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Ruben Pereira  
Policy Manager  
Electricity Network Charging  
Ofgem

**19 October 2022**

Dear Ruben,

We welcome the opportunity to respond to Ofgem's consultation on its minded-to decision and draft impact assessment on CMP361 and CMP362.

Citizens Advice agrees, in principle, with Ofgem's preference to recover BSUoS as a flat volumetric charge set on an ex-ante basis with 3 months notice for a 12 months fixed tariff period.

We agree that, on balance, this option provides a greater degree of accuracy in the forecasting of BSUoS. This should result in the risk of a tariff reset being lower, reducing risk premia associated with this.

We are comfortable that a 3 months notice, 12 months fix option with no BSUoS fund is in the interests of consumers. However, we do not consider that Ofgem's decision to include a BSUoS fund, as WACM5 requires, is well justified or clearly in consumers interests. This is because it has not been demonstrated that the impact of providing the BSUoS fund outweighs the benefit of reduced risk premia.

The consultancy modelling for this decision has focussed on understanding the impacts of the various combinations of splitting 15 months between notice periods and fix periods in order to identify an option with greater benefit to consumers.

However, the modelling does not test the existence of a BSUoS fund, which would be built up, and paid for, by consumers over a 2 or 5 year period to continually maintain a fund towards a P99 level of circa £250m. Instead it models that all supplier risk is transferred to the ESO with the options delivering the greatest benefit dependent on the level of cost to the ESO of holding the necessary risk capital. The consultation is therefore unable to present a detailed quantified impact that a BSUoS fund has on the overall benefits associated with any option. We would also highlight that modelling found that no option carried a benefits case that significantly outweighed that of others and so the impact of the BSUoS fund could alter this.

Instead, Ofgem makes what it describes as a crude estimate of the costs of the fund to consumers. Based on a series of assumptions about the size of the fund, how many years it is built up over and how it might be depleted and built back up again, the present cost of the BSUoS fund is described as £29m if built up over 5 years, as in WACM5. However, we do not think it is clear what impact this has on the net present benefit of £185m that results from the transfer of risk from suppliers to ESO if, with a BSUoS fund, ESO is not holding all the risk.

Based on the evidence provided, we do not believe it is a compelling argument that it is overall in consumers interests to include a BSUoS fund. We recommend that further detailed modelling is undertaken to estimate the impact that a BSUoS fund has on the options depending on the size of the fund, and scenarios of how it is depleted, built back up and what risk premia is associated with this.

Yours sincerely,

Sam Hughes

**Senior Policy Researcher**

**Patron HRH The Princess Royal      Chief Executive Dame Clare Moriarty**

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