Workgroup Report

CMP381: Defer exceptionally high Winter 2021/22 BSUoS costs to 2022/2023

Overview: To set a £/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.

Modification process & timetable

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 Date**
   TBC by Ofgem

Have 5 minutes? Read our Executive summary

Have 20 minutes? Read the full Workgroup Report

Have 30 minutes? Read the full Workgroup Report and Annexes.

Status summary: The Workgroup have finalised the proposer's solution as well as 5 alternative solutions. They are now seeking approval from the Panel that the Workgroup have met their Terms of Reference and can proceed to Code Administrator Consultation.

This modification is expected to have a:
High impact on Consumers, Suppliers, Traders, Generators and National Grid ESO

Governance route	This modification has been assessed by a Workgroup and Ofgem will make the decision on whether it should be implemented.	
Who can I talk to about the change?	**Proposer:** Simon Vicary Simon.vicary@edfenergy.com Phone: 07875 110 961	**Code Administrator Chair**: Paul Mullen Paul.j.mullen@nationalgrideso.com Phone: 07794 537 028

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Executive summary

This modification seeks to set a £/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.

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. Therefore, they propose the re-introduction of a BSUoS cap, using a similar mechanism to that previously approved under CMP345[1] and CMP350[2].

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. There will be a weekly report of the percentage utilisation of the deferred amount, moving to daily reporting when 60% of total support has been used.**

Implementation date: Specified by Ofgem - Proposer has sought for this to be effective from the 1st Settlement Period on 1 January 2022

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

The table below sets out the other solutions developed by the Workgroup. These build on the CMP381 Original by varying either the BSUoS price cap, the effective date of the BSUoS price cap and/or the limit the BSUoS costs that could be deferred**.** For completeness, we have shown how these other solutions compare with CMP381 Original:

[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.

Other Solutions	Limit for the amount of deferred BSUoS Costs	BSUoS Price Cap	Effective Date
CMP381 Original	*£300m*	*£10/MWh*	From 1 January 2022 to 31 March 2022
WACM1	£300m	£10/MWh	From Ofgem Implementation Date to 31 March 2022
WACM2	£200m	£10/MWh	From Ofgem Implementation Date to 31 March 2022
WACM3	£200m	£15/MWh	From Ofgem Implementation Date to 31 March 2022
WACM4	£200m	£20/MWh	From Ofgem Implementation Date to 31 March 2022
WACM5	£200m	£50/MWh	From Ofgem Implementation Date to 31 March 2022

Workgroup conclusions: The Workgroup concluded by majority that the Original and WACMs 1 – 5 inclusive better facilitated the Applicable Objectives than the Baseline.

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[3] and CMP361 and CMP362) which seek to deliver an enduring framework for BSUoS from April 2023.

This modification has no interactions with EBR[4] Article 18 Terms and Conditions.

[3] A respondent to the Workgroup Consultation asked Ofgem to urgently decide on CMP308 and for Implementation to be earlier than 1 April 2023

[4] 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.

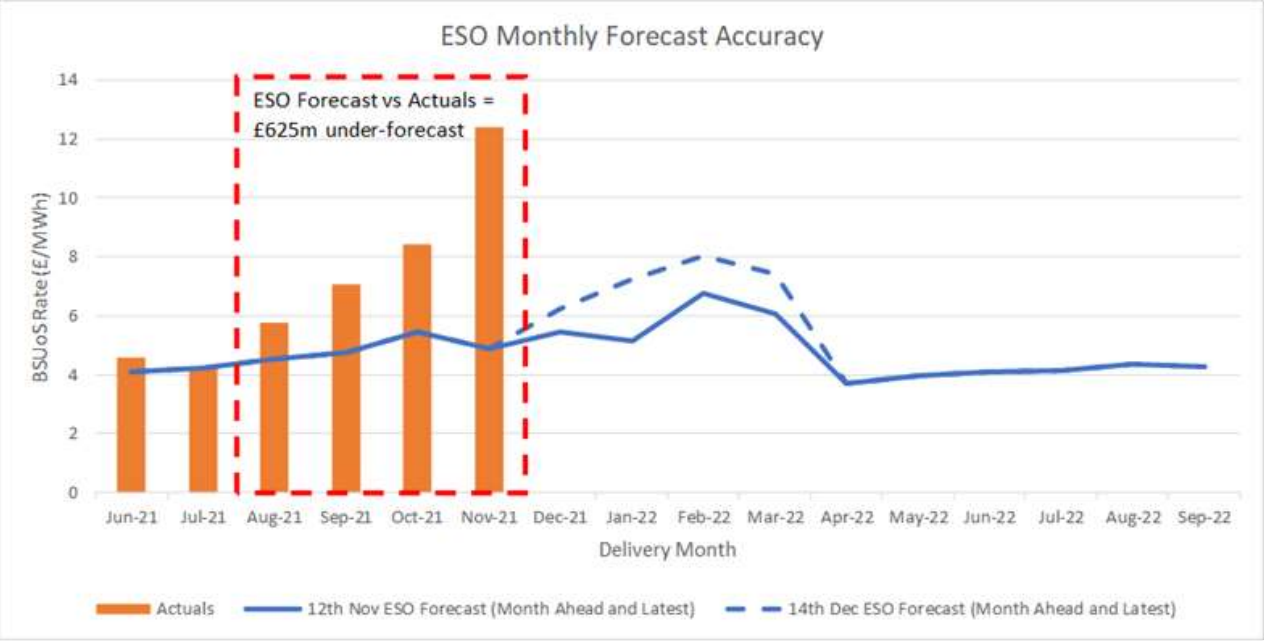
The Proposer's analysis shows this will continue throughout Q1 2022 and believes this will lead to more risk of supplier failures and increased pressure on Generators. Therefore they propose the re-introduction of a BSUoS cap, using a similar mechanism to that previously approved under CMP345 and CMP350.

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 2021[5], 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

[5] 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. There will be a weekly report of the percentage utilisation of the deferred amount, moving to daily reporting when 60% of total support has been used.**

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. One Workgroup Member concluded that from the distribution covering September – November 2021, BSUoS costs are out-turning higher than £10/MWh considerably more than they were in previous periods and in their opinion, this shows that that BSUoS above £10/MWh can be regarded as exceptional.

Some Workgroup Members argued that no parties could have been reasonably expected to account for BSUoS costs at the current levels, when prudently hedging their Q1 2022

power price exposure in the forward energy market; 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.

The Workgroup also discussed whether these higher prices were the new normal and agreed it was difficult to come to a conclusion on this and there was a recognition that this was subjective.

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

The majority of the Workgroup (and 12 of the 16 respondents to the Workgroup Consultation) believe that £10/MWh is a reasonable cap (this was used in CMP350) as it will significantly reduce pricing of unpredictable tail risk into prompt wholesale electricity prices. The Proposer noted that this is 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.

In the CMP381 Original, 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 Members 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	£1 5 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 would not 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**

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-£25MWh 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

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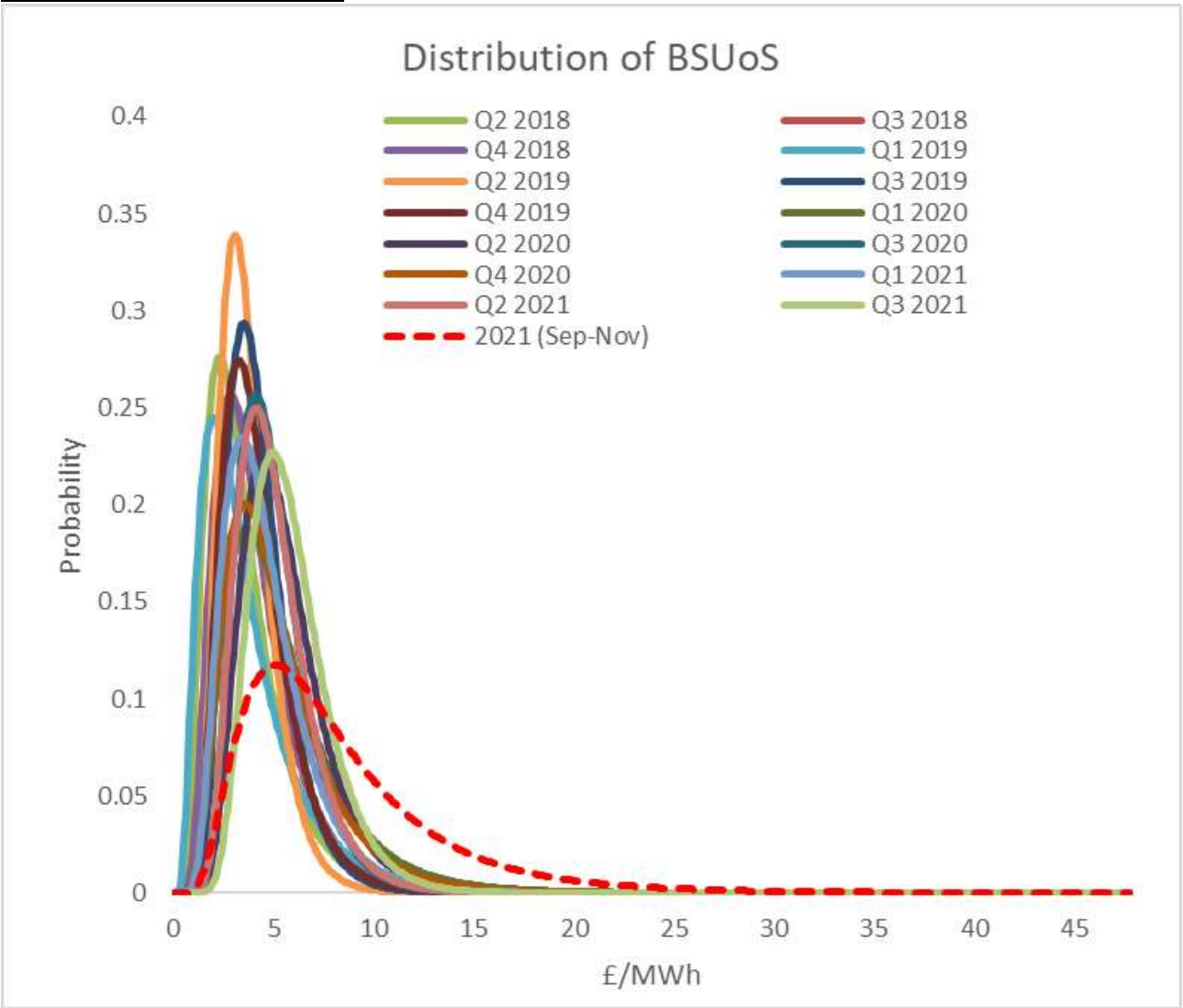
Figure 3 (E.ON Analysis)

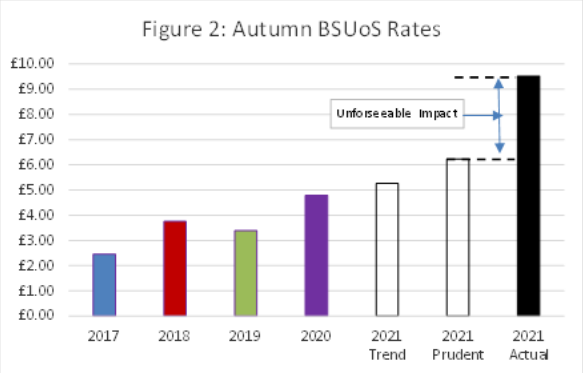


A respondent to the Workgroup Consultation provided their analysis to support the proposed £10/MWh cap. In their view, their analysis:

1. Objectively derives **£6.23/MWh** as an average BSUoS rate which a prudent market participant could have reasonably foreseen for Autumn 2021; and
2. Derives the Half Hourly cap (**£9.87/MWh**) which would have delivered this prudent average BSUoS rate.

A trend of observed BSUoS rates over previous autumns is first used to project what a market participant could have anticipated for the autumn 2021 BSUoS rate. This provides an estimated 'central view' BSUoS rate of £5.26/MWh. The analysis then builds in an error margin to reflect the likely actions a prudent market participant would take. For this, the BSUoS variability analysis conducted by the ESO and published as Table 4 in the CMP361/CMP362 Code Administrator Consultation[6] is used. That analysis estimates a quarterly P80 level of BSUoS cost variability of £122m, which equates to £0.97/MWh for Autumn 2021. Adding this P80 variability risk to the central view above gives a prudent BSUoS estimate of £6.23/MWh. Figure 2 below compares this prudent estimate to outturn BSUoS rates.

[6] https://www.nationalgrideso.com/document/224286/download – Table 4 is on page 16



To find the cap level required to produce the prudent BSUoS rate for Autumn 2021 (i.e. £6.23/MWh as described above), the analysis takes published half hourly SF BSUoS prices for September 2021 to November 2021 and utilises Excel's goal seek functionality. The resulting Half Hourly BSUoS cap required is £9.87/MWh, which in the view of the respondent to the Workgroup Consultation supports a £10/MWh cap. The data and calculations supporting this analysis is included in Annex 5.

As part of the responses to the Workgroup Consultation, alternative BSUoS caps were proposed – namely £15/MWh, £20/MWh and £50/MWh. These are discussed further in the section on "Workgroup Alternatives".

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

The CMP381 Original and WACM1 limits the BSUoS costs to be deferred at £300m, whilst WACMs 2 – 5 inclusive limit this support to £200m. 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 and concluded on this basis for the CMP381 Original and each of WACMs 1- 5 inclusive.

One Workgroup Member (supported by one respondent in the Workgroup Consultation) 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 although there was no support for this expressed in the Workgroup Consultation. However, neither of these approaches were taken forward.

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 Financial Year 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 charge[7]; 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 Workgroup noted 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 CMP381 Original and WACM1 are to be limited to £300m (which, in the view of the Proposer, effectively means the impact of the inaccuracy of forecast is being shared across ESO and industry).

[7] For more details see: https://www.ofgem.gov.uk/system/files/docs/2020/12/response_to_the_second_bsuos_task_force_report.pdf

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.

Some Workgroup Members argued that under CMP361/362, the ESO noted that they can provide a £300m working capital facility to manage the fixing of BSUoS and although they understand that ESO have other working capital commitments this year (such as TNUoS), they believe that £300m is an appropriate limit. 12 out of 16 respondents supported the proposed £300m deferral limit (or higher). The ESO Workgroup Member stated that 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 also 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;
- Additional risks such as significant bad debt with the high number of suppliers that have ceased in Financial Year 22; and
- Uncertainties resultant from ESO's role as industry revenue collection agent as well as further ongoing regulatory change.

The ESO concluded that the maximum support they can provide is £200m and they believe this provides a significant level of support to industry whilst ensuring that the ESO can also maintain its existing commitments. Workgroup Alternatives were proposed that included a limit of £200m rather than £300m with the argument that if a limit of £300m cannot be facilitated by the ESO then this is likely to prevent a solution including a £300m deferral limit from being implemented. A respondent to the Workgroup Consultation suggested a limit of £500m; however, no request for Workgroup Alternative was raised and the same respondent recognised the constraints on the ESO.

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.

There will be a weekly report of the percentage utilisation of the deferred amount, moving to daily reporting when 60% of total support has been used.

The Workgroup supported the ESO's proposal to re-instate reporting to show how close to the £m 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 60%[8] of the total support limit be reached, then this will be updated each working day

This is 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 CMP381 BSUoS Support 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 that the CMP381 BSUoS Support Scheme ends. However, to ensure that this scheme isn't ended early due to forecasting a cluster of high cost periods which may not materialise, the ESO Workgroup Member clarified that the CMP381 BSUoS Support Scheme will be ended in the Settlement Period immediately prior to the one in which the £m limit was exceeded.

Another Workgroup member (supported by 3 respondents to the Workgroup Consultation) asked if starting with a daily report of the percentage utilisation of the deferred amount would be more appropriate and, in their view, avoid the need for any additional formal notice. Daily reporting would allow parties to appropriately price their wholesale market bids and offers to account for BSUoS costs as best they can for the balance of Q1 2022; otherwise they would arguably price in more BSUoS cost risk. However, the Workgroup on balance concluded that daily reporting would only be needed once 60% of the total support limit is reached.

Workgroup Consultation summary

The Workgroup held their Workgroup Consultation between 23 December 2021 and 29 December 2021 and received 17 responses (16 non-confidential and 1 confidential response). A summary of the non-confidential responses and the full non-confidential responses can be found in Annexes 6 and 7 respectively. In summary:

- 12 out of 16 respondents supported the Original and the £10/MWh BSUoS Cap although 1 of these respondents proposed that Effective Date and Implementation Date are the same and raised a Workgroup Alternative raised on this basis. Alternative BSUoS Caps of £15/MWh, £20/MWh and £50/MWh have also been proposed – these are further explored in the "Workgroup Alternatives" section of this document;

- 10 out of 16 respondents supported an Effective Date of 1 January 2022 as these BSUoS prices won't have been invoiced by the Implementation Date (if 17 January 2022 as per Urgent timeline) whilst others noted the general concerns of "retrospectivity" undermining market confidence and that this will cause issues for those parties who seek to reflect expectations of BSUoS costs into their operations closer to real time;

[8] This was originally 80% but has been amended following the Workgroup Consultation

- 12 out of 16 respondents supported the proposed £300m deferral limit or higher. 2 respondents proposed £200m and Workgroup Alternatives have been raised on this basis;

- On the ESO reporting on progress against the agreed deferral limit, there were a mix of views with 3 respondents asking for daily reporting to kick in straight away whilst others were happy with weekly reporting until a certain % (options ranged from 60% to 80%) of the limit reached and thereafter daily reporting. Following Workgroup discussion, the Workgroup concluded there will be a weekly report of the percentage utilisation of the deferred amount, moving to daily reporting when 60% of total support has been used; and

- Additional impacts particularly on Consumers and Small Suppliers were brought out and these have been reflected in the "Workgroup Assessment of Impacts" section of this document.

Workgroup Alternatives

Following review of the Workgroup Consultation responses, the Workgroup assessed the CMP381 Original and any potential solutions brought forward by the Workgroup which built on the CMP381 Original by varying either the BSUoS price cap, the effective date of the BSUoS price cap and/or the limit the BSUoS costs that could be deferred**.** For completeness, we have shown how these other solutions compare with CMP381 Original:

Other Solutions	Limit for the amount of deferred BSUoS Costs	BSUoS Price Cap	Effective Date
CMP381 Original	*£300m*	*£10/MWh*	From 1 January 2022 to 31 March 2022
Request for Workgroup Alternative 1 – *this became WACM1*	£300m	£10/MWh	From Ofgem Implementation Date to 31 March 2022
Request for Workgroup Alternative 2 – *this became WACM2*	£200m	£10/MWh	From Ofgem Implementation Date to 31 March 2022
Request for Workgroup Alternative 3 – *this became WACM3*	£200m	£15/MWh	From Ofgem Implementation Date to 31 March 2022
Request for Workgroup Alternative 4 – *this became WACM4*	£200m	£20/MWh	From Ofgem Implementation Date to 31 March 2022
Request for Workgroup Alternative 5 – *this became WACM5*	£200m	£50/MWh	From Ofgem Implementation Date to 31 March 2022

The £200m Limit for the amount of deferred BSUoS Costs is discussed earlier in the "Limit the BSUoS costs that would be deferred to £300m" section of this document.

The Effective Date is discussed later in the "When will this change take place" section of this document.

The other component is the level of BSUoS Price Cap. Three alternative BSUoS Price Caps were proposed – these were:

BSUoS Price Cap	Justification as to why this BSUoS Price Cap may better facilitate the CUSC Objectives than the CMP381 Original
£15/MWh	• Argue that £10/MWh is too low. Accept that this was the level set for CMP350, but the proposer of this BSUoS Price Cap originally argued in respect of CMP345 that £15/MWh was more representative of exceptionally high BSUoS prices. • £200m is likely to be the limit on how much cashflow the CMP381 BSUoS Support Scheme is able to carry and therefore £15/MWh ensures that the limit is not reached too quickly and therefore seeks to provide protection for the whole period to the 31 March 2022.This should allow the benefits to reach a wider range of participants and customers, not just those with volumes weighted more to earlier months.
£20/MWh	• Argue that £20/MWh is more reflective of what constitutes an unforeseen BSUoS Price. Across Autumn 2021 (September - November), 9.2% of Settlement Periods had a BSUoS Price exceeding £20/MWh. This is a similar proportion to the 7.0% of Settlement Periods which exceeded £10/MWh during the Covid Support Scheme implemented under CMP345 and CMP350. It seems reasonable to defer the costs from a similar proportion of Settlement Periods as was done for that time period, while adjusting as BSUoS Prices are now higher. • BSUoS prices have historically been higher in winter than in summer, so it seems reasonable to set a higher cap for a winter deferral period than a summer one. • Over the calendar year 2021, the mean BSUoS Price for a Settlement Period has been £5.99/MWh with a standard deviation of £6.89/MWh. Therefore, the sum of the mean and two standard deviations (for a dataset which is approximately a normal distribution, this gives around 95% confidence) for 2021 is £19.77/MWh. Consequently, the ESO proposes a £20/MWh cap to limit any extreme Settlement Periods which go above this value (rounding up to £20/MWh for simplicity.
£50/MWh	• Argues that by capping at £50/MWh you would account for the truly exceptional circumstances seen in the market currently • Notes that BSUoS prices of £50/MWh have never been seen before September 2021. To illustrate, from September 2021 – 3rd December 2021, £207,766,443 was spent in BSUoS costs across the 78 Settlement Periods where the BSUoS Price exceeded £50/MWh. This accounts for around 30% of the total difference

	between prior ESO forecasts and outturn BSUoS costs over the past 4 months. By capping such extreme Settlement Periods, £65.3m would have been deferred. • In comparison to the Covid Support Scheme implemented under CMP345 and CMP350, what constitutes an extreme BSUoS price has changed and therefore a higher price cap than the one implemented in CMP345 and CMP350 is appropriate. • BSUoS prices have historically been higher in winter than in summer, so it seems reasonable to set a higher cap for a winter deferral period than a summer one.

Some Workgroup Members argued that if the BSUoS price cap is too low, then (depending on how your view of future BSUoS prices) the CMP381 BSUoS Support Scheme is potentially all used up early and arguably the support would only reach a limited number of market participants and future consumer burdens would be greater. Additionally, if the support is all used up it wouldn't necessarily be available for a similar future mechanism (if a need should arise). However, some Workgroup Members noted that a BSUoS price cap of £50/MWh would not offer sufficient support to market participants. A Workgroup Member added that if there is a BSUoS cap, then parties would potentially add lower risk premia, meaning lower BSUoS prices and the deferred limit not being used up as quickly as may be expected. In their opinion, this is justification for a lower BSUoS cap.

The Workgroup reviewed all of these proposed solutions and following, this review, all five of these were voted on and taken forward by the Workgroup. The Request for Alternative 5 did not receive majority support from the Workgroup. However, the Chair noted that although the £50/MWh BSUoS price cap covers exceptional costs, it is possible that the Request for Alternative 5 may better facilitate the overall objectives than the Original for some market participants and it would be prudent to present this option to Ofgem, who expressed a wish to see a range of options. The Chair therefore decided that this should be progressed as WACM5.

Legal Text

The Legal Text for all the proposed solutions can be found in Annex 9

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).	

Workgroup assessment of Impacts

Consumers

The Workgroup identified different Consumer groups and summarised the impacts in the table below. This has been updated following feedback during the Workgroup Consultation from parties representing Consumers:

Consumer Categories	With CMP381	Without CMP381
Domestic – on Default Tariff Cap	Recovery of exceptional costs from Q1 2022 spread over 2 years from October 2022. Could reduce price impact from October 2022 to September 2023; however, price impacts in subsequent cap periods would need to increase to compensate.	Recovery of exceptional costs from Q1 2022 spread over 1 year from October 2022. Could increase price impact from October 2022 to September 2023; however, there would be no price impact in subsequent cap periods
Domestic – not on Default Tariff Cap	Not see any change until the end of their fixed tariff. Future fixed tariff may include deferred costs associated with CMP381 but may also include lower risk premium as a result exceptional costs addressed by CMP381	Not see any change until the end of their fixed tariff. Future fixed tariff will not include costs associated with CMP381 but may include higher risk premium as a result of exceptional costs not addressed by CMP381
Non-Domestic – Not BSUoS cost pass through	Not see any change until the end of their fixed tariff. Future tariff may include	Not see any change until the end of their fixed tariff. Future fixed tariff will not

	deferred costs associated with CMP381 but may also include lower risk premium as a result exceptional costs addressed by CMP381	include costs associated with CMP381 but may include higher risk premium as a result of exceptional costs not addressed by CMP381
Non-Domestic – BSUoS cost pass through	Exceptional Q1 2022 BSUoS costs deferred to be recovered in a predicable manner in 22/23 directly charged to the Consumer	Continued exceptional BSUoS prices for Q1 2022 but lower BSUoS costs in 22/23 directly charged to the Consumer

In summary, Consumers will be impacted differently but will in general end up paying higher costs in the short term (to the extent that improved cost pass-through is achieved) but with potential longer-term benefits through reduced risk premiums, reflecting the reduced risk associated with the recovery of efficiently incurred costs.

To try and answer the question what portion of the deferred costs would be moved onto Consumers?, the Workgroup noted the information, that Frontier Economics published in their analysis of the impacts of CMP361, regarding the breakdown of tariff types in the domestic sector. The incidence of tariff types and the corresponding modelling assumptions on contract lengths are shown in the table below. The Workgroup acknowledged that the numbers are out of date and there has been a lot of movement since April 2021 but provides some indication of % of customers on different tariff types in the domestic sector.

Figure 29 Incidence of contracts by length in the domestic segment

Modelling assumption	Tariff type	Number of customer accounts	% contribution
Modelled as 6-month fixed contracts	Non-standard variable	324,537	1%
	Default tariff <3 years	10,037,333	36%
	Default tariff >3 years	6,892,529	25%
Modelled as 12-month fixed contracts	0-12 month fixed	6,572,754	24%
Modelled as 24-month fixed contracts	13-24 month fixed	3,002,112	11%
Modelled as 3-year fixed contracts	>24 month fixed	1,073,923	4%

Source: Ofgem, Tariff RFI submitted by domestic suppliers, data as of April 2021

Note: In using this data we have assumed that the number of customer accounts are a good representation of volumes consumed.

The short-term consumer impact is arguably lower if less costs are deferred into 2022/2023; however, it is in the long-term interests of consumers that the market operates effectively and Suppliers and Generators are able to recover efficiently incurred costs.

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 27 November 2021). 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. However, as part of their response to the Workgroup Consultation, a Supplier argued that some Suppliers will be adversely impacted by the deferral of charges to future periods since their charging base will be larger in future periods and many contracts are already signed for those future periods and therefore prices have already been fixed with customers – this could create distortions in the market.

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. CMP381 could arguably also lead to fewer Supplier failures that would have otherwise occurred and which would have led to greater costs for consumers, and further disruption of the market. The Workgroup also discussed how the solution in CMP381 is not targeted towards mitigating Supplier failure; it supports the whole market.

Deferring costs to a future period will allow Suppliers to reflect a portion of these costs into future tariff offerings. However, in the view of a respondent to the Workgroup Consultation representing Consumers, it is Consumers who will be paying the “portion of these costs” rather than Suppliers and also these costs will effectively be moved from a period (Q1 2022) under one set of Price Caps to a period where a different set of price caps will apply.

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. However, in the view of a respondent to the Workgroup Consultation representing Consumers, Suppliers would not 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.

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
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%

		Amount included in cap calculation (£m)		Impact on cap level (£/year)	
Impact on Price Cap	Data used	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 recent increase in BSUoS volatility has increased the risk premia that generators add to their offer prices in the forward market and the Balancing Mechanism.
- 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 a certain £/MWh threshold. This should reduce offer prices and provide benefits to all (reduced risk to Generators offering services and reduced BSUoS costs for generators, suppliers and consumers).

- CMP381 could arguably also lead to fewer insolvencies of energy market participants that would have otherwise occurred and which would have led to greater costs for consumers, and further disruption of the market.

Traders

- Any changes to BSUoS impact wholesale prices. Impact wholesale prices, by virtue of reduced risk premia; and

- Likewise, the carryover of £200m or £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.

- The ESO Workgroup Member stated that the maximum that the ESO is able to finance is £200m and therefore, in their opinion, would not be able to support the Original Proposal or WACM1. Some Workgroup Members argued that the ESO was part of the wider National Grid group and believes there is opportunity to seek further finance up to the limit required by the Original Proposal or WACM1.

- 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.

Workgroup Vote

The Workgroup met on 31 December 2021 to carry out their Workgroup Vote. 8 Workgroup Members voted, and the full Workgroup vote can be found in Annex 10. The tables below provide:

The tables below provide:

- a summary of how many Workgroup members believed the Original and each of the five WACMs were better than the Baseline; and
- a summary of the Workgroup members view on the best option to implement this change.

The Applicable CUSC (charging) Objectives are:

CUSC charging objectives

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) To promote efficiency in the implementation and administration of the system charging methodology

*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).

Assessment of the Original and WACM1 to WACM5 inclusive vs Baseline

The Workgroup concluded by majority that the Original and WACMs 1- 5 inclusive better facilitated the Applicable Objectives than the Baseline.

Option	Number of voters that voted this option as better than the Baseline
Original	6
WACM1	7
WACM2	7
WACM3	7
WACM4	7
WACM5	7

Best Option

Workgroup Member	Company	BEST Option?	Which objective(s) does the change better facilitate? (if baseline not applicable)
Simon Vicary	EDF Energy	Original	a, b, c
Jenny Doherty	National Grid ESO	WACM5	a, b
Niall Coyle	E-ON	Original	a, c
Paul Jones	Uniper	WACM3	a
Josh Logan	Drax	Original	a
Graz Macdonald	Waters Wye	WACM1	a, b, c
Damian Clough	SSE Generation Ltd	Original	a
George Moran	Centrica	WACM1	a

When will this change take place?

Implementation date - Original
Specified by Ofgem - Proposer has sought for this to be effective from the 1st Settlement Period on 1 January 2022

Implementation date – WACMs 1 – 5

Specified by Ofgem – The WACMs proposed an Implementation date 1 or 2 business days after Ofgem decision. The Workgroup recognised that there were different implications for retail and wholesale markets and also acknowledged that setting an Implementation date is a matter for Ofgem.

Therefore it was agreed and outlined in the legal text that Ofgem would specify the date when implementation will take place.

Date decision required by
14 January 2022

Implementation approach

The Workgroup noted 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 general concerns that retrospective implementation in itself undermines regulatory certainty and therefore confidence in the market and potentially sets a precedent for retrospectivity in future modifications.

Other Workgroup Members noted that difficult to say how prices would be impacted in the short term between 1 January 2022 and an Ofgem decision if there is a chance that high BSUoS prices have a chance, but are not certain, of being capped and will therefore cause issues for those parties who seek to reflect expectations of BSUoS costs into their operations closer to real time, including the balancing mechanism.

Interactions

☐Grid Code	☐BSC	☐STC	☐SQSS
☐European Network Codes	☐ EBR Article 18 T&Cs[9]	☐Other modifications	☐Other

No interactions identified.

[9] 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.

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
FY	Financial Year
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
WACM	Workgroup Alternative CUSC Modification

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
Annex 6	Workgroup Consultation Responses
Annex 7	Workgroup Consultation Responses Summary
Annex 8	CMP381 Workgroup Alternative CUSC Modifications
Annex 9	CMP381 Legal Text
Annex 10	CMP381 Workgroup Vote