

Code Administrator 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 10 January 2022**. 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:	Damian Clough
Company name:	SSE Generation
Email address:	Damian.Clough@sse.com
Phone number:	-

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 Code Administrator Consultation questions		
1	Do you believe that the CMP381 Original Proposal and/or WACM1, WACM2, WACM3, WACM4, WACM5 better facilitates the Applicable Objectives?	<p>Yes – we believe the Original Proposal will better facilitate the Applicable Objectives. Our rationale is detailed below.</p> <p><i>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;</i></p> <p>At the start of the charging year BSUoS costs were forecasted to be £1.9bn. Now, some nine months on, the latest BSUoS forecasts show estimated costs to be £3.5bn. Forecasts for the forthcoming charging year 2022/23 are immediately back down to £1.9bn with the average BSUoS charge back to 3.8 £/MWh dropping from 6.5-8 £/MWh seen in January 2022 to March 2022 as shown in the latest BSUoS forecasts dated December 2021.</p> <p>This shows how difficult it is for BSUoS paying parties to forecast BSUoS and how reliant Industry is on the ESO forecasts, and when these drastically change how those changes drive losses into various businesses at a time when they are under severe pressure. Some customers/users are isolated from these costs as they are either on non-pass through (of BSUoS costs) contracts, or do not pay BSUoS, or are on Fixed Price domestic contracts. Some Users</p>

	<p>will pay these higher BSUoS costs in the future due to how the domestic price cap works. There are however some I&C customers who will be impacted directly by these costs, between January and March 2022, as they are on pass through contracts.</p> <p>Capping the BSUoS charge will aid competition within the market by producing a more level playing field amongst all users and end consumers. It will also allow Suppliers and Traders to recover BSUoS costs from the end user in a timely manner which is ultimately the purpose of BSUoS.</p> <p>If Industry has the expectation that they will be exposed to unpredictable extremes this increased risk will manifest itself in increased risk margins (and associated risk premium) which results in increased costs to the end consumer.</p> <p>b) Neutral</p> <p>c) Neutral</p> <p>d) Neutral</p> <p>e) Neutral</p> <p>Due to the significant size of forecast outturn charges when compared forecasts made at the start of the year we think the proposals with the lowest BSUoS charge cap, with the highest funding available and for the longest period of time will better support the applicable objectives. The likely funds moved between 2021/22 to 2022/23 is only a small proportion of actuals compared to forecasts (~20%).</p> <p>Whilst recognising the proposals with a higher cap (£20/MWh and £50/MWh) do not adequately address the problem the modification is aiming to solve we have supported them as they are incrementally better than the baseline.</p>
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		<p>However they are unlikely to cap BSUoS for a portion of Settlement periods, and therefore will not defer the full amount of exceptional BSUoS costs to 2022/23.</p>
2	Do you support the proposed implementation approach?	<p>Yes – we support the proposed implementation approach.</p> <p>If Ofgem were to approve the modification this would involve capping the Daily BSUoS charge. The Daily BSUoS charge is not known or calculated ahead of time. Rather it can only be determined when the ESO receive the chargeable BSUoS demand data from ELEXON which is 16 Working Days after the relevant Settlement Day. If, therefore, Ofgem approved this modification on the 17th January 2022 the Daily BSUoS charge relating to the 1st January 2022 (and onwards, up to the 31st March 2022, as the modification intended) could be capped (using this approved Modification's solution) without there being a retrospective change.</p>
3	Do you have any other comments?	<p>Capping the BSUoS charge could also help to bring down BSUoS costs in other ways. Currently when making Bids and Offers into the Balancing Mechanism parties must make an assessment of the likely BSUoS charge so that prices cover costs. The assessment will likely include a risk premium to allow for BSUoS forecast uncertainty. If BSUoS was capped it would likely reduce the cost of offers (as well as of BSUoS risk premia) which would in turn reduce BSUoS costs putting less strain on the ESO's fund.</p> <p>With the higher BSUoS caps there is a real likelihood that the funds available to help customers will be left unused and risk premia will be set very high.</p>

		The key point with this modification is that this is not about avoiding costs but deferring costs to a later date
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