

Workgroup Consultation Response Proforma**CMP395: Cap BSUoS costs and Defer payment to 2023/24 to protect GB customers**

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 01 September 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:	Sam Hughes
Company name:	Citizens Advice
Email address:	Sam.hughes@citizensadvice.org.uk
Phone number:	N/A

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.

*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.

Please express your views in the right-hand side of the table below, including your rationale.

Standard Workgroup Consultation questions							
1	<p>Do you believe that the Original Proposal or any of the potential alternative solutions better facilitates the Applicable Objectives?</p>						
	<p>Mark the Objectives which you believe each solution better facilitates:</p> <table border="1"> <tr> <td>Original</td> <td><input type="checkbox"/>A</td> <td><input type="checkbox"/>B</td> <td><input type="checkbox"/>C</td> <td><input type="checkbox"/>D</td> <td><input type="checkbox"/>E</td> </tr> </table>	Original	<input type="checkbox"/> A	<input type="checkbox"/> B	<input type="checkbox"/> C	<input type="checkbox"/> D	<input type="checkbox"/> E
Original	<input type="checkbox"/> A	<input type="checkbox"/> B	<input type="checkbox"/> C	<input type="checkbox"/> D	<input type="checkbox"/> E		
	<p>We do not believe that adequate evidence or compelling arguments have been provided that the proposal is in consumers interests overall.</p> <p>While there is a clear benefit to generators, suppliers and those on BSUoS pass through terms, general consumer benefits are speculative.</p> <p>We consider there may be value in spreading costs over a period of time where not doing so may result in risks that generators or suppliers could fail as a result of the costs. However, we agree with Ofgem in its dismissal of urgency criterion (b) stating that it does not believe there is currently any evidence that generators would cease trading or operating in the absence of this proposal.</p> <p>We do not therefore believe that the proposal is justified in providing support to generators.</p> <p>Ofgem recognise the need to prevent further supplier failures, though we do not believe this can be at any cost to consumers. Ofgem explicitly considered the risk of supplier failure when deciding to the change in the frequency of the price cap update to quarterly, and in the treatment of backwardation in the price cap. No evidence is provided for further protection of suppliers.</p> <p>The risk of company failure should not be used as a blanket justification for further protection.</p> <p>Furthermore, as the proportion of customers on fixed price deals diminishes and those paying costs at the price cap increases, the risks to suppliers of not having priced the level of BSUoS into fixed deals decreases.</p>						

		<p>We do not therefore think that the risk to suppliers is comparable to the issues that CMP381 sought to address in 2021 and we do not believe that duplicating support to suppliers in the manner proposed is overall in consumers interests. It is important that support provided by code modifications is considered as part of the package of support already in place and is not considered in isolation.</p> <p>We also do not think that there is compelling evidence to support the argument that BSUoS costs are unpredictably high. While we agree they are high in absolute terms, the level of BSUoS has generally been increasing and to high levels. As volatility has also been cited in 3 previous modifications seeking to defer BSUoS spanning a 27 month period, we are not convinced that the argument is as compelling now.</p>
2	Do you support the proposed implementation approach?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Click or tap here to enter text.
3	Do you have any other comments?	See below.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Click or tap here to enter text.

Specific Workgroup Consultation questions

1	The CMP395 Original proposes to set a £15/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>We do not believe it is appropriate to set a cap.</p> <p>We also believe a cap at £15/MWh is set too low if, as analysis shows, it could potentially maximise the £250m limit within 2 months of implementation providing support to parties only in that period of time and not for the remaining 4 months. This could result in market distortions.</p>
2	Do you think it is appropriate to introduce a rules based re-assessment	Click or tap here to enter text.

	<p>of the BSUoS cap on utilisation against the limit of the additional BSUoS costs that would be deferred. If so, on what basis? Please provide the rationale for your response.</p>	
3	<p>The CMP395 Original seeks to defer the additional BSUoS costs above the cap to the 2023/2024 charging year. Recovery of the deferred costs is proposed to commence from 1 April 2023. Do you agree with this approach? Please provide rationale for your response.</p>	<p>Click or tap here to enter text.</p>
4	<p>CMP308 comes into effect on 1 April 2023 and removes the payment of BSUoS from Generators. Against this backdrop, the Workgroup have considered options to recover deferred costs from Generators from 1 April 2023. Do you support any of the options proposed?. Please provide justification for your response.</p>	<p>If CMP395 or any alternatives were to be approved by Ofgem the solution must ensure that generators are liable to pay for deferred costs to prevent a complete transferral of costs from generators to end consumers.</p>
5	<p>Do you think it is appropriate to introduce a Supplier BSUoS cap only or a BSUoS cap for Suppliers and Generators?. Please</p>	<p>A supplier or generator only BSUoS cap may be justified if there is compelling evidence that not doing so would result in parties becoming commercially unviable and exiting the market.</p> <p>However, in the absence of such evidence a cap would not be in consumers interests overall.</p>

	provide the rationale for your response.	<p>It has already been acknowledged that there is no evidence suggesting generators are at risk of existing the market as a result of BSUoS costs and we consider that providing support to suppliers risks duplicating the support already provided by Ofgem through the price cap, namely the change to quarterly updates and the inclusion of backwardation.</p> <p>If supplier risk is the primary concern and there is compelling evidence that this risk is not being addressed elsewhere, we consider that there are nevertheless better ways to deliver support, such as payment delays, and therefore CMP395 does not provide the optimum solution.</p>
6	The CMP395 Original seeks to limit the additional BSUoS costs that would be deferred to £250m. Do you think it is appropriate to introduce a limit and if so to what value? Please provide the rationale for your response.	Click or tap here to enter text.
7	Do you agree that reporting of the percentage utilisation of the deferred amount should be in line with that introduced for CMP381. Please provide justification for your response.	Click or tap here to enter text.
8	Does the CMP395 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	See below.

	Ofgem's Urgency Criteria.	
9	<p>Do you support the view that CMP395 would mean reduced overall BSUoS costs (as a result of reduced risk premia) and therefore benefit consumers. Please provide the rationale for your response.</p> <p>Confidential Information can be shared with Ofgem directly particularly where it relates to Ofgem's Urgency Criteria.</p>	<p>No. The impact on domestic end consumers this winter will be minimal or zero due to the time lag in BSUoS costs being reflected in the retail price cap and zero impact on the declining numbers of customers on fixed price deals. It does not therefore appear to “<i>protect customers this winter</i>” as suggested by the proposal.</p> <p>Under CMP395, customers generally would, however, experience higher costs at a later point in time than they would otherwise. This additional cost is only offset if the reduction in risk premia is equal to the cost. It only provides an overall benefit to customers if the reduction is greater than this additional cost.</p> <p>The magnitude of any reduction in risk premia applied by generators, if it were to occur, is limited to until CMP308 removes BSUoS from generators in April 2023 (also noting that generators will already have sold power for this winter with risk premia priced in).</p> <p>Any consumer benefits arising from reduction in supplier risk premia is also currently limited (in comparison to previous modifications) as the majority of domestic customers are likely to now be under the retail price cap (and so not subject to supplier risk premia).</p> <p>In any case, we do not believe suppliers would necessarily reflect the risk of truly ‘exceptional’ events in consumer tariffs as it could make these tariffs uncompetitive. In that case there would be no impact on future tariffs. We would assume that Suppliers have a documented approach to risk premia in pricing. This could be provided to (or requested by) Ofgem.</p> <p>Due to these limitations and no clear evidence of the magnitude of the risk premia benefit to consumers, it is not a clear or compelling argument that consumers generally would benefit overall from CMP395.</p> <p>What is clear is that the modification would provide a definite benefit to generators and suppliers (and those on pass-through BSUoS) this winter.</p> <p>The modification therefore mainly represents a transfer of costs from these groups this winter to end consumers</p>

		more generally at a future point in time without a definitive benefit to consumers.
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