

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 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 or cusc.team@nationalgrideso.com

| Respondent details | Please enter your details |
|--------------------|------------------------------|
| Respondent name: | Simon Vicary |
| Company name: | EDF Energy Customers Limited |
| Email address: | simon.vicary@edfenergy.com |
| Phone number: | 07875110961 |

I wish my response to be:

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

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

For reference the Applicable CUSC (charging) Objectives are:

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

- e. *Promoting efficiency in the implementation and administration of the system charging methodology.*

**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 | | |
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| 1 | Do you believe that the Original Proposal or any of the potential alternative solutions better facilitates the Applicable Objectives? | <p>Yes, we consider the proposal better facilitates Applicable Objectives a, b and c.</p> <ul style="list-style-type: none"> a. 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. 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. 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. Positive: This is fully consistent with para (a), similar in approach to previous modifications that have been approved and adopted successfully d. Neutral e. Neutral: There should be little, if any, system impact as the change can use the processes introduced by CMP345, CMP350 and CMP373. |

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| 2 | Do you support the proposed implementation approach? | <p>The urgency granted by Ofgem clearly demonstrates the significant impact this modification can have on industry participants. Furthermore, based on our own forecasts of BSUoS we think it is important to implement this change with effect from 1st January 2022 when BSUoS charges could continue to out-turn higher than forecast. Although the Ofgem decision is not expected until 17th January 2022 this leaves a sufficient period of time to allow this modification to be applied for the BSUoS billing date of 1st January 2022</p> <p>This proposal will impact the CUSC (Section 14) and the processes of calculating and billing BSUoS. There should be little, if any, system impact as the change can use the processes introduced by CMP345, CMP350 and CMP373.</p> <p>We also note that Ofgem are minded-to approve CMP308 with effective implementation from April 2023. CMP308, alongside the recommendations from the BSUoS taskforce to provide an ex-ante fixed BSUoS costs (currently being taken forward through code modifications CMP361 and CMP362), will deliver an enduring framework for BSUoS from April 2023. This proposed modification is a short-term solution to address the current exceptional market conditions and does not impact, nor overlap with, these other BSUoS modifications which continue to be critical and need to be delivered.</p> |
| 3 | Do you have any other comments? | <p>Without this modification we believe that that excess unbudgeted BSUoS costs could contribute to more industry insolvencies that will increase further the risks to the system regarding safety and reliability. We consider this modification to be one of many critical actions that are required urgently to stabilise the energy sector during a period of unprecedented crisis. Protecting the sector, and ensuring it is able to operate through and beyond this crisis period, will bring benefits to society as a whole who are dependent on a stable energy market to function.</p> |
| 4 | Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider? | Not at this time. |

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| 5 | <p>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.</p> | <p>BSUoS costs are significantly higher than the ESO forecasts so far in winter 2021/22 as a result of exceptional market conditions and are therefore much higher than consumers and industry parties could reasonably have expected or will have budgeted for.</p> <p>Our 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 in 2022. 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, as Ofgem approved for CMP350.</p> <p>This capping is consistent with the mechanism approved under CMP345 and CMP350 to protect against extreme BSUoS costs in 2020 due to the COVID-19 pandemic. If BSUoS costs are not addressed in this way, the consequences for the stability of the UK energy industry could be devastating.</p> |
| 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>The four months of August to November 2021 saw the BSUoS outturn being £625m higher than the ESO forecast.</p> <p>As there is a limit to the amount of liquidity that could be provided by the ESO we consider the total costs which can be deferred should be limited to £300m (which effectively means the impact of the inaccuracy of forecast is being shared broadly equally across ESO and industry). In effect the scheme will end if the £300m limit has been reached. This is consistent with the proven approach adopted for CMP345 and CMP350, but updated to reflect the extreme prices now being seen in the market.</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>In our view, deferring the additional BSUoS costs above the cap to the 2022/23 charging year, with recovery of the deferred costs commencing on 1st April 2022, is the best approach.</p> <p>We also note that Ofgem are minded-to approve CMP308 with effective implementation from April 2023. CMP308, alongside the recommendations from the BSUoS taskforce to provide an ex-ante fixed BSUoS costs (currently being taken forward through code modifications CMP361 and CMP362), will deliver an enduring framework for BSUoS from April 2023, on the assumption that the ESO forecast improves.</p> <p>This proposed modification is a short-term solution to address the current exceptional market conditions and does not impact, nor overlap with, these other BSUoS</p> |

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| | | modifications which continue to be critical and need to be delivered. |
| 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. | Reporting should be weekly until the 60% of the total support limit has been hit. The ESO should then report daily. The 60% threshold is more appropriate than the 80% used in CMP350 based on the significantly higher outturn of BSUoS compared to the ESO forecast on some days this winter. |
| 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. | No. We believe this is a reasonable approach to protect industry participants as soon as practically possible. |
| 10 | Does the CMP381 Original Proposal or any of the potential alternative solutions impact your business and/or end consumers. If so, how? <i>Confidential Information can be shared with Ofgem directly particularly where it relates to Ofgem's Urgency Criteria.</i> | We believe this proposal will have a positive impact on consumers as it enables the recovery a greater portion of the exceptional BSUoS costs, reducing the adverse impacts on competition of significant losses related to balancing costs that could not have reasonably anticipated. Consumers on direct pass through contracts, or contracts that can be reopened by Suppliers to pass on these costs, face a significant commercial impact from this current issue. We intend to write to Ofgem with supporting information that is commercial confidential. |