CUSC Workgroup Consultation Response Proforma

CMP345: 'Defer the additional Covid BSUoS costs'

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 **3 June 2020**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

If you have any queries on the content of this consultation please contact Paul Mullen at paul.j.mullen@nationalgrideso.com or cusc.team@nationalgrideso.com.

Respondent details	Please enter your details
Respondent name:	George Moran
Company name:	Centrica
Email address:	George.moran@centrica.com
Phone number:	07557 611983

CMP345

For reference the applicable CUSC Charging objectives are:

Relevant Objective
(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. These are defined within the National Grid Electricity Transmission plc Licence under Standard Condition C10, paragraph 1 *; and
(e) To promote efficiency in the implementation and administration of the CUSC arrangements

Please express your views regarding the Workgroup Consultation in the right-hand side of the table below, including your rationale.

CMP345 - Standard Workgroup Consultation questions		
1	Do you believe that the CMP345 Original Proposal better facilitates the Applicable CUSC Charging Objectives?	Objective (a): Positive This proposal will mitigate against the exceptional losses likely to be incurred by Parties as a result of Covid-19. Deferring costs to a future period will allow Parties to reflect these exceptional costs into future tariff offerings. Such protection, for exceptional risks, that are high impact and low probability, such as Covid-19, will reduce the level of risk that will need to be factored into future tariffs and facilitate effective competition in the generation and supply. In our view this will, as a result, lower the long- term costs to consumers. Objective (b) Positive The exceptionally high BSUoS prices would provide a signal to reduce demand or increase embedded generation, potentially increasing the costs of balancing the system. By removing costs from high BSUoS periods and recovering them in a smeared fashion in a future year, the proposal reduces this signal. Therefore, cost reflectivity is improved by reducing the impact of the inappropriate signal in the current baseline charging approach. Objective (c) Positive The proposal takes account of the impact of the Covid-19 event on the ESO.
2	Do you support the proposed implementation approach for CMP345?	We consider a 1st June implementation to be more appropriate – or first applicable billing day post Ofgem decision.
3	Do you have any other comments?	We are supportive of options which defer these exceptional BSUoS costs to a future period as this allows parties to reflect the costs in future tariff offerings. The options which offer extended payment terms do not address this defect as the market will not allow Parties to include these delayed payments in future contracts.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	Yes – forms attached.
Specific Workgroup Consultation Questions		
5	Do you believe it is necessary to define Covid related costs for	It would be helpful, but it is not a necessity. The issue is that Parties have not included these high BSUoS costs

	the purposes of BSUoS charging as a result of this Modification proposal? Please provide rationale to support your response.	in fixed contracts across the summer period. Therefore, the cost shock is likely to be associated with the exceptional level of BSUoS in aggregate across the summer period, not the specific high BSUoS periods/days in question.
6	Do you agree with the Original Proposal (and each of the potential alternatives) as to what constitutes Covid related costs? Please provide rationale to support your response.	**Original**: We agree with this approach to defining Covid-19 related costs. It seems sensible, but if not workable in the timescales then such a clearly defined approach is not necessary. **Within Year Cost Deferral**: We agree with this approach to defining Covid-19 related costs. It is a cruder approach to estimating (and in this case sharing) Covid-19 related costs – but is workable and the primary issue relates to costs that could not have been foreseen in historically agreed fixed contracts – which can be addressed by removing costs from the broader BSUoS pot, rather than focussing on specific days/hours/actions. **Cost Deferral to 2022/2023**: as per original **Target Covid costs to specific Settlement Periods**: as per original **Extended Payment Terms – ESO**: as per within year cost deferral **Extended Payment Terms – Other**: as per original **BSUoS price cap:** We agree with this approach to defining Covid-19 related costs. This is a cruder approach than the original, but more refined than the within year cost deferral approach. We are unsure whether this is workable in practice. **Daily rolling average calculation for BSUoS:** does not set out to define Covid-19 related costs (instead seeks to smooth all BSUoS costs over the remainder of the year).
7	Do you think any deferral of Covid costs should be i) within the 2020/2021 Charging Year only, ii) deferred to the 2021/2022 Charging Year or iii) deferred to 2022/2023 Charging Year or iv) deferred equally across the 2021/2022 and 2022/2023 Charging Years? Please provide rationale to support your response.	Although all options are an improvement to the status quo, we believe the best option is to defer to 2022/2023. Deferral would be for the purpose of allowing Parties to recover the exceptional Covid-19 related costs in future tariff offerings. To do this effectively requires deferral to a date where the majority of fixed contracts covering the original high cost period will have lapsed and so we believe deferral to 2022/23 is appropriate to allow Parties to recover a greater portion of the higher costs associated with managing the system this summer.

		We would also note that recovering revenue in future years, when the correct revenue is not recovered in a particular year, is standard practice across the industry with regards to network charges. The established practice, introduced after careful consideration, is that revenue is recovered with a 2-year lag. i.e. under-recovery in 2020/1 would be added to revenue in 2022/3.
8	Do you consider it appropriate to smear the entire deferred Covid costs equally across the whole of a Charging Year e.g. 2021/2022 or target the deferred Covid costs to the equivalent Settlement Periods in 2020/21 in which Covid costs arose? If the charge was to be applied equally across a Charging Year should that be on a per Settlement period only basis or on a per MWh basis? Please provide rationale to support your response.	Smearing it across the entire charging year is more appropriate as it reduces any inappropriate signals (e.g. encouraging demand reduction) that would otherwise occur if it was targeted at the same HH periods. A per settlement period approach would seem more workable, since a per MWh approach would require a forecast of MWh which may necessitate further adjustments due to forecast error.
9	Do you consider it appropriate to codify a capped figure for the Covid costs to be deferred? If so, based on the information available, what value do you believe it should be? Please provide rationale to support your response.	Yes, a codified cap is appropriate so that the ESO knows what level of financing it needs to arrange. We propose a fixed level of support of £250m on the basis that: • A baseline against the April BSUoS forecast appears more appropriate than against the February BSUoS forecast, noting that no urgent modification was raised after the April forecast. This reduces the exceptional cost increase to £415m. • Market participants should face the cost associated with a ‘normal’ level of BSUoS volatility. The ‘high band’ BSUoS forecast set out by the ESO in April was c. 20% higher than the base case in April for the months in question. We therefore use 20% as an appropriate measure of ‘normal’ volatility. • The has ESO acknowledged to the workgroup that the revised BSUoS forecast in May contains a number of prudent assumptions. We therefore assume it is more akin to a ‘high band’ scenario

		and as such apply an additional 20% reduction for this. • Applying this 40% reduction to the increase in forecast costs between April and May gives c. £250m.
10	Do you agree that the period to be covered for deferral of Covid costs should be limited to those incurred up to 31 August 2020?	We are comfortable with a 31 August date or a 30 September date as per the options put forward.
11	Do you think the impact of the Covid pandemic on BSUoS is sufficient to justify a different approach to charging BSUoS in advance of the second BSUoS Taskforce completing its work? Bearing in mind the short timescale for implementation do you agree with the approach in the option outlined above? Please provide a rationale with your response.	Significantly changing the approach to BSUoS charging in a way that crosses into the areas being considered by the Task Force risks unintended consequences if not fully considered, or changes that then need to be unwound. Given the timescales with which this modification must progress we would recommend the workgroup focus on the narrower issue at hand.
12	Do you agree with the financing options set out above? Is there another way? Please provide rationale to support your response.	We agree than any deferral option should effectively be a cost pass-through by the ESO Any extended payment holiday should come at the CUSC level of interest rate.
13	Do you agree with the impacts we have set out in this Workgroup Consultation? Have we missed any impacted parties? Please provide details to support your response.	• **Deferral beyond 2020/21 reduces impact:** a deferral to 2021/22 or later will reduce the cost that is passed through by c. 10% since Embedded Generation would no longer receive an embedded benefit once CMP333 has been implemented. This would be a benefit to Generators/Suppliers and consumers, and a disbenefit to embedded generators. • **Deferral reduces long term consumers costs:** In terms of overall costs to consumers, this must be assessed on a long-term basis. A deferral of costs will move a portion of the exceptional costs currently being absorbed by Parties onto consumers. The extent of this cost transfer depends on the length of the deferral. Therefore, there will be a short-term increase in consumer costs. However, without such a deferral there is a likelihood that Parties will need to factor high impact low probability risk events such as

		Covid into enduring risk premiums. This will increase long-term consumer costs and we believe this will outweigh the short-term cost associated with a cost transfer. • **Extended payment terms increase consumer costs:** Options which simply extend payment terms do not remove the need to factor high impact low probability events into risk premiums and will therefore cost consumers more in the long run. There will also be additional risk premiums that will be necessary to cover the risk of default associated with the extended payment terms. The workgroup should be clear about where the risk of accumulated bad debt sits – it is not with the ESO, who are simply providing a financing facility – but it is market participants and consumers who are acting as guarantors to any extended payment terms and this will have an inevitable impact on risk premia and consumer costs.