

Workgroup Consultation			
<h1>CMP381: Defer exceptionally high Winter 2021/22 BSUoS costs to 2022/2023</h1> <p>Overview: To set a £10/MWh cap on BSUoS from 1 January 2022 until 31 March 2022, due, in the view of the Proposer, to exceptional market conditions making BSUoS much higher than industry parties could reasonably have expected. The additional BSUoS costs above the cap would be deferred to the 2022/23 charging year, using the same approach as CMP350 and the recovery mechanism approved under CMP373.</p>	<h2>Modification process & timetable</h2> <ol style="list-style-type: none"> 1 Proposal Form 16 December 2021 2 Workgroup Consultation 23 December 2021 – 29 December 2021 3 Workgroup Report 06 January 2022 4 Code Administrator Consultation 06 January 2022 - 10 January 2022 5 Draft Final Modification Report 11 January 2022 6 Final Modification Report 12 January 2022 7 Implementation 17 January 2022 		
<p>Have 5 minutes? Read our Executive summary</p> <p>Have 20 minutes? Read the full Workgroup Consultation</p> <p>Have 30 minutes? Read the full Workgroup Consultation and Annexes.</p>			
<p>Status summary: The Workgroup are seeking your views on the work completed to date to form the final solution(s) to the issue raised.</p>			
<p>This modification is expected to have a: High impact on Consumers, Suppliers, Traders, Generators and National Grid ESO</p>			
Governance route	This modification is being assessed by a Workgroup and Ofgem will make the decision on whether it should be implemented.		
Who can I talk to about the change?	<table border="0" style="width: 100%;"> <tr> <td style="width: 50%; vertical-align: top;"> <p>Proposer: Simon Vicary Simon.vicary@edfenergy.com Phone: 07875 110 961</p> </td> <td style="width: 50%; vertical-align: top;"> <p>Code Administrator Chair: Paul Mullen Paul.j.mullen@nationalgrideso.com Phone: 07794 537 028</p> </td> </tr> </table>	<p>Proposer: Simon Vicary Simon.vicary@edfenergy.com Phone: 07875 110 961</p>	<p>Code Administrator Chair: Paul Mullen Paul.j.mullen@nationalgrideso.com Phone: 07794 537 028</p>
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How do I respond?	Send your response proforma to cusc.team@nationalgrideso.com by 5pm on 29 December 2021		

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Executive summary

This modification seeks to set a £10/MWh cap on BSUoS from 1st January 2022 until 31st March 2022, due, in the view of the Proposer, to exceptional market conditions making BSUoS much higher than industry parties could reasonably have expected. The additional BSUoS costs above the cap would be deferred to the 2022/23 charging year, using the same approach as CMP350 and the recovery mechanism approved under [CMP373](#).

What is the issue?

The Proposer argues that as a result of exceptional market conditions, BSUoS costs are significantly higher than ESO forecasts so far this winter. The Proposer adds that consumers and industry parties could not have reasonably expected or budgeted for these higher costs.

The Proposer's analysis shows this will continue throughout Q1 2022 leading to more risk of supplier failures and increased pressure on Generators and therefore propose the re-introduction of a BSUoS cap, using a similar mechanism to that previously approved under CMP345¹ and CMP350².

What is the solution and when will it come into effect?

- **Set a £10/MWh cap on BSUoS from 1 January 2022 until 31 March 2022.**
- **Defer the additional BSUoS costs above the cap to the 2022/23 charging year, using a similar mechanism approved under CMP345 and CMP350.**
- **Recover the additional BSUoS costs above the cap from 1 April 2022 (based on forecast if actuals are not available)**
- **Recover an identical amount per day that is allocated to Settlement Periods on a chargeable volume weighted basis.** This is in line with the approach used for CMP373.
- **Limit the BSUoS costs that could be deferred to £300m.**

Implementation date: 17 January 2022 (Effective from 1 January 2022)

Summary of potential alternative solution(s) and implementation date(s):

There were two potential alternative solutions discussed:

- Implementation Date and Effective Date will be 17 January 2022.
- Implementation date after 17 January 2022.

Depending on responses to the Workgroup Consultation, it is possible there may be alternatives brought forward on the amount of BSUoS costs that would be deferred by the cap and the level of the proposed £/MWh cap.

¹ CMP345 Workgroup Alternative CUSC Modification 2 was approved on 23 June 2020 – this applied a cap of £15/MWh to Supplier and Generator BSUoS charges until 31 August 2020

² CMP350 Workgroup Alternative CUSC Modification 6 as approved on 13 August 2020, which further reduced the cap to £10/MWh and extended it until 25 October 2020, introducing a limit of £100m for the amount of deferred BSUoS charges.

What is the impact if this change is made?

- Implementing CMP381 could reduce the risk of supplier failures or address potential security of supply issues.
- Impacts on consumers in the future and the ESO, in terms of how they can finance any cost deferment, need to be taken into account. Impacts are explored in detail in the Workgroup assessment of impacts section.

Interactions

This modification has no interactions with other modifications, other codes/standards, or other industry-wide work. This a short-term solution to address the current exceptional market conditions and does not impact, nor overlap with, the other BSUoS modifications ([CMP308](#) and [CMP361 and CMP362](#)) which seek to deliver an enduring framework for BSUoS from April 2023.

This modification has no interactions with EBR³ Article 18 Terms and Conditions.

³ If your modification amends any of the clauses mapped out in Exhibit Y to the CUSC, it will change the Terms & Conditions relating to Balancing Service Providers. The modification will need to follow the process set out in Article 18 of the European Electricity Balancing Guideline (EBR – EU Regulation 2017/2195) – the main aspect of this is that the modification will need to be consulted on for 1 month in the Code Administrator Consultation phase. N.B. This will also satisfy the requirements of the NCER process.

What is the issue?

The Proposer argues that as a result of exceptional market conditions, BSUoS costs are significantly higher than ESO forecasts so far this winter. The Proposer adds that consumers and industry parties could not have reasonably expected or budgeted for these higher costs.

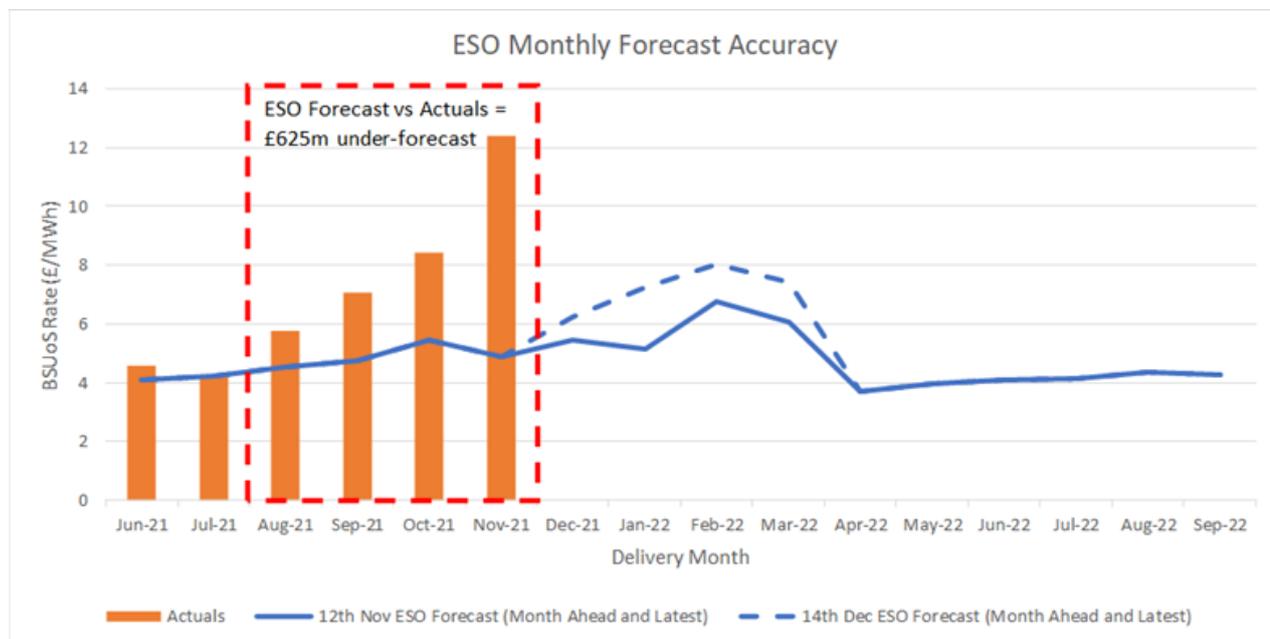
The Proposer's analysis shows this will continue throughout Q1 2022 leading to more risk of supplier failures and increased pressure on Generators and therefore propose the re-introduction of a BSUoS cap, using a similar mechanism to that previously approved under CMP345 and CMP350.

Why Change?

The bulk of BSUoS cost is from the ESO accepting 'bid' and 'offer' actions in the Balancing Mechanism and these have both risen significantly as wholesale costs have risen.

The chart below shows the recent variance to the ESO BSUoS forecast, with the outturn being £625m higher across the last 4 months. This was based on the 12 November 2021 forecast; however there was a revised forecast on 14 December 2021⁴, which shows an increase in the forecasted BSUoS rates. This has been overlaid in chart below.

Figure 1



The Proposer's analysis demonstrates that the latest ESO BSUoS forecast will be inaccurate to a similar degree and that as a result both industry and consumers will not be prepared, or able to tolerate the actual extreme prices that will outturn next year. In their

⁴ ESO also published commentary stating, "From January 2022 uplifts have been applied to Operating Reserve, Constraints, Negative Reserve, Fast Reserve, Other Reserve, and Black Start cost as a result of observed trends." (Source - <https://data.nationalgrideso.com/backend/dataset/6294557e-6354-4ba8-a291-71683eccd71a/resource/034d455c-2ac8-4d85-8b8b-4009a5329ae8/download/bsuos-forecast-explainer-21.12.14.pdf>).

view, it is absolutely critical to protect consumers, and prevent further insolvency contagion to suppliers and generators, that a half-hourly £10/MWh cap should be put in place.

The Proposer argues that CMP381 is consistent with the mechanism approved under CMP345 and CMP350 to protect against extreme BSUoS costs in 2020 due to COVID and states that if action is not taken, the consequences for the stability of the UK energy industry could be devastating.

What is the solution?

Proposer's solution

- **Set a £10/MWh cap on BSUoS from 1st January 2022 until 31st March 2022.**
- **Defer the BSUoS costs above the cap to the 2022/23 charging year**, using a similar mechanism approved under CMP345 and CMP350.
- **Recover the additional BSUoS costs above the cap from 1 April 2022 (based on forecast if actuals are not available)**
- **Recover an identical amount per day that is allocated to Settlement Periods on a chargeable volume weighted basis.** This is in line with the approach used for CMP373.
- **Limit the BSUoS costs that could be deferred to £300m.**

Workgroup considerations

The Workgroup convened two times to discuss the perceived issue, detail the scope of the proposed defect, devise potential solutions, and assess the proposal in terms of the Applicable Code Objectives.

Consideration of the Proposer's solution

In Ofgem's decision letter to approve Urgent treatment of CMP381, they noted that this proposal has identified a current issue regarding the differences between forecasted BSUoS costs and outturn costs, and recognise that these differences may impact market participants. They also recognised that there is a case that these costs are exceptional and/or reasonably unforeseeable compared to the levels previously forecasted. However, they specifically asked that the Workgroup form a view on whether BSUoS costs of these levels are exceptional, or otherwise part of enduring market conditions.

The Workgroup discussed this, and many Workgroup Members referred to the recent oil and gas prices driving up wholesale prices and consequential Supplier failures as exceptional (see Annex 5) rather than normal market conditions. The Workgroup also discussed whether this was the new normal, however there was a general view that this is only looking to the end of March 2022 and after that it would no longer be seen as an unforeseen circumstance.

Set a £10/MWh cap on BSUoS from 1 January 2022 until 31 March 2022.

The Proposer believes that £10/MWh is a reasonable cap (this was used in CMP350) and in line with what their forecasts are showing. However, as this information is commercially sensitive, they agreed to share it directly with Ofgem, but are unable to do so more widely.

Each Settlement Period between 1 January 2022 and 31 March 2022 will be capped at £10/MWh. Anything above this, will be deferred until the following charging year up to a limit of £300m. No Workgroup Member considered any extension beyond 31 March 2022.

To help support what an appropriate cap may be, the ESO Workgroup Member presented analysis of how much would have been deferred in 2021 under different price caps. This is shown in Table 1, with the full analysis in Annex 5:

Table 1

2021 BSUoS Charges by Month		Amounts that would have been deferred under different cap values (£/MWh)					
Month	Billed Total	£5 Cap	£10 Cap	£15 Cap	£20 Cap	£25 Cap	£50 Cap
January	£163,141,460	£35,082,873	£18,404,069	£11,293,598	£6,886,862	£3,749,629	£0
February	£186,228,341	£52,048,918	£12,723,937	£1,839,322	£256,802	£18,878	£0
March	£196,888,051	£55,981,161	£20,099,520	£8,873,992	£5,157,980	£2,538,547	£0
April	£155,614,544	£23,540,569	£11,461,548	£8,530,180	£5,950,753	£3,815,762	£0
May	£177,780,449	£26,485,069	£3,621,659	£115,300	£0	£0	£0
June	£161,772,879	£18,219,921	£1,953,893	£33,678	£0	£0	£0
July	£156,731,953	£12,907,044	£942,707	£0	£0	£0	
August	£213,257,976	£51,837,998	£14,714,037	£5,016,987	£1,251,172	£227,277	£0
September	£264,544,266	£126,411,853	£89,125,348	£70,273,103	£57,111,226	£46,275,422	£10,901,012
October	£352,043,857	£163,844,809	£70,917,604	£32,957,154	£15,031,674	£5,357,959	£0
November	£571,767,208	£366,001,819	£245,754,573	£177,040,515	£135,623,471	£109,982,798	£47,735,643
December (up to 8th)	£122,066,280	£62,256,630	£32,173,442	£20,247,243	£16,118,340	£14,306,166	£6,621,572
Total Calendar YTD	£2,721,837,263	£994,618,663	£521,892,336	£336,221,072	£243,388,280	£186,272,438	£65,258,227

Starting from September 2021, £300m would have been used up prior to the end of November if a £10/MWh cap had been implemented. This indicates that such a cap would likely be ended early if it were to be implemented from January-March 2022 and those months had similar BSUoS prices as September-November 2021. This would mean that any subsequent spikes in price wouldn't be capped, exposing market to any resultant shocks.

This also highlights that even a cap significantly above the Original, such as £50/MWh, would have seen over £65m deferred from September-December 2021 (up to 8th December). This deferral would have been applied over 78 Settlement Periods. In the ESO Workgroup Member's view, this highlights the net financial impact a relatively small number of high-cost (over £50/MWh) Settlement Periods can have.

Another Workgroup Member also ran similar analysis (also included in Annex 5), which showed that there are more BSUoS costs >£10/MWh and the distribution of BSUoS charges had increased in volatility and unpredictability. In their opinion, this demonstrated why the current BSUoS costs are exceptional given the cumulative instances of BSUoS costs >£10/MWh.

The graph produced by this Workgroup Member (Figure 3) was created by fitting historical BSUoS Prices from 2018-August 2021, and September 2021 - December 2021, to a log-normal distribution. Consequently, some results differ when compared to the raw data approach (Table 2). For example, Figure 3 (and its backing data) indicates a 3.3%

probability of a Settlement Period in Sep-Dec 2021 having a BSUoS Price greater than £20/MWh, when Table 2 indicates a 9.2% chance of a Settlement Period in Sep-Dec 2021 having a BSUoS Price greater than £20/MWh. This difference aside, these pieces of analysis broadly agree with each other.

The ESO Workgroup Member also presented the % of Settlement Periods affected by different price caps (Table 2). As an example, the ESO Workgroup Member noted that in Autumn 2021, 27.2% of Settlement Periods had a BSUoS cost > £10/MWh compared with 4.5% of Settlement Periods in 2017-2021 (excluding Autumn 2021). The backing data for this analysis is included in Annex 5.

The ESO Workgroup Member held the view that what could be considered a 'standard' BSUoS Price has changed in 2021 compared to prior years. Where a £10/MWh cap would have previously only affected a smaller percentage of Settlement Periods (such as 3.9% of Settlement Periods in Autumn 2019) it would have affected 27.2% of Settlement Periods in Autumn 2021 and 12.2% of Settlement Periods in 2021.

A £20/MWh cap would have affected 9.2% of Settlement Periods during Autumn 2021, which would be a similar order of magnitude as the 7.0% of Settlement Periods affected during the Covid Support Scheme by a £10/MWh cap.

Figure 2, a slide produced by the ESO, provides a snapshot of the results of this data along with some ESO commentary related to these results.

These results are supplemented by calculating the mean BSUoS Price and standard deviation for different time windows, as can be seen in Table 3. The backing data for this analysis is included in Annex 5.

By adding 2 standard deviations to the mean value, it is possible to understand what constitutes a price which could be considered reasonably likely to occur within a data sample. In the case of time prior to Autumn 2021, or during the Covid Support Scheme, the sum of the mean and two standard deviations was around £9-11/MWh. During Sep-Dec 2021 that has risen to around £31/MWh. In 2021 overall, this value is around £20/MWh.

Typically, a data point is considered an outlier/extreme if it is greater than 2 standard deviations away from the mean value. In 2021, this would be true if the value was greater than £19.77/MWh. Since Q1 2020/21 (from April 2020), a BSUoS price of £10/MWh would fall within 2 standard deviations of the mean BSUoS Price in all quarters barring one.

Table 2

BSUoS Price (£/MWh)	2017-2021 w/o Autumn 2021	2021	Autumn 2021	Autumn 2019	Covid 2020
<0	0.3%	0.5%	1.9%	0.0%	0.0%
0 - 0.99	6.3%	1.7%	3.2%	0.5%	0.5%
1 - 1.99	29.7%	9.3%	7.1%	20.5%	7.2%
2 - 2.99	54.0%	26.0%	14.7%	53.6%	32.3%
3 - 3.99	69.7%	45.6%	26.1%	71.5%	56.5%

4 - 4.99	79.4%	61.2%	39.4%	80.6%	71.0%
5 - 5.99	85.4%	71.3%	50.8%	86.3%	79.3%
6 - 6.99	89.5%	77.9%	58.8%	90.2%	85.0%
7 - 7.99	92.2%	82.3%	64.5%	92.8%	88.7%
8 - 8.99	94.1%	85.3%	68.8%	94.6%	91.0%
9 - 9.99	95.5%	87.8%	72.8%	96.1%	93.0%
10 - 10.99	96.5%	89.6%	75.9%	97.2%	94.3%
11 - 11.99	97.2%	91.1%	78.7%	98.5%	95.2%
12 - 12.99	97.9%	92.4%	81.2%	99.2%	95.8%
13 - 13.99	98.4%	93.4%	83.0%	99.4%	96.5%
14 - 14.99	98.8%	94.4%	84.6%	99.7%	97.4%
15 - 15.99	99.0%	95.1%	86.2%	99.9%	98.0%
16 - 16.99	99.2%	95.8%	87.8%	100.0%	98.4%
17 - 17.99	99.4%	96.3%	89.0%	100.0%	98.8%
18 - 18.99	99.5%	96.7%	90.1%	100.0%	99.0%
19 - 19.99	99.6%	97.0%	90.8%	100.0%	99.1%
20 - 20.99	99.7%	97.3%	91.8%	100.0%	99.3%
21 - 21.99	99.8%	97.5%	92.4%	100.0%	99.4%
22 - 22.99	99.8%	97.8%	93.3%	100.0%	99.6%
23 - 23.99	99.8%	97.9%	93.7%	100.0%	99.8%
24 - 24.99	99.9%	98.1%	94.1%	100.0%	99.8%
25 - 25.99	99.9%	98.3%	94.7%	100.0%	99.9%
26 - 26.99	99.9%	98.4%	95.2%	100.0%	100.0%
27 - 27.99	99.9%	98.6%	95.6%	100.0%	100.0%
28 - 28.99	99.9%	98.7%	96.0%	100.0%	100.0%
29 - 29.99	100.0%	98.9%	96.3%	100.0%	100.0%
30 - 30.99	100.0%	99.0%	96.7%	100.0%	100.0%
31 - 31.99	100.0%	99.1%	97.0%	100.0%	100.0%
32 - 32.99	100.0%	99.1%	97.2%	100.0%	100.0%
33 - 33.99	100.0%	99.2%	97.4%	100.0%	100.0%
34 - 34.99	100.0%	99.2%	97.5%	100.0%	100.0%
35 - 49.99	100.0%	99.5%	98.4%	100.0%	100.0%
50 - 99.99	100.0%	99.9%	99.7%	100.0%	100.0%
100+	100.0%	100.0%	100.0%	100.0%	100.0%

Table 3

Time window	Mean BSUoS Price	Standard Deviation	Mean + 1SD	Mean + 2SD
All time before autumn 2021	3.66	3.03	6.69	9.72
Sep-Dec 2021	9.16	10.86	20.02	30.89
COVID 2020	4.75	3.43	8.18	11.61
2021	5.99	6.89	12.88	19.77
Q1 2020/21	5.71	4.29	10.00	14.29
Q2 2020/21	4.80	3.08	7.88	10.97
Q3 2020/21	4.76	3.73	8.49	12.23
Q4 2020/21	4.50	4.01	8.51	12.52
Q1 2021/22	4.35	2.72	7.07	9.80

Q2 2021/22 (July and August)	5.25	2.98	8.24	11.22
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Figure 2 (ESO Views)

Analysis on different price caps

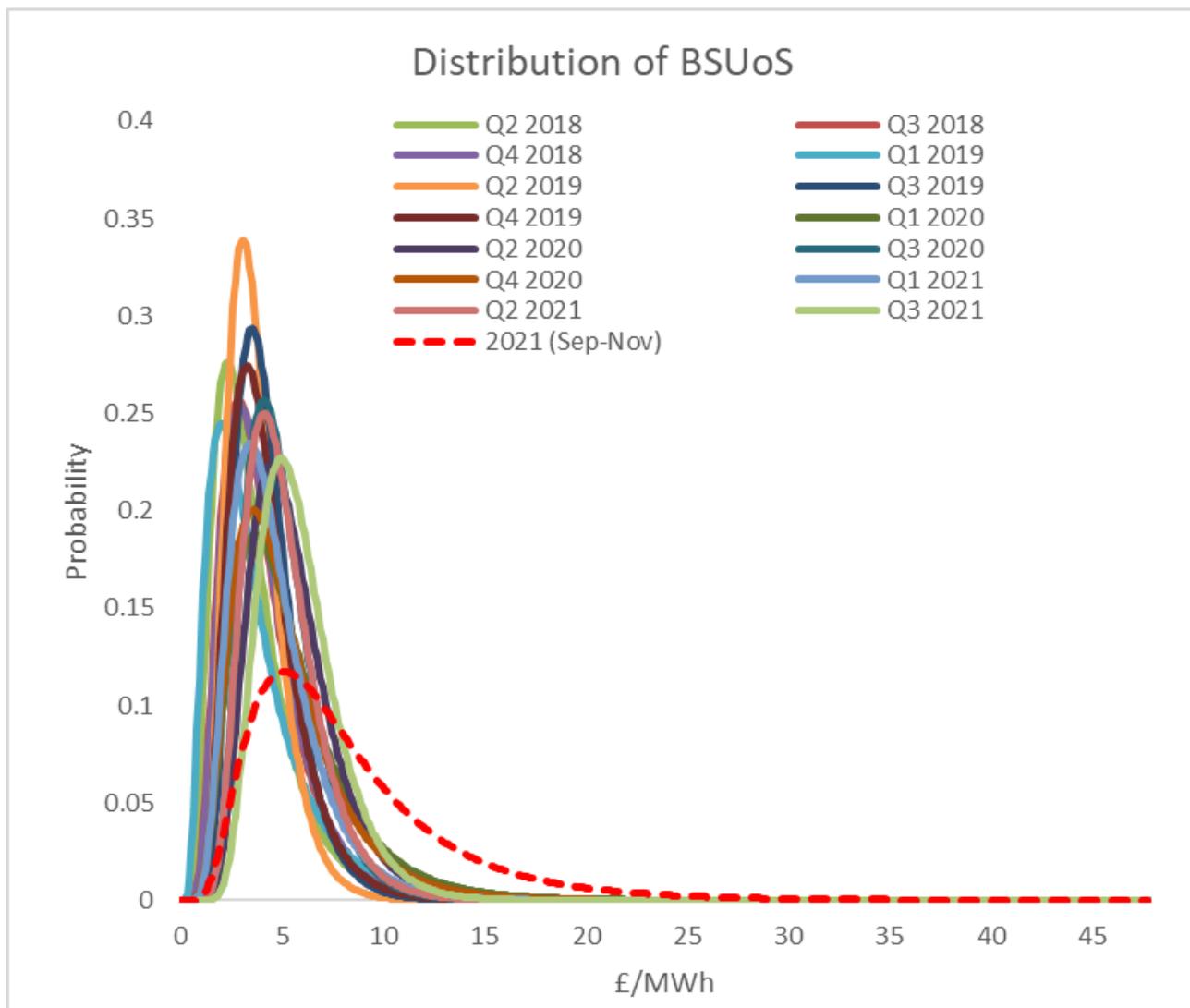
*SF Data up to 27th November, II data up to 13th December
 **Excluding Autumn 2021

	£10/MWh cap	£15/MWh cap	£20/MWh cap	£25/MWh cap
Sep-21	11.9%	7.4%	5.2%	4.6%
Oct-21	29.7%	14.8%	7.9%	3.5%
Nov-21*	39.9%	24.0%	14.4%	9.6%
Autumn 2021	27.2%	15.4%	9.2%	5.9%
2021	12.2%	5.6%	3.0%	1.9%
2017-2021**	5.1%	1.4%	0.4%	0.2%

- Table on the left indicates % of Settlement Periods affected by different price caps
- Prior to September 2021, a price cap of £10/MWh would typically have affected between 5-10% of Settlement Periods
- This indicates that such SPs are not unforeseen, as based on the historical average more than one SP reaches £10/MWh per day
- In Autumn 2021 a £10/MWh cap would have affected around 26% of SPs
- Where previously a £10/MWh was used for COVID, that affected around 7% of SPs in that period
- To affect an equivalent amount of SPs in Autumn 2021, a cap in the range of £20-£25/MWh would have been needed

- Since April 2017, only 78 SPs have had a BSUoS cost above £50/MWh - all of these have occurred since September 2021
- If a £50/MWh cap had been put in place from 1st Sep – 8th Dec 2021, £65.3m of BSUoS costs would have been deferred over those 78 SPs

Figure 3



Specific Workgroup Consultation Question: The CMP381 Original proposes to set a £10/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.

Defer the additional BSUoS costs above the cap to the 2022/23 charging year

Recover the additional BSUoS costs above the cap from 1 April 2022 (based on forecast if actuals are not available) and Recover the additional BSUoS costs above the cap from 1 April 2022 (based on forecast if actuals are not available)

The following table shows when ESO would invoice for the Settlement Day itself:

Settlement Day	When will ESO invoice for this Settlement Day?
1 January 2022	26 January 2022
17 January 2022	9 February 2022
31 March 2022	27 April 2022

Full implementation details can be found on Page 19.

The BSUoS costs to be deferred will be capped at £300m. However, if this doesn't happen the end date of the CMP381 BSUoS Support Scheme will be when the cap is reached, or 31 March 2022 (whichever is earliest).

As the ESO will not have all finalised data before recovery commences, they proposed the following:

- Recovery commences on 1 April 2022
- On 8 April 2022, ESO will publish the recovery costs per day, which will commence as of 1st April 2022. This will be made up of SF and II data; and
- On 28 April 2022, ESO will publish an updated figure to recover per day following all SF data being available.

The majority of the Workgroup agreed with this approach, but one Workgroup Member suggested delaying recovery to start from 28 April 2022 if that would be easier to manage logistically and another Workgroup Member proposed the possibility of just recovering through winter 2022.

Workgroup Consultation Question: The CMP381 Original seeks to defer the additional BSUoS costs above the cap to the 2022/23 charging year. Recovery of the deferred costs is proposed to commence from 1 April 2022. Do you agree with this approach? Please provide rationale for your response.

Recover an identical amount per day that is allocated to Settlement Periods on a chargeable volume weighted basis

The Workgroup supported:

- Recovering an identical amount per day that is allocated to Settlement Periods on a chargeable volume weighted basis.
 - The costs recovered in each settlement day are the same and the costs are volume weighted across the day through each settlement period i.e. when volume is highest in the day, the largest proportion of costs are paid
 - This is how the majority of BSUoS charges work in Business As Usual and is how the CMP373 is being recovered
- Recovery would start from 1 April 2022, which would be based on a forecast if the actual deferred costs are not known at this date e.g. if £300m.

The main reasons are:

- This in line with the approach used on CMP373;
- Appears to be fairer as this is the process as set out in the charging methodology in CUSC today for costs which are not incurred in a specific settlement period;
- Provides more certainty for BSUoS payers as to what they will be charged;
- Allocating the costs across FY 2022/23 is in line with the conclusions of the first BSUoS Task Force - the Workgroup noted that, when assessing the current BSUoS charge, the first Task Force concluded that it "does not currently provide any useful forward-looking signal which influences user behaviour to improve the economic

and efficient operation of the market” and concluded that BSUoS should be treated as a cost-recovery charge⁵; and

- Minimises any distortion by spreading them across as many Settlement Periods as possible as Balancing Services feed into Imbalance costs. By not weighting costs for low volume Settlement Periods, the distortion will be bigger.

Limit the BSUoS costs that would be deferred to £300m

The Proposer notes there is a limit to the amount of liquidity that could be provided by the ESO. The total costs which can be deferred in the original are to be limited to £300m (which effectively means the impact of the inaccuracy of forecast is being shared across ESO and industry).

The scheme will end if the £300m limit has been reached. This is consistent with the proven approach adopted for CMP345 and CMP350 and updated to reflect the exceptional prices now being seen in the market. The £300m cap includes the ESO’s financing and administration costs.

Whilst the proposed £300m deferral is in line with the support noted in CMP361, that number is an indicative value and will depend on ESO financing in future periods from Financial Year 23/24 onwards.

The ESO Workgroup Member noted that they are open to providing support to industry; however currently the ESO has other financial commitments, which makes this level of support, at short notice, very challenging for a legally separate company with a Regulatory Asset Value of £250m. These include:

- £100m of TNUoS funding - predominately the "k" factor demand under recovery from Financial Year 21, which the ESO will only recover in Financial Year 23; and
- Additional risks such as significant bad debt with the high number of suppliers that have ceased in Financial Year 22.

The ESO believe a more reasonable figure would be £200m for the overall support. As they believe this provides a significant level of support to industry whilst ensuring that the ESO can also maintain its existing commitments. The Proposer noted that Suppliers, who have been appointed recently as Supplier of Last Resort, faced similar cashflow risks and urged the ESO to support industry as much as possible.

Specific Workgroup consultation question: The CMP381 Original seeks to limit the additional BSUoS costs that would be deferred to £300m. Do you think it is appropriate to introduce a limit and if so to what value? Please provide the rationale for your response.

⁵ For more details see:

https://www.ofgem.gov.uk/system/files/docs/2020/12/response_to_the_second_bsuos_task_force_report.pdf

The Workgroup supported the ESO's proposal to re-instate reporting to show how close to the £300m limit, the additional BSUoS costs were. The majority of the Workgroup agreed with the ESO's proposal to:

- Publish a weekly update on the costs which have been deferred to date; and
- Should 80% of the total support limit be reached, then this will be updated each working day

This is in line with the approach implemented under CMP350 with one key exception. The scheme implemented under CMP350 included a requirement for at least 2 business days' notice from the ESO as to when the Covid BSUoS Support Scheme was to end. The ESO will, under reasonable endeavours, provide notification that the total support limit is likely to be reached within 2 Working Days, however, this may mean that the scheme ends sooner, or later, depending on when the limit is reached.

Some Workgroup members stated that industry would prefer the certainty of a notice to confirm the actual date, whilst another Workgroup member asked if starting with a daily update would be more appropriate and, in their view, avoid the need for any additional formal notice.

Specific Workgroup Consultation Question: What reporting frequency and end of CMP381 BSUoS Support Scheme notification would be of most use to you? Please provide justification for your response.

Draft Legal text

The Proposer has suggested legal text in their Proposal Form, which is included as Annex 1. The ESO Workgroup Member noted that Legal Text would be developed after the Workgroup Consultation has been launched.

What is the impact of this change?

Proposer's assessment against Code Objectives

Proposer's assessment against CUSC Charging Objectives

Relevant Objective	Identified impact
(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;	Positive We believe this proposal will have a positive impact on consumers as it spreads the recovery of a portion of the exceptional BSUoS costs over a longer period, providing time for consumers to budget for these exceptional costs at a

	time of already extreme power prices. Further it reduces the risk of further destabilisation of industry participants, to mitigate against further insolvencies that would simply lead to greater costs for consumers, and further disruption of the market.
(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);	Positive This enables all costs incurred by transmission licensees to be recovered, but over a period of time that is more manageable and will drive greater payment from industry participants. Paradoxically, seeking to recover costs in a shorter period (i.e. by not introducing this modification) could ultimately result in less cost being recovered by transmission licensees due to the risk of driving further industry insolvency and non-payment leading to stranded costs.
(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;	Positive This is fully consistent with para (a), similar in approach to previous modifications that have been approved and adopted successfully.
(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and	Neutral
(e) Promoting efficiency in the implementation and administration of the system charging methodology.	Neutral There should be little, if any, system impact as the change can use the processes introduced by CMP345 and CMP350.
*Objective (d) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).	

Standard Workgroup consultation question: Do you believe that CMP381 Original proposal or any of the potential alternative solutions better facilitates the Applicable Objectives?

Workgroup assessment of Impacts

Consumers

The Workgroup identified different Consumer groups and summarised the impacts in the table below:

Consumer Categories	With CMP381	Without CMP381
Domestic – on Default Tariff Cap	Could reduce price impact from October 2022	Not incurring costs at the moment but may experience increased costs in future when new Price Cap in October 2022 is calculated
Domestic – not on Default Tariff Cap	Not see any change until they come until end of their fixed tariff – will depend on whether they move onto the Supplier Variable Tariff or move to another fixed tariff	Not incurring costs at the moment but will experience increased costs once they get to the end of their fixed price contract
Non-Domestic – Not BSUoS cost pass through	Not see any change until they come until end of their fixed tariff – will depend on whether they move to another fixed tariff or the out of contract tariff	Will incur costs at the same time as Suppliers will
Non-Domestic – BSUoS cost pass through	22/23 BSUoS prices slightly higher but predictable (assuming no reoccurrence)	Significant price shocks for 2021/22

Suppliers

As Suppliers have sold many fixed price products over the latter half of 2021, without these exceptional BSUoS prices taken into account, they could be exposed to significant losses without this mitigation. In the current retail market this could drive more suppliers to leave the market, thereby reducing competition and therefore competitive forces which keep prices low for customers. Where customers are on the Default Tariff, the current price cap provides Suppliers with a BSUoS allowance of £4.35/MWh which is fixed until March 2022. This compares to an observed outturn to date for Winter-21 of £10.66/MWh (SF data to

27th Nov). Suppliers with customers on the Default Tariff are therefore exposed to a significant shortfall attributable to the current high BSUoS rates. Suppliers with a higher percentage of Customers on the Default Tariff Cap will experience more of an adverse impact and hence this will distort competition.

Further supplier failures would place unprecedented pressure on different parts of the industry and so could have unforeseen whole-system consequences. Information about the likelihood of BSUoS costs driving supplier failure is difficult to quantify as this is commercially sensitive information for individual organisations. This information could be shared with Ofgem directly, should parties wish to.

Deferring costs to a future period will allow Suppliers to reflect a portion of these costs into future tariff offerings. Such protection will reduce the level of risk that will need to be factored into future tariffs and facilitate effective competition in the generation and supply of electricity and as a result, lower the long-term costs to consumers.

Suppliers – Impact on Default Tariff Cap

Suppliers currently operate under a tariff cap regime for domestic customers. The Default Tariff Cap sets a maximum amount that can be charged for a typical domestic customer on a default tariff i.e. a standard variable tariff or a default fixed term or prepayment tariff.

The Supply Licence (Condition 28AD) and supporting annexes set out the methodology for calculating the level of the Default Tariff Cap. The tariff cap is currently scheduled to expire on 31 December 2023. At the beginning of every February and August, Ofgem publish the level of the cap for the forthcoming charge restriction period, which run from April to September (Summer) and October to March (Winter). The cap provides allowances for wholesale costs and network costs (including BSUoS), as well as for other costs, and is set at a level which reflects Ofgem’s view of efficient costs.

The BSUoS element of the tariff cap methodology is currently set on a lagged pass-through basis. Specifically, the BSUoS allowance is derived using a volume weighted average of BSUoS charges in £/MWh in each settlement period across the preceding year ahead of publication of the tariff cap level. The summer (Apr-Sep) tariff cap uses BSUoS data from the previous calendar year and the winter tariff cap (Oct-Mar) uses BSUoS data from 1 July in the previous year to 30 June. This weighted average charge is then uplifted by forecast losses before being multiplied by annual domestic consumption to provide the BSUoS allowance in the tariff cap.

Should CMP381 be implemented, the amount of BSUoS costs deferred would be recovered between April 2022 and March 2023, and this would flow through to the Default Tariff Cap over four price cap periods starting from October 2022. If CMP381 is not implemented, the amount that would have been deferred would instead be recovered over two price cap periods starting from October 2022.

Assuming that £300m would be deferred under CMP381, this is illustrated in the following example:

Jan-Mar 2022	Apr-Jun 2022	Jul-Sep 2022	Oct-Dec 2022	Jan-Mar 2023
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Amount Deferred (£m)	-£300				
Amount Recovered (£m)		£75	£75	£75	£75

	Latest Price Cap Model
Industry BSUoS Volume (MWh)	466,638,748
Domestic consumption (MWh)	3.1
BSUoS losses adjustment (%)	110%

Impact on Price Cap	Data used	Amount included in cap calculation (£m)		Impact on cap level (£/year)	
		Status Quo	CMP381	Status Quo	CMP381
2022-23 Summer	Jan-21 to Dec-21	£0	£0	£0.00	£0.00
2022-23 Winter	Jul-21 to Jun-22	£300	£75	£2.18	£0.55
2023-24 Summer	Jan-22 to Dec-22	£300	£225	£2.18	£1.64
2023-24 Winter	Jul-22 to Jun-23	£0	£225	£0.00	£1.64
2024-25 Summer*	Jan-23 to Dec-23	£0	£75	£0.00	£0.55

*assuming price cap is extended beyond current scheduled end date

Generators

- Generators in Great Britain are faced with these sudden and substantial additional costs which they are unable to fully recover in the wholesale market given forward trading timescale and therefore could cease trading or operating which, could impact on the security of the electricity system.
- The effects on Generators will depend on their contractual positions.
 - Those who have contracted a significant amount of their power over the long term will benefit either by relieving losses resulting from under-forecasting BSUoS or providing additional gains in periods when BSUoS was anticipated correctly.
 - Those operating in shorter term markets such as day-ahead, intraday and the Balancing Mechanism would find it more difficult to predict when and how often the cap might take effect as the relationship between demand and price levels becomes less clear for lower levels of price cap.
- Ofgem's recent [open letter](#) identifies high balancing costs as one of the drivers for the significant increase in BM offer prices. This is because Generators need to factor the risk of high BSUoS prices into their offer price – therefore CMP381 could have a material impact on offer prices by removing uncertainty in expected BSUoS costs above £10/MWh. This would reduce offer prices and provide benefits to all (reduced

risk to Generators offering services and reduced BSUoS costs for generators, suppliers and consumers).

Traders

- Any changes to BSUoS impact wholesale prices. Impact wholesale prices, by virtue of reduced risk premia
- Likewise, the carryover of £300m into 2022/23 will impact forward prices.

ESO

- The £300m deferral, proposed in the CMP381 Original represents a significant cashflow risk for ESO and reported financial loss of up to £300m for FY22. This will be rectified in FY23 as a £300m profit. In general, under a lower BSUoS price cap, this cost will increase, increasing the exposure of the ESO. This could have an impact on future financeability.
- ESO noted cashflow risks in the event of a £300m deferral and they have other financial commitments, which makes this level of support, at short notice, very challenging for a legally separate company with a Regulatory Asset Value of £250m.
- The re-introduction of a BSUoS cap to the total amount of deferred BSUoS costs will add an additional step to the ESO's process and will require additional monitoring by the ESO. This will increase the resource requirements in the revenue team for both daily reporting and increase HMRC reporting (due to increased settlement periods where the cap is breached). However, this is not expected to be difficult to implement as was already implemented for CMP345 and CMP350.

Specific Workgroup consultation question: Does the CMP381 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 Ofgem's Urgency Criteria.*

When will this change take place?

Implementation date

17 January 2022 (effective from 1 January 2022)

Date decision required by

14 January 2022

Implementation approach

The Workgroup noted that the Billing cycle being 16 working days after the actual date (which means invoicing on 26 January 2022 for BSUoS costs incurred on 1 January 2022)

so the CMP381 Original seeks to implement CMP381 for it to apply to BSUoS bills issued after the Implementation Date. The Workgroup recognises that this could effectively constitute a retrospective implementation, as it would apply to BSUoS prices for days which occurred prior to the implementation date.

Some Workgroup Members expressed concerns that this potentially sets a precedent for retrospectivity in future modifications, whilst other Workgroup Members queried if this wouldn't allow parties time to account for this in their trading positions, and this could potentially undermine confidence in the market.

Standard Workgroup consultation question: Do you support the implementation approach?

Specific Workgroup consultation question: CMP381 Original would apply to BSUoS prices with effect from 1 January 2022. Do you have any concerns with this approach? Please provide rationale for your response.

Interactions

- | | | | |
|---|---|--|--------------------------------|
| <input type="checkbox"/> Grid Code | <input type="checkbox"/> BSC | <input type="checkbox"/> STC | <input type="checkbox"/> SQSS |
| <input type="checkbox"/> European Network Codes | <input type="checkbox"/> EBR Article 18 T&Cs ⁶ | <input type="checkbox"/> Other modifications | <input type="checkbox"/> Other |

No interactions identified.

How to respond

Standard Workgroup consultation questions

1. Do you believe that the CMP381 Original proposal or any of the potential alternative solutions better facilitates the Applicable Objectives?
2. Do you support the proposed implementation approach?
3. Do you have any other comments?
4. Do you wish to raise a Workgroup Consultation Alternative request for the Workgroup to consider?

Specific Workgroup consultation questions

5. The CMP381 Original proposes to set a £10/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.
6. The CMP381 Original seeks to limit the additional BSUoS costs that would be deferred to £300m. Do you think it is appropriate to introduce a limit and if so to what value? Please provide the rationale for your response.
7. The CMP381 Original seeks to defer the additional BSUoS costs above the cap to the 2022/23 charging year. Recovery of the deferred costs is proposed to

⁶ If the modification has an impact on Article 18 T&Cs, it will need to follow the process set out in Article 18 of the Electricity Balancing Regulation (EBR – EU Regulation 2017/2195) – the main aspect of this is that the modification will need to be consulted on for 1 month in the Code Administrator Consultation phase. N.B. This will also satisfy the requirements of the NCER process.

commence from 1 April 2022. Do you agree with this approach? Please provide rationale for your response.

8. What reporting frequency and end of CMP381 BSUoS Support Scheme notification would be of most use to you? Please provide justification for your response.
9. CMP381 Original would apply to BSUoS prices with effect from 1 January 2022. Do you have any concerns with this approach? Please provide rationale for your response.
10. Does the CMP381 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 Ofgem's Urgency Criteria.*

The Workgroup is seeking the views of CUSC Users and other interested parties in relation to the issues noted in this document and specifically in response to the questions above.

Please send your response to cusc.team@nationalgrideso.com using the response proforma which can be found on the [CMP381 modification page](#).

In accordance with Governance Rules if you wish to raise a Workgroup Consultation Alternative Request please fill in the form which you can find at the above link.

If you wish to submit a confidential response, mark the relevant box on your consultation proforma. Confidential responses will be disclosed to the Authority in full but, unless agreed otherwise, will not be shared with the Panel, Workgroup or the industry and may therefore not influence the debate to the same extent as a non-confidential response.

Acronyms, key terms and reference material

Acronym / key term	Meaning
BSC	Balancing and Settlement Code
BSUoS	Balancing Services Use of System
CMP	CUSC Modification Proposal
CUSC	Connection and Use of System Code
EBR	Electricity Balancing Guideline
ESO	Electricity System Operator
II	Interim Initial
SF	Settlement Final
STC	System Operator Transmission Owner Code
SQSS	Security and Quality of Supply Standards
SVT	Supplier Variable Tariff
T&Cs	Terms and Conditions
TNUoS	Transmission Network Use of System Charges

Reference material

- None

Annexes

Annex	Information
Annex 1	Proposal form
Annex 2	Terms of Reference
Annex 3	Urgency letters
Annex 4	Workgroup Meeting 1 – Presentation
Annex 5	CMP381 Analysis