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**RWE's Response to Ofgem's Consultation on:  
CMP308 – Minded-to decision and draft impact assessment**

Dear Ruben,

RWE welcomes the opportunity to respond to Ofgem's "CMP308 – Minded-to decision and draft impact assessment" consultation published on 8 Dec 2021. I am responding on behalf of RWE Supply & Trading GmbH, RWE Generation UK plc and RWE Renewables GmbH.

We agree with Ofgem's minded to decision to implement CMP308 and consider it to be very important that it is implemented on April 2023 as planned to avoid Generator and Supplier windfall gains and losses. We agree with the analysis by LCP and Frontier Economics which illustrates significant benefits for existing and future consumers, as we would expect from more efficient generation dispatch and investment.

We strongly believe that emissions in Interconnected markets should be taken into account and support the approach to use a carbon appraisal price for Interconnector flows.

We believe there should be a continuation of the CfD BSUoS adjustment payment for around a year to account for the lag effect versus actual BSUoS prices. We recognise that the treatment of CfDs is for the LCCC and BEIS to consider, and do not believe a change in this modelling assumption would change the conclusions of the CMP308 analysis.

Our full non-confidential response can be found in Annex 1 below.

If you have any comments or wish to discuss the issues raised in this letter, then please do not hesitate to contact me.

Yours sincerely,  
*By email*

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## Annex 1

### **RWE's Response to Ofgem's Consultation on: CMP308 – Minded-to decision and draft impact as- sessment**

1. Do you agree with our assessment that CMP308 better facilitates the Applicable CUSC Objectives?

Yes

2. Do you agree that charging BSUoS charges only to Final Demand reduces distortions between Large Generators and other forms of generation? Please explain why.

Yes.

We agree that there is a distortion between Large Generators and other generation within the domestic wholesale market, and between Large Generators and generation that exports into the GB market using interconnectors. We also agree that these distortions lead to inefficient plant dispatch, Capacity Market outcomes, CFD auction outcomes and inefficient plant investment, refurbishment and closure decisions and that the implementation of CMP308 is likely to unlock significant efficiencies and benefits for existing and future consumers.

3. Do you have any views on the impact of this proposal on Behind The Meter Generation and its competitiveness?

We agree that the remaining distortion with regards to competitiveness of BTMG is much less material than the main distortions addressed by the implementation of CMP308 as described in our response to Q1 above.

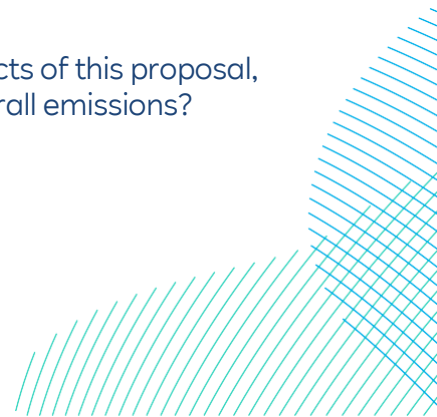
4. Do you have any views on our reasoning on this proposal's effect on price signals or generation dispatch?

We agree with Ofgem's reasoning. We believe that ESO led central dispatch is likely to currently be subject to the same issues.

5. Do you have any views on our reasoning on this proposal's effect on competition between different generator types?

We agree with Ofgem's reasoning.

6. Do you have views on our assessment of the decarbonisation impacts of this proposal, both in respect of emissions from the GB energy system and of overall emissions?



We agree with Ofgem in that we would also expect that more GB electricity would be provided by CCGTs instead of Interconnector imports, and whilst net UK emissions might increase, carbon emissions would reduce in total. In addition, we would anticipate that following the implementation of CMP308, more efficient CCGTs which are Large Generators will displace less efficient Small Generators to some extent, also reducing emissions. We would agree with Ofgem that the improvement in market efficiency and investment should reduce emissions overall.

We strongly believe that emissions in Interconnected markets, and the cost of abatement in these markets, should be taken into account (please refer to our answer to Q11).

7. Do you have views on whether and the extent to which the changes proposed in this modification have already been incorporated into supplier decisions?

We believe that all competent market participants across the electricity industry, including Suppliers, have incorporated the proposed changes into their decisions including the expectation of implementation in April 2023.

8. Do you have views on the impact of this proposal on existing supply contracts, including the possibility of costs or delayed benefits to consumers stemming from windfall gains to industry parties, or double payments?

At the time Ofgem agreed with the recommendation to move BSUoS charges fully onto Final Demand, the implementation date was well beyond the liquid tenor for the wholesale market so that the impact on market participants was as low as it could be.

We are more concerned about windfall gains or losses if this proposal is not implemented, or if it is brought forward or delayed beyond April 2023. If any acceleration or delay to implementation were to occur, the windfall losses from unforeseen costs for some parties due to a change regulatory policy could have highly damaging consequences for their financial robustness under current market conditions as well as causing significant volatility in the wholesale market and seriously damaging investor confidence.

9. Do you have views on this proposal's impacts on generator and supplier risks, including on exposure to volatile charges?

The risk capital costs that are associated with the BSUoS charges that will be moved from Generation to Final Demand have historically been passed through to consumers via wholesale market prices. These unnecessary costs can be more effectively reduced with the implementation of CMP361 & 362, the design of which is targeted specifically to address the risk profile of Suppliers and achieves a more efficient outcome than the current arrangements could where Generators also pay BSUoS.

10. Do you have views on the interactions between this proposal and other changes in the sector, including other BSUoS charging reform proposals?

We believe that CMP361&362 will significantly reduce the BSUoS cost risk on Final Demand and ideally will be implemented alongside CMP308. However, regardless of the timeline for

CMP361&362, we believe it is critical that CMP308 is implemented as planned for the reasons described in our response to Q8.

We believe that should there be any delay to CMP361 & CMP362, the implementation of CMP308 should still go ahead. In the event that CMP308 is implemented whilst CMP361&362 are not, any exceptional and unmanageable unforeseen risks borne by Suppliers in the interim can be addressed with short term adjustments and solutions (e.g. CMP381) until an enduring fixed charge BSUoS solution can be developed.

11. Do you have views on the modelled assessment of consumer and energy system benefits? Please provide quantitative analysis and any further information.

We strongly believe overall consumer and system benefits should include the valuation of emissions in other markets, i.e. that emissions associated with Interconnector flows should be costed at the same level as emissions from a domestic generator using a carbon appraisal price. We note that with the updated carbon appraisal values as of November 2021 which are higher, the net system benefits become negative in most scenarios where Interconnector emissions are not appraised. We assume this is because the carbon appraisal values are directly correlated to the cost of decarbonisation which increases to the extent that it outweighs the other system benefits where the valuation of emissions in other markets is not taken into account. Hence it is very important that the correct approach, which we believe to be estimating and appraising Interconnector emissions, is used for decision making.

12. Is our assessment of non-monetised costs and benefits reasonable? Are there any other factors we should consider?

We agree with Ofgem's assessment of non-monetised costs and benefits.

13. Do you consider the consumer and system benefits identified in our consultants' modelling to represent a reasonable view of the potential effects of this modification?

We agree that the consultant's modelling represents a reasonable view, particularly their approach to the valuation of Interconnector emissions using a carbon appraisal price.

However, we also believe the CfD adjustment payment should continue for approximately one year beyond CMP308 implementation to account for the lag effect in historic vs actual BSUoS prices, as described in more detail in our response to Q15 below. We do not expect that changing this modelling assumption for one year only would materially impact the results of the analysis to the extent that it would change the overall conclusions.

14. Do you consider that Ofgem has duly considered all relevant consumer and system benefits? Are there any areas which could benefit from further analysis?

We agree that Ofgem has considered all relevant consumer and system benefits. We would also highlight that it is very important that the correct treatment of valuing Interconnector emissions is used, as outlined in our response to Q11 above.

15. Our modelling assumes that CfD adjustment payments designed to compensate contract holders for the BSUoS charges they face will no longer be paid in the event generation is not liable for BSUoS charges. Do you agree with this assumption, and do you have views on our assessment of the risks associated with existing CfD contracts?

We do not agree that CfD BSUoS adjustment payments should completely cease on 31 March 2023. As this is a modelled assumption of the change in the CfD contract arrangements and not part of the CMP308 proposal, the treatment of CfD contracts has not been considered as part of the CMP308 code change process and needs further consideration and consultation by BEIS and LCCC with stakeholders. However, we do not believe that a change in this assumption would materially impact the analysis or change the conclusions.

CfD generators' wholesale market revenues are fixed at their CfD strike prices and therefore these generators cannot recover higher BSUoS costs to the extent that they are passed through to the wholesale market, as is the common practice amongst other generators. Therefore, generators with a CfD who pay BSUoS charges are protected against increases in the cost of these charges over and above an Initial Balancing System Charge set in their contract. The CfD strike prices for these generators are adjusted annually for changes in BSUoS charges. This adjustment is designed to make the CfD contract broadly long-term neutral to changes in BSUoS, which are outside of generators' control, however it lags behind actual BSUoS prices by about 14 months because it is based on historic data.

Hence if payments cease on 31 March 2023, CfD generators will "miss out" on just over one year of the adjustment immediately following implementation. We recognise that the counterfactual to CMP308 implementation is that CfD generators would have missed out on the adjustment in the final year of a CfD. However, this would have occurred much later on in an asset's life and therefore would be much less material since the effect would be significantly discounted by generation investors. This proposal brings forward the cost of this risk in the majority of cases by many years and is therefore significantly more expensive than previously anticipated. We are particularly concerned about this scenario in the current climate of high and volatile BSUoS charges, which makes it likely for year on year differences in actual BSUoS to occur.

Further, we would highlight that the impact of ceasing payments on 31 March 2023 could be positive or negative for generators and consumers depending on whether BSUoS is particularly high or low in 2022/23.

Therefore, we believe the CfD adjustment payment should continue for approximately one year beyond CMP308 implementation to account for the lag effect in historic vs actual BSUoS prices.

16. Do you have views on the impacts of this proposal on end consumers, including large users and vulnerable users?

We believe that this proposal will have significant efficiencies and benefits for all existing and future consumers.

17. Do you agree with our assessment that reduced costs to generators are likely to feed through into lower wholesale prices?

We are confident that reduced costs to generators has already fed through into lower forward wholesale prices from April 2023 and that if CMP308 was not implemented, these wholesale prices would immediately rise.

18. Do you agree with our assessment that this policy will not have any significant material impacts on vulnerable users?

We agree.

19. Do you agree with our assessment that this modification is unlikely to lead to any significant impacts on essential services or supply chains?

We agree.

20. We would note that increases in demand costs will need to be incorporated into the Price Cap methodology. Do you have any views on this area?

We do not have any comment on the Price Cap Methodology.

21. Do you agree with our proposed implementation date of 1 April 2023? Please provide your reasoning.

Yes.

It is important that CMP308 is implemented on April 2023 as planned to avoid Generator and Supplier windfall gains and losses which could have highly damaging consequences for some parties' financial robustness under current market conditions as well as causing significant volatility in the wholesale market and seriously damaging investor confidence. We recognise that Suppliers will face increased BSUoS risk if CMP361 & 362 are not implemented at the same time, but we believe that these modifications should not impact the timeline of CMP308 because any delay would have a much more detrimental effect on the market and consumers than any arrangements that might be needed to manage increased Supplier BSUoS risk in the interim.

22. Do you have any other information which is relevant to this consultation?

No

