

**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
<b>Respondent name:</b>	Niall Coyle
<b>Company name:</b>	E.ON UK
<b>Email address:</b>	Niall.coyle@eonenergy.com
<b>Phone number:</b>	07971247658

**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:**

*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;*

*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);*

*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;*

*Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency \*; and*

*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>We believe that the original solution and all the potential workgroup alternatives discussed in the report better facilitates applicable objective A, by ensuring that extreme circumstances (such as record high gas prices and their impact on the wholesale and balancing markets) do not jeopardise the competitive generation and supply markets that have delivered customers significantly lower prices whilst still driving towards lower carbon emissions.</p> <p>Over the previous year we have seen 29 suppliers exit the market through the Supplier of Last Resort process, with Last Resort Supplier Payments of circa £1.8bn having to be picked up by other suppliers (and eventually customers). There is a real threat that suppliers who are barely surviving could be pushed over the edge should NGESO's latest forecast of balancing costs for this winter materialise (over £15/MWh<sup>1</sup>), while the BSUoS allowance suppliers are able to recover from domestic customers under Ofgem's October 2022 SVT price cap is almost half of this figure (£7.66/MWh).</p>
2	Do you support the proposed implementation approach?	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Yes, we support the cap being in place from the 1<sup>st</sup> October 2022 through to the 31<sup>st</sup> March 2023, aligned to the winter 22 seasonal wholesale product.</p>
3	Do you have any other comments?	No
4	Do you wish to raise a Workgroup	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>

<sup>1</sup> As per National Grid ESOs September 2022 BSUoS forecast with winter contingency, published on 31<sup>st</sup> Aug 2022

<p>Consultation Alternative Request for the Workgroup to consider?</p>	<p>We are considering raising a WACM with a cap level of £25/MWh, without a mid-period review of the cap level.</p>
--	---

Specific Workgroup Consultation questions		
1	<p>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>	<p>We believe that it is vitally important to set a BSUoS cap in order to protect suppliers, generators and all electricity users from bankruptcy and financial hardship during the ongoing energy crisis. A BSUoS cap will benefit customers seeking to renew fixed contracts (through reduced supplier risk premia) whilst also protecting customers with BSUoS passthrough arrangements from the exceptional BSUoS prices expected for this winter.</p> <p>Suppliers with customers on default tariffs will be placed under real pressure by exceptionally high BSUoS charges as the SVT cap recovers BSUoS costs on a lagged basis, meaning suppliers will have to have additional working capital available to fund BSUoS. NGESO expects BSUoS costs for winter-22 to be £1.4bn higher than the previous winter (3.7bn vs 2.3bn). As a rough guide, for E.ON who has ~20% market share of the retail market (which reduces to 10% of BSUoS due to generation), this amounts to an additional £140m for which E.ON has to find the working capital until it can reclaim that cost in later price cap updates.</p> <p>We agree principally with the proposed cap of £15/MWh, based on the analysis provided to the workgroup found in annex 5 of the report, however we note that under a £15/MWh cap the support is likely to end very early into the winter period due to breaching NGESO funding limit of £250m. We believe a £25/MWh cap would be prudent based on the analysis using the fixed £/MWh scaling approach provided in annex 5.</p>
2	<p>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</p>	<p>In our view one of the main issues with CMP381 was that the cap was set too high to provide sufficient support, leading to only £44m of the £200m available support utilised.</p> <p>While we recognise that a mid-period review or reassessment of the cap will allow fine tuning of the cap to ensure it provides maximum support for the full winter period, it would introduce additional complexity and may affect parties ability to reduce risk premia later in the period if the cap level is uncertain.</p>

	rationale for your response.	
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>We believe that the original proposal's approach of deferring costs until 2023/24 charging year is sensible and will hopefully coincide with a period where BSUoS charges revert back to more normal levels. This allows any deferred costs to be spread over an entire charging year making the repayment smoother and more manageable for all payees.</p> <p>We appreciate that not having a gap between the end of the capped period and the recovery period means that NGESO will have to estimate the additional charges due to deferment in the first few days of April, but the difference will quickly be rectified and allow suppliers and generators to have certainty to the additional costs.</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>We believe that any parties who receive support from any deferral of BSUoS costs must be required to contribute to their repayment. While CMP308 intends to improve efficiency of BSUoS cost recovery by invoicing BSUoS on final demand only, the original proposal included a 2-year lead time after authority decision to allow a reduction in BSUoS to reflected in forward wholesale products to allow an efficient cost transfer from generators to final demand. We believe the urgent timelines of CMP395 means that the transfer of cost recovery from generators to suppliers would not be efficient in this instance.</p> <p>We support proposal 3b to recover deferred cost from generators. This is consistent with the recovery of previous BSUoS caps under CMP345, CMP350 and CMP381, and is the only feasible proposed recovery option under CMP395 that will allow generator risk premia to be effectively reduced.</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 there may be benefit in exploring a supplier only BSUoS cap, as this is likely to provide more direct relief to the end consumer. However, this potentially erodes one of the key benefits to the original proposal, of lowering overall balancing costs due to reducing risk premia factored into generators bids/offers in the BM.</p>
6	<p>The CMP395 Original seeks to limit the additional BSUoS costs that would be</p>	<p>Yes we believe it is appropriate to set a limit for the cost that can be deferred, and that this limit should be as high as possible while not jeopardising the financeability of NGESO. We recognise the challenges NGESO faces as</p>

	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.	<p>highlighted to the workgroup and appreciate efforts to maximise this limit (such as transferring some regulatory risk to their parent company).</p> <p>We support the intention to back calculate the cap level to ensure the cap is in place for the full duration of the winter, while utilising 100% of the available funds. We believe a £25/MWh cap would be prudent, as per our answer to question 1.</p> <p>Whilst any relief of exceptional costs would be of benefit to consumers this winter, ideally the level of support would be higher. It is likely that £250m of support versus the latest NGESO forecast of £3.7bn may prove insufficient for some businesses.</p>
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.	We support the proposed reporting approach of weekly reporting up to 60% of utilisation, increasing to daily reporting thereafter.
8	<p>Does the CMP395 Original proposal or any of the potential alternative solutions impact your business and/or end consumers. If so, how?</p> <p><b>Confidential Information can be shared with Ofgem directly particularly where it relates to Ofgem's Urgency Criteria.</b></p>	<p>The CMP395 Proposal will allow additional unpredictable BSUoS charges that are being incurred by suppliers to be deferred, protecting suppliers from massive working capital requirements. As an example, in our response to Q1, we demonstrated that E.ON alone will have to find ~£140m working capital to cover the additional BSUoS charges with no clarity on when we will be able to reclaim that money from customers (especially those protected by the default tariff price cap).</p> <p>E.ON also has I&amp;C customers who pay for BSUoS directly via pass through contracts. These additional charges will be having a significant impact on their business currently and any relief that the industry can provide them through deferred charges will help. These customers rely on the forecasts that industry provide them, but the huge increases in the forecasted costs for this winter have been completely unforeseen and many customers will not have been able to budget for these increases.</p>
9	Do you support the view that CMP395 would mean reduced overall BSUoS costs (as a result of reduced	We agree with the logic that applying a BSUoS cap to both suppliers and generators may lead to an overall reduction in balancing costs, by allowing generator to reduce the risk premia factored into their bids/offers in the BM. In practice this is likely to be minimal in the context of

	<p>risk premia) and therefore benefit consumers. Please provide the rationale for your response.</p> <p><b><i>Confidential Information can be shared with Ofgem directly particularly where it relates to Ofgem's Urgency Criteria.</i></b></p>	<p>power prices we're seeing in the market currently, even though it should have a mathematical effect.</p>
--	---	---