

**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](mailto: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](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 Workgroup Consultation questions		
1	Do you believe that the Original Proposal or any of the potential alternative solutions better facilitates the Applicable Objectives?	<p>Mark the Objectives which you believe each solution better facilitates:</p> <p>Original      <input checked="" type="checkbox"/>A    <input type="checkbox"/>B    <input type="checkbox"/>C    <input type="checkbox"/>D    <input type="checkbox"/>E</p> <p>The original proposal is positive against applicable objective A, as it supports competition in both the generation and supply of electricity. This should lead to a corresponding benefit to end consumers. We agree with the premise that BSUoS charges for the winter 2022–2023 are likely to remain extremely high and unpredictable compared to historical trends. We also agree with the proposer that this could not have been reasonably foreseen by market participants.</p> <p>For the market to operate efficiently, suppliers and generators need to forecast and pass-through third-party costs such as BSUoS. Volatile and unforeseeably high BSUoS costs can disrupt competition in both the generation and supply markets and affect the financial resilience of market participants. In our view the proposal has two benefits for the market and consumers. Firstly, it lowers the risk premia related to BSUoS that generators may apply during the winter period when system margins may be extremely tight. Secondly deferring some of the BSUoS charges from winter 2022-2023 until the 2023-2024 charging year should reduce the risk of further supplier failure and enable the charges to consumers to be adjusted over a longer period.</p> <p>This proposal should also benefit larger customers on passthrough contracts that are currently exposed to the exceptionally high and volatile BSUoS charges. We would anticipate that deferring costs and spreading these across the 2022/23 charging year would provide some relief and stability to these large business and industrial customers.</p>

2	Do you support the proposed implementation approach?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No Yes, we are supportive of the proposed implementation approach.
3	Do you have any other comments?	We feel that the Impact Analysis Ofgem used to reach its decision to approve CMP308 which removes BSUoS charges from Generation from the 1 April 2023 may be useful in informing the benefit from reducing BSUoS risk premia.
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 Not at this time.

### 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.	Yes, a BSUoS price cap will protect market participants from exceptionally high BSUoS cost settlement periods over the winter 2022-2023. We note that the Cap set under CMP381 of £20/MWh did provide some relief, though not perhaps as much as could have been realised given the deferral amount was £44m against a ceiling of £200m. A £15/MWh cap seems reasonable given that there could be a mechanism to review deferral if the ceiling limit, under this proposal, of £250m is approached.
2	Do you think it is appropriate to introduce a rules based re-assessment 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.	This should be considered by the workgroup given the desire of any deferral to be available through-out the winter period. The trade off in setting a low £/MWh cap and a relatively low ceiling on deferral of £250m is that the ceiling might be reached part way through the scheme. This could be mitigated through careful monitoring and a rules based mechanism to avoid any potential 'cliff edge' where all available deferral is utilised before the end of winter. For the avoidance of any doubt, we support only an upward amendment of the £/MWh if the starting point is £15/MWh.
3	The CMP395 Original seeks to defer the additional BSUoS costs above the cap to the 2023/2024 charging year.	Yes, we agree with this approach. Recovery within the following charging year is appropriate.

	<p>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>	
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>Option 3b is the most appropriate method as it is simple and effective. This is the established off-line process introduced by the ESO for other modifications, such as CMP381, and is tried, tested and fit for purpose. Introducing another un-tested or complex mechanism may undermine the benefit of generators being able to reduce the amount of BSUoS risk premia they may apply.</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 provide the rationale for your response.</p>	<p>We believe it is more appropriate to have the BSUoS cap applicable to both Supplier and Generators. If the deferral were only for Suppliers the only benefit would be from the deferral of the <b>outcome</b> of high and unpredictable BSUoS costs into the next charging year. There would not be any beneficial impact from reducing the level of BSUoS risk premia as a factor in the market. Concentrating the relief only on suppliers would reduce the beneficial impact on the market of the scheme, as Generators would still have the same level of uncertainty to factor into their activities and actions.</p>
6	<p>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</p>	<p>Yes, it is appropriate to introduce a limit. We would welcome further examination by the ESO of the limit available.</p>

	rationale for your response.	
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.	Yes, we agree with the reporting of percentage utilisation in line with the process established for CMP381. This appears to be a tried, tested and effective process.
8	Does the CMP395 Original proposal or any of the potential alternative solutions impact your business and/or end consumers. If so, how? <b>Confidential Information can be shared with Ofgem directly particularly where it relates to Ofgem's Urgency Criteria.</b>	Yes, we believe the proposal is beneficial to the market, our businesses and our customers. This is because it defers some BSUoS costs, and also reduces the impact of BSUoS volatility which should enable a reduction in the overall level of BSUoS risk premia.
9	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. <b>Confidential Information can be shared with Ofgem directly particularly where it relates to Ofgem's Urgency Criteria.</b>	Yes we do. The proposal should reduce the immediate impact of BSUoS volatility and enable generators to reduce the BSUoS risk premia which is of benefit to the market and consumers. This rationale was highlighted in the IA for CMP308 which demonstrated the benefits to consumers of removing BSUoS charges from Generation. It may be that Ofgem could partially update the IA, or extrapolate from it, any market / consumer benefit related to this proposal (CMP395) based on current market circumstances.