

## 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)

Respondent details	Please enter your details
Respondent name:	Matthew Cullen
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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:**

- 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		
1	Do you believe that the Original Proposal or any of the potential alternative solutions better facilitates the Applicable Objectives?	<p>We believe that the Original Proposal better facilitates Applicable Objectives a) and c) by ensuring that extreme circumstances (such as the global gas market increasing to &gt;500% of 'normal' winter prices and hence its impact on the wholesale and balancing market) does not jeopardise the competitive generation and supply markets that have delivered customers significantly lower prices whilst still driving towards lower and lower carbon emissions. Requiring suppliers and generators to pay these exceptionally high BSUoS prices immediately when there is little option to pass these costs through to customers until October 2022 (in the case of customers on the default tariff cap) threatens suppliers' and generators' working capital positions and there is a serious risk of many of these parties running out of money. We have already seen the cost of 27 suppliers becoming bankrupt in 2021 with mutualisation costs in excess of £1.8b<sup>1</sup> having to be picked up by other suppliers (and eventually customers). There is a real threat that suppliers who are barely surviving could be pushed over the edge by these continued high BSUoS charges which are far in excess of NGESO's forecasts (&lt;£6/MWh) or Ofgem's BSUoS allowance for the Oct 2021 price cap (£4.78/MWh). Whilst there are other charges that suppliers and generators have to face, BSUoS is highly unpredictable and hence very difficult to mitigate. TNUoS and DUoS charges are known well in advance and wholesale price volatility can be mitigated through hedging products. But BSUoS is an unknown and highly volatile charge that all suppliers and generators must try and factor into their charges for customers. For suppliers with customers on default tariffs in fact there is no way to pass BSUoS</p>

<sup>1</sup> <https://www.theguardian.com/business/2021/dec/22/ofgem-gives-183bn-to-energy-firms-that-took-on-collapsed-rivals-customers>

		charges through until the respective price change (which can be 10 months and will be longer if BSUoS remains high ).For the 11 weeks of 1 <sup>st</sup> Oct- 12 <sup>th</sup> Dec, total BSUoS charges for the industry have amounted to >£1b compared to the same time last year which was £440m. As a rough guide, for E.ON who has ~20% market share of the retail market (which reduces to 10% of BSUoS due to generation), this amounts to a bill of £100m as opposed to £40m meaning E.ON has to find £60m of capital until it can reclaim that cost in later price cap updates.
2	Do you support the proposed implementation approach?	Whilst we appreciate that code modifications should aim not to be retrospective, we believe that the scale and significant threat that these additional working capital requirements will place upon suppliers and generators warrants the Original Proposal's requested retrospectivity of a cap to be applied to charges incur on (and after) the 1 <sup>st</sup> Jan 2022. Waiting for implementation until 17 <sup>th</sup> Jan could add a further £80m of working capital needed by the industry (based on a £10/MWh cap and assuming that charges stay as high as the period Oct-Dec)
3	Do you have any other comments?	No
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No

#### 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.	We believe that it is vitally important to set a BSUoS cap in order to protect suppliers and generators from bankruptcy in these exceptional times. We believe the evidence presented in Appendix 5 of the CMP381 consultation clearly demonstrates not only that peak prices have increased significantly but the whole distribution has widened towards higher prices. There has been no indication in the previous quarterly distributions that this dramatic widening of the distribution might occur and no indication from NGESO in their forecasts. This is clearly unpredictable and hence there has been no way for suppliers to mitigate this sudden cost increase. As stated in Q1, we believe that without a cap there is a very real possibility of the high (and uncontrollable) BSUoS
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		<p>charges could be the tipping point for vulnerable suppliers and generators.</p> <p>Over the period 1<sup>st</sup> Oct 2020 – 12<sup>th</sup> Dec 2020 the volume weighted average BSUoS charge was £4.48/MWh. For the equivalent period in 2021 it was £10.08/MWh. If a £10/MWh cap had been in place, the volume weighted average charge would still have been £6.79/MWh. Whilst this is still a 50% increase on last year's cost (as well as a 50% increase on the Ofgem allowance for BSUoS in the default tariff price cap), it is a marked reduction and mitigation of the costs. Therefore, we believe that whilst in order to reduce the average BSUoS charge down to the previous year's level would have required a £5/MWh cap that the £10/MWh cap is a fairer division of the risk between industry and the NGESO. We acknowledge that a £10/MWh cap over the period 1<sup>st</sup> Oct – 12<sup>th</sup> Dec 2021 would have required &gt;£350m of NGESO working capital, but it would still have also added nearly £250m to suppliers and generators working capital requirements. To make this division of working capital equal requires an £11.80/MWh cap (~£300m for industry and ~£300m for the NGESO). This might be a fairer level to set the cap at though it is highly dependent on the period analysed.</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>We think that it is vital for NGESO to set a limit for the total BSUoS costs that will be deferred over the period in question. We acknowledge that the NGESO as a legally separate company from National Grid is an asset light business and does not have access to unlimited levels of working capital. However, NGESO do have the certainty of suppliers/generators paying their bills<sup>2</sup>. NGESO have also recommended for code modification CMP361 that they have access to £300m of working capital. We understand that NGESO have other working capital commitments this year (such as TNUoS), but we believe that the level of security in payment must allow NGESO to be able to extend this year's 'borrowing'. As stated in Q5, we believe that an equal division of working capital between industry and NGESO of £300m each would appear to be a fair division of the risk.</p>
7	<p>The CMP381 Original seeks to defer the additional BSUoS costs above the cap</p>	<p>We believe that the Original proposal's approach of deferring costs until 1<sup>st</sup> April 2022 is sensible and will hopefully coincide with a period where BSUoS charges revert back to more normal levels. This allows any</p>

<sup>2</sup> If suppliers go bankrupt, NGESO will still be paid through the mutualisation scheme that ensures industry charges such as RO/FiT are fully met

	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.	deferred costs to be spread over an entire charging year making the repayment smoother and more manageable for all payees. We appreciate that not having a gap between the end of the capped period and the recovery period means that NGESO will have to estimate the additional charges due to deferment in the first few days of April, but the difference will quickly be rectified and allow suppliers and generators to have certainty to the additional costs.
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 on a weekly basis whilst the running total of deferred capped charge is <80% and then daily reporting for when the cumulative deferred capped charges >80% seems sensible. This reporting frequency worked very well during the 2020 deferred charges for Covid and we believe it should work again. We also acknowledge the difference in the reporting suggested for CMP381 compared to CMP350 in that NGESO will use 'best endeavours' to give a 2 day notice for the closure of the scheme due to the cap being breached. Given the unprecedented levels of BSUoS, we understand that a single day's deferred charges may exceed £40m (see 24/11/2021 for an example) and that two extreme days could move the scheme from being well under the 80% level to exceeding 100% in the space of a couple of days with little notice. We acknowledge the difficulty this places on NGESO to give a definitive view for when the scheme will close and therefore accept that 'best endeavours' may be the best that we can expect in that situation.
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.	As stated in Q2, the retrospective nature of this code modification would normally be counter to how we would expect fair and transparent code modifications to be designed. Allowing payments to be deferred that have already occurred is not an ideal position to be in. However, we believe that the severity of this current situation and the threat it is placing on the viability of many suppliers and generators (and from this the risk of very high mutualisation costs being charged across customers on top of the £1.8b already incurred) means that retrospective changes is the best way to protect the interests of customers, allowing charges to be spread over a longer period and being able to pass them through to customers in a predictable and controllable manner.

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>The CMP381 Original Proposal will allow additional unpredictable BSUoS charges that are being incurred by suppliers to be deferred, protecting suppliers from massive working capital requirements. As an example, in our response to Q1, we demonstrated that E.ON alone will have to find ~£60m working capital to cover the additional BSUoS charges with no clarity on when we will be able to reclaim that money from customers (especially those protected by the default tariff price cap).</p> <p>E.ON also has I&amp;C customers who pay for BSUoS directly via pass through contracts. These additional charges will be having a significant impact on their business currently and any relieve that the industry can provide them through deferred charges will help. These customers rely on the forecasts that industry provide them, but this sudden upturn in costs has been completely unforeseen and these customers will not have been able to budget for these increases at all.</p>
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