

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 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 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:	NA

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 type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E
		WACM1 <input type="checkbox"/> A <input type="checkbox"/> B <input 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 type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E
		WACM5 <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E
		<p>Citizens Advice does not believe that the Original Proposal or any WACMs better facilitates the Applicable Objectives.</p> <p>We consider that the Original Proposal and all WACMs are negative against the following relevant objectives:</p> <p>(a) As some generators could feasibly pay back less costs at a future point in time than they defer this winter. It is also negative as in most scenarios the £250m cap could be met earlier than the 6 month end point with any parties after that point being unable to benefit from it, negatively impacting competition between parties who did and did not benefit.</p> <p>(b) Charges faced by parties in Winter 2022/23 will no longer be reflective of the costs of balancing the system this winter. The charges faced by both current and future consumers would also not be reflective. Future consumers would also pay BSUoS costs related to the energy consumption of consumers this winter. In all instances costs would not be reflective.</p>
2	Do you support the proposed implementation approach?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
		<p>We do not believe the modification or its implementation approach would deliver clear benefits to consumers this winter (22/23) as indicated in the Proposal.</p>

3	Do you have any other comments?	<p>We do not believe that adequate evidence or compelling arguments have been provided that the original proposal or WACMs are required or in consumers interests overall. 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 there is clear evidence that not doing so may result in risks that generators or suppliers could fail as a result of the costs.</p> <p><u>Generators</u></p> <p>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 and nor has any been put forward in the development of this modification.</p> <p>We do not therefore believe that the proposal or WACMs are justified in providing support to generators.</p> <p><u>Suppliers</u></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 change the frequency of the price cap update to quarterly, in the treatment of backwardation in the price cap, and the introduction of the market stabilisation charge. Furthermore, the newly announced Energy Price Guarantee on 8/9/22 will provide unprecedented support to consumers and energy suppliers, materially reducing risk.</p> <p>No evidence is provided for the need for further protection of suppliers. The risk of company failure should not be used as a blanket justification for further protection. Furthermore, as the proportion of customers on fixed price deals diminishes and those paying costs at the price cap increases, the risks to profitability from suppliers not having</p>
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priced the level of BSUoS into fixed deals decreases.

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 the range of support in place for 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.

Predictability

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.

Consumer impacts

The benefit of the Original Proposal and all WACMs 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 the impact of the Energy Price Guarantee). There will be zero benefit for the declining numbers of customers on fixed price deals. It does not therefore appear to generally “protect customers this winter” as suggested by the proposal.

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.

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).

Any consumer benefits arising from a 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).

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.

Due to these limitations, the lack of benefit this winter, 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 or its WACMs.

What is clear is that the modification would provide a definite benefit to generators and suppliers (and those on pass-through BSUoS) this winter. The modification therefore mainly represents a transfer of costs from these groups this winter to end consumers more generally at a future point in time without a definitive benefit to consumers.

We therefore do not support implementation of the Original Proposal or any of the WACMs.