

## Workgroup Consultation Response Proforma

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

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses to [cusc.team@nationalgrideso.com](mailto:cusc.team@nationalgrideso.com) by **5pm** on **29 December 2021**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration.

If you have any queries on the content of this consultation, please contact Paul Mullen [paul.j.mullen@nationalgrideso.com](mailto:paul.j.mullen@nationalgrideso.com) or [cusc.team@nationalgrideso.com](mailto:cusc.team@nationalgrideso.com)

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I wish my response to be:

(Please mark the relevant box) ☒ Non-Confidential ☐ Confidential

*Note: A confidential response will be disclosed to the Authority in full but, unless agreed otherwise, will not be shared with the Panel or the industry and may therefore not influence the debate to the same extent as a non-confidential response.*

**For reference the Applicable CUSC (charging) Objectives are:**

- That compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution, and purchase of electricity;*
- That compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard licence condition C26 requirements of a connect and manage connection);*
- That, so far as is consistent with sub-paragraphs (a) and (b), the use of system charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses;*
- Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency \*; and*

- e. *Promoting 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).*

Please express your views in the right-hand side of the table below, including your rationale.

Standard Workgroup Consultation questions		
1	Do you believe that the Original Proposal or any of the potential alternative solutions better facilitates the Applicable Objectives?	<p>In principle the ESO supports taking action to support the energy market in instances where that is appropriate.</p> <p>However, overall, we do not believe that the CMP381 Original proposal better facilitates the Applicable CUSC Charging Objectives than the current baseline.</p> <p>In relation to Applicable CUSC Charging Objective A, we believe this proposal is negative. We understand the Proposer's view of the need to support against further Supplier failure, however there may be other more effective mechanisms to provide targeted support to those who are at risk. We believe that a £10/MWh cap is too low and therefore provides support for costs which cannot be seen as exceptional. In addition, we do not consider it appropriate for the proposal to be implemented retrospectively as this will not provide support in terms of parties making decisions in the market and will simply add additional costs to consumers in a future period.</p> <p>The Original's proposal to set a £10/MWh cap is negative against CUSC Charging Objective B, as this cap doesn't only cover exceptional costs. This is explained further in response to question 5.</p> <p>The Original's proposal to introduce a £300m limit is negative in respect to Applicable CUSC Charging Objective C. As set out in the consultation, the ESO has existing financial commitments which it must be able to meet. Due to these the maximum support that the ESO can provide is £200m and therefore the £300m limit is not supportable.</p> <p>Against CUSC Charging Objective D, we believe this proposal is neutral.</p>

		For CUSC Charging Objective E, we believe this proposal is negative, as it moves funds between financial years. This is in addition to CMP345 / 350 recovery not yet concluding increasing the complexity of the methodology for 21/22 and 22/23.
2	Do you support the proposed implementation approach?	<p>No we do not support retrospective implementation as proposed under the Original.</p> <p>Responses to question 8 and 9 provide more information regarding implementation.</p>
3	Do you have any other comments?	<p>Yes we have 3 additional comments.</p> <p>1. We appreciate that insight into our future view of BSUoS costs would be useful for the workgroup. Although we are unable to share a full forecast at this time, we currently expect high BSUoS costs to continue throughout 2022 - particularly at the start of the calendar year. Following completion of our internal governance processes we will publish a full forecast in January with a more detailed breakdown of our expectations.</p> <p>2. The ESO's licence was updated for the start of RIIO2, which provided an opportunity to amend the definition of external costs of the Balancing Services Activity thereby allowing ESO to recover the costs of the BSUoS Covid Scheme throughout FY21/22. It will be essential to understand whether licence changes would be required to implement CMP381 and if so to ensure that the changes are made in a timely fashion so as not to delay the recovery of costs. It is our current understanding that a licence change would be needed as we do not believe that we are able to recover any deferred amounts in FY22/23 without this.</p> <p>3. It is important to consider what CMP381 is trying to achieve to understand the best solution.</p> <p>If the intent of the modification is to provide support to industry against extreme unforeseen costs, then a higher price cap than £10/MWh will be necessary.</p> <p>If the intent of the modification is to stop further Supplier failure, then something more targeted would likely be required than this modification. This is due to CMP381 providing support to all BSUoS payers,</p>

		<p>with a range of individual circumstances. The ESO is therefore not convinced that CMP381 will have significant benefits in addressing this concern.</p> <p>As this support comes at a cost to consumers, it is important to understand what the modification is trying to achieve, to ensure that consumer money is correctly used.</p>
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	<p>Yes, we have attached two alternate forms;</p> <p>1) A £20/MWh cap, running from the business day following Ofgem's decision, until the earlier of either the 31<sup>st</sup> March 2022 or until the overall support of £200m has been reached.</p> <p>2) A £50/MWh cap, running from the business day following Ofgem's decision, until the earlier of either the 31<sup>st</sup> March 2022 or until the overall support of £200m has been reached.</p> <p>The justification for these are explained in response to question 6.</p> <p>In both of these options, we propose to move from weekly, to daily reporting on how much total support has been provided when we reach 60% of the total support (rather than 80% as under CMP350). In addition we propose to remove the 2 working day hard stop of the scheme ending to ensure that the ESO does not over / under forecast, potentially risking the whole support not being provided. This is explained further in response to question 8. It is our expectation that this approach would be applied to all options, however that is for discussion in the Work Group and agreement with the Proposer.</p>

#### 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	<p>If the proposal's aim is to protect industry against extreme and unforeseen prices, then a cap on BSUoS could be appropriate although we believe that significant justification of the consumer benefit would be required. As discussed in our response to question 1 we consider that a cap of £10/MWh is too low to constitute extreme costs. This figure has been used in line with CMP350's solution, however the market has changed significantly since then and no justification has been provided by the Proposer as to why this is the correct figure at this time.</p>
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<p>any supporting analysis.</p>	<p>In Autumn 2021, over 25% of Settlement Periods have had a BSUoS Price greater than £10/MWh. Therefore, it doesn't feel appropriate to describe a BSUoS Price of over £10/MWh as extreme in these circumstances.</p> <p>From 25<sup>th</sup> June – 25<sup>th</sup> October 2020 (period of the Covid Support Scheme), only 7.0% of Settlement Periods had a BSUoS Price in excess of £10/MWh. In comparison with Autumn 2021, this indicates how the frequency of Settlement Periods having BSUoS Price over £10/MWh has changed since the time of the implementation of CMP350.</p> <p>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 (a typical value to indicate what can be considered a “likely” value in a data sample with 95% confidence) for 2021 is £19.77/MWh. The equivalent value during the Covid Support Scheme was £11.61/MWh.</p> <p>In Autumn 2021, 9.2% of Settlement Periods had a BSUoS Price greater than £20/MWh. This is of a similar magnitude to the 7.0% of Settlement Periods which had a BSUoS Price greater than £10/MWh during the Covid Support Scheme in 2020.</p> <p>As such we would therefore like to raise an alternate, based on a £20/MWh cap, to account for “unforeseen” costs.</p> <p>Another approach to this modification is to protect against extreme BSUoS prices. By doing this consumers would benefit, as industry parties would not need to cover for such extremes in their risk premia and it is likely to not move as significant a cost to consumers in a future period compared with the original and our first alternate. Our proposed approach for BSUoS extremes is to raise an alternate at £50/MWh.</p> <p>The justification for this is that these costs are truly extreme and unforeseen. 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 is around 17% of total BSUoS spend over the same period. Prior to September 2021, BSUoS had <u>never</u> exceeded £50/MWh and therefore can truly be seen as a consequence of the current market conditions.</p>
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6	<p>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.</p>	<p>Yes, it is essential that there is a limit to the overall support that can be provided to protect the financability of the ESO.</p> <p>£300m in the original is the indicative level of support from FY23/34 under CMP361. We would note that CMP381 is based on the parameters set out in CMP350 i.e. £10/MWh, however the overall limit to support in CMP350 was £100m.</p> <p>We are open to providing support to industry, however this support has to be balanced against other financial commitments for the ESO. £300m, at short notice, is very challenging for a legally separate company with a RAV of £250m. The maximum support that the ESO can provide is £200m. This accounts for our other financial commitments, namely £100m of TNUoS funding - predominately the "k" factor demand under recovery from FY21, which the ESO will only recover in FY23, but also takes into consideration several other regulatory cash flow timing risks we must have funds to cover. Committing to more than £200m of support could place undue financial risk on the ESO.</p>
7	<p>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.</p>	<p>Yes we agree with this approach. It will ensure that the costs of the support scheme are smeared across the maximum amount of settlement days, and therefore reduce the impact on parties and consumers in FY22/23.</p> <p>As set out in response to question 3, it is essential that we ensure that the ESO is able to recover these costs in FY22/23.</p>
8	<p>What reporting frequency and end of CMP381 BSUoS Support Scheme notification would be of most use to you? Please provide justification for your response.</p>	<p>We believe that it is very important to provide transparency over the costs which have been incurred through the scheme, which will allow parties to track / model when they also believe the scheme may come to an end.</p> <p>Under CMP350, we noted that at 80% of the total support being used, we would move from weekly to daily reporting and that we would provide 2 working days notice of the end of the scheme.</p>



		<p>We are very aware however that the market is significantly different than under CMP345/350, and that we have seen a number of individual settlement periods which have been very high cost, which have tended to cluster together, forming a few high cost hours. The impact of one extreme settlement period could significantly change the amount of support remaining.</p> <p>We therefore feel that a better balance would be to revise the threshold from weekly to daily reporting at 60% of the total support being used.</p> <p>In addition we do not think it is appropriate for the ESO to provide 2 working days notice of the end of the scheme which is a “hard stop” i.e. the scheme ends on the given date regardless of whether the cap has been reached or not. This is due to the risk that we end support much earlier than required, due to forecasting a cluster of high settlement periods which may not transpire. We understand however the importance of market information, and therefore will provide as much communication with industry as possible in the lead up to the support scheme ending.</p> <p>It is also important that we are clear on how the end of the scheme will work technically should the overall limit be reached. Our proposal is that the settlement period immediately prior to the total support being exceeded is the end of the scheme.</p>
9	<p>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.</p>	<p>No we do not agree with retrospective implementation. The main reason for this is that any retrospective change to the methodology, cannot be unwound from contracts which have already been fulfilled, for example a bid / offer in the Balancing Mechanism. We are also concerned that the likelihood of all market participants being aware of the change is low due to it being raised over the festive period.</p> <p>We believe that a more appropriate approach, is for implementation to be one business day after Ofgem’s decision. This will ensure that parties are aware of the change, ahead of contracts being fulfilled.</p>

10	<p>Does the CMP381 Original Proposal or any of the potential alternative solutions impact your business and/or end consumers. If so, how?</p> <p><i>Confidential Information can be shared with Ofgem directly particularly where it relates to Ofgem's Urgency Criteria.</i></p>	<p>Yes this has a significant impact on the ESO due to the level of support that we are being asked to provide at short notice.</p> <p>From an implementation perspective, due to the mechanism being the same as CMP345/350 and recovery being undertaken as per CMP373 across the settlement day, we are able to implement this solution the business day after Ofgem's decision is made.</p> <p>For additional considerations, please refer back to our response to question 3.</p>
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