300m limit could easily be reached well within the three months (even a single Settlement Period). With the cap, the value of BSUoS that will feed into the limit will be much lower because offers will be lower to reflect the significantly lower risk.
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	This is sensible.

	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.	It is important that we know when we need to start pricing in a risk premia into our offers. If we do not have timely (daily) information to inform us of the risk, some of the good of the mod is undone, as we need to perpetually concern ourselves that we will get caught out on the wrong side of BSUoS costs compared to the price that we have sold power. If feels obvious that consumers would benefit from the least amount of additional risk being priced into wholesale and BM markets – and to this end, more frequent (daily) information would be best.
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.	The main concern is if Ofgem does not implement the mod, and how the BSUoS cost volatility will reflect this risk. The sooner this mod is implemented, the better.
10	Does the CMP381 Original Proposal or any of the potential alternative solutions impact your business and/or end consumers. If so, how? *Confidential Information can be shared with Ofgem directly particularly where it relates to Ofgem's Urgency Criteria.*	Absolutely. The BSUoS cost situation is as dire as the proposer suggests. Generating assets are stable and not like casinos where outcomes are left to chance. In situations where a good portion of the power price may or may not be BSUoS, and it is impossible to hedge or know in advance, this places a type of risk on these assets that is not efficient and does not lead to an equilibrium where consumers pay a fair price for the underlying product – energy! Or where generators receive a fair profit. In these conditions generators may make a huge loss in any single Settlement Period or set of Settlement Periods. This is especially true for generators that sold forward and locked in gas prices. In any normal market that would have been standardly sensible and responsible business activity (that Ofgem are trying to encourage), especially considering wholesale gas prices.

		Overall, this risk adds a cost to the market that feeds through to other market participants, especially consumers.