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By email only

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OVO response to Ofgem's 'Price cap: Consultation on reflecting potential changes to BSUoS charges in the price cap'

Dear Dan,

OVO welcomes Ofgem's work to assess the way that Balancing Services Use of System (BSUoS) charges are collected from electricity network users. OVO has been a strong supporter of the price cap, so long as it remains cost-reflective; **it continues to be essential that the price cap allows efficient suppliers to recover their costs**. We support the principle of introducing changes to the BSUoS charges in the price cap in the form of a flat volumetric charge, set in advance. This provides predictability for these charges and reduces the volatility issues and Suppliers' exposure to cashflow.

With the recent publication of Ofgem approving the CUSC modification CMP361¹, we have taken this into consideration in our views of the specific areas of interest set out by Ofgem in this consultation.

BSUoS allowance on an enduring basis

OVO believes that introducing a BSUoS allowance in the price cap, reflecting the advance fixed tariff published by ESO, will reduce the uncertainties for suppliers and **facilitate efficient and timely cost recovery**. Suppliers will be able to recover costs as they are incurred and to minimise risk as a result of volatility and ongoing BSUoS trends.

OVO agrees that the price cap methodology should be modified to replace the lagged variable charge with an ex-ante fixed volumetric BSUoS charge from 1 April 2023. The ability to adjust over- or under-allocation by the ESO will enable future price cap allowances to reflect the BSUoS costs that need to be recovered at the relevant point in time. As a result, we fully support the proposed review of the BSUoS allowance on a timely basis where there may be a tariff reset during the fixed tariff period. We consider that more frequent updates would be beneficial, such as quarterly, and welcome the

¹ <https://www.ofgem.gov.uk/publications/cmp361-and-cmp362-decision>

proposal for Ofgem to consider adjustments where they fall outside of a regular price cap update.

Transitional adjustment

OVO recognises the need for some form of adjustment in the move from an ex-post to an ex-ante BSUoS recovery mechanism in the price cap.

- **Offsetting costs between January 2022 and March 2023** - we consider that the approach proposed by Ofgem to offset with historical costs recovered prior to the introduction of the price cap (July 2017 to December 2018) seems reasonable. This provides a route to recover BSUoS costs over the transitional period, with temporary adjustments, that may not be recovered during future price caps.
- **Implementation of the adjustment** - we support the use of actual data to identify the required adjustment and agree with the preferred position to implement the adjustment over two stages for April 2023–July 2023, and July 2023–September 2023. This will provide the most accurate data to inform the adjustments and be less resource intensive for suppliers as the follow on process for true-up will not be required.

OVO welcomes bringing forward the stage 2 adjustment from October 2023, as originally proposed in the September Call for Input. It further supports the need for timely recovery of costs that we firmly advocate in Ofgem’s considerations.

We note Ofgem’s proposal to retain the 12 month recovery period for the adjusted BSUoS charges. We consider that it would be beneficial to suppliers to recover the costs sooner, however we recognise that it will be the same recovery period as if there was no change and this approach is beneficial to consumers to be spread over a longer period.

Should you have any questions please contact policy@ovoenergy.com.

Kind regards,

Samantha Cannons
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