

## 1 Code Administrator 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](mailto:cusc.team@nationalgrideso.com) by **5pm** on **16 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](mailto:Paul.j.mullen@nationalgrideso.com) or [cusc.team@nationalgrideso.com](mailto:cusc.team@nationalgrideso.com)

Respondent details	Please enter your details
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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.*

*\*\*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 Code Administrator Consultation questions	
1	Do you believe that the Original Proposal and/or WACM1, WACM2, WACM3, WACM4 and WACM5 better facilitates the Applicable Objectives?
	Mark the Objectives which you believe each solution better facilitates:
	Original <input checked="" type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E
	WACM1 <input checked="" type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E
	WACM2 <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E
	WACM3 <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E
	WACM4 <input checked="" type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E
WACM5 <input checked="" type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E	
<p>Placing a cap on BSUoS will remove inefficient risk premia from the market, resulting in an overall reduction in BSUoS costs, and an overall reduction in consumer bills (or future taxpayer liability). Much of winter has not been hedged, particularly for low load factor plant (partly or largely due to liquidity constraints).</p> <p>With this mod, generators will not need to factor into SRMC potentially very high BSUoS costs into wholesale markets for winter, quarterly, monthly, weekly, day ahead, within day and BM offers. Instead, they know there will be a modest fixed SRMC added to next year’s energy sales. These premia are a purely inefficient (non-cost reflective) misallocation of risk that only increases costs to consumers. As the BSUoS taskforce has found, BSUoS is not cost reflective, and so generating extra cost, particularly in the current cost of living climate, is simply not appropriate. Note this misallocation of risk always existed, but recent geopolitical conditions have sharpened the distortion and caused extreme levels of BSUoS and variability that traders cannot ignore in their decision making</p> <p>The level of the cap is important to the effectiveness of this mod, and it is our view that prices above the current average forecasted prices have diminishing benefits in regard to the competitive benefits noted above. Hence, we have a strong belief that the cap level of £15/MWh stated in the original is appropriate, and that caps</p>	

		<p>above £25/MWh are likely to be too high to bring the benefit this mod intends. We believe this benefit outweighs the risk of the limit running out before the end of the winter.</p> <p>The limit available to use should be higher but we recognise NGENSO's limitations. WACM5 allows for subsequent intervention or government backing to be reflected without raising a new mod. Given the benefit of overall lower cap for the consumer and for market participants, WACM5 is very sensible. The Government has promised to support suppliers in capping retail prices over the next two winters. It would be appropriate for Treasury to consider backing extra funding from NGENSO to increase the limit proposed in WACM5. Doing so would have the effect of lowering the total amount that Treasury must borrow to cover capped energy bills providing an opportunity for this policy to have a lower impact on taxpayers. The lower the cap and higher the limit the better.</p> <p>CMP308 removes BSUoS charges from generation in April 2023 as it recognises the inefficiencies arising from misallocation of risk and non-cost-reflectivity. It is at least partly because NGENSO systems could not implement this change sooner that we are in this situation (of inefficient costs). CMP361 would have suppliers pay a flat rate for BSUoS in April 2023 (assuming Ofgem approves it). These two mods will solve the problem this mod is also trying to fix, but just a little too late. This mod in effect brings forward decisions already agreed by industry as necessary and better for the consumer, recognising the extreme situation at the moment and over the coming winter.</p>
2	Do you support the proposed implementation approach?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No  Click or tap here to enter text.
3	Do you have any other comments?	Click or tap here to enter text.