CUSC Alternative Form

CMP395 WACM1

Cap BSUoS costs and Defer payment to 2023/24 to protect GB customers

Overview: Seeks to cap BSUoS (proposed to be set at £25/MWh) per Settlement Period from 1 October 2022 to 31 March 2023, recoup the money in charging year 2023/2024; and cap the liability to be carried by the ESO at £250m.

The only difference with the Original is the level of the cap (set at £25/MWh)

Proposer: George Moran, Centrica

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What is the proposed alternative solution?

Set a £25/MWh cap on BSUoS from 1 October 2022 until 31 March 2023
• Defer the BSUoS costs incurred above the cap to the 2023/2024 charging year
• Recover the additional BSUoS costs above the cap from 1 April 2023 and by no later than 31 March 2024 from Suppliers and 31 December 2023 from Generators (based on forecast if actuals are not available)
• For Suppliers, recover an identical amount per day that is allocated to Settlement Periods on a chargeable volume weighted basis or in line with CMP361/CMP362 if implemented by 1 April 2023.
• Limit the liability on the ESO to £250m. There will be daily reporting of the percentage utilisation of the deferred amount.
• CMP395 BSUoS Support Scheme will fall away on the earlier of 31 March 2023 or when the £250m limit has been reached.

What is the difference between this and the Original Proposal?

The only difference with the Original is the level of the cap (set at £25/MWh).

This alternative seeks to address the potential for a higher frequency of exceptional levels of Half Hourly BSUoS prices over the course of the winter which is likely to add inefficient risk premia to the market, and also seeks to provide some mitigation for Parties for the exceptional level of 'average' BSUoS prices expected this winter which we consider is beyond what could have been reasonably foreseen by a prudent market participant. The cap of £25/MWh is chosen to balance these objectives, whilst also taking account of the deferral limit of £250m highlighted by the ESO.

A £25/MWh cap reasonably represents an exceptional Half Hourly BSUoS price – it is broadly equivalent to the mean plus two standard deviations of Half Hourly BSUoS prices over the most recent 12 month period (Aug-21 – Jul-22: mean £8.10 plus two standard deviations (2 x £8.17) = £24.44). It is therefore consistent with the approach used to derive the £20/MWh cap in CMP381 (which used 2021 calendar year data).

The benefits of introducing a cap are diminished if:
a) The cap is set too high and as a result limits the reduction in risk premia in offer prices and affects too few settlement periods; or,
b) The cap is set too low and as a result the £250m is utilised too quickly

We believe a £25 cap strikes the right balance between seeking to ensure the cap is not set too high and seeking to ensure that the £250m lasts for the duration of the winter period.

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	**Positive:** For Parties (suppliers and generators) with longer term contracts, the proposal will provide some mitigation against the losses likely to be incurred because of the exceptional levels of BSUoS costs forecast by the ESO which are over and

competition in the sale, distribution and purchase of electricity;	above what a prudent market operator could have foreseen. Deferring costs to a future period will allow Parties to reflect a portion of these exceptional costs into future tariff offerings. Such protection, for exceptional events, that are high impact and low probability, will reduce the level of risk that will need to be factored into future tariffs and facilitate effective competition in the generation and supply of electricity. In our view this will, as a result, lower the long-term costs to consumers. For Parties operating in shorter term markets the change will significantly reduce the BSUoS risk that will need to be factored into offer prices and will allow more fundamental drivers of costs to determine the merit order of offers. This has the potential to materially lower overall balancing costs over the winter period.
(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;	**Positive:** As well as introducing a BSUoS cap for these new exceptional circumstances, the modification also reflects the latest view of the ESO of the amount of support than can be provided (£250m). Such a limit to the amount of exceptional BSUoS costs that can be deferred will help to ensure the continued financeability of the ESO.
(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the	**None**

European Commission and/or the Agency *; and	
(e) Promoting efficiency in the implementation and administration of the system charging methodology.	**None**
*The Electricity Regulation referred to in objective (d) is Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity (recast) as it has effect immediately before IP completion day as read with the modifications set out in the SI 2020/1006.	

When will this change take place?

Implementation date:

As per the Original solution

Implementation approach:

As per the Original solution

Acronyms, key terms and reference material

Acronym / key term	Meaning
BSUoS	Balancing Services Use of System charges
ESO	Electricity System Operator

Reference material:

None