

CMP345:

Mod Title: Defer the additional Covid-19 BSUoS costs

01	Proposal Form
02	Workgroup Consultation
03	Workgroup Report
04	Code Administrator Consultation
05	Draft CUSC Modification Report
06	Final CUSC Modification Report

Purpose of Modification: To defer the additional BSUoS costs arising from Covid-19 that are incurred in 2020/21 to 2021/22.

	<p>The Proposer recommends that this modification should be:</p> <ul style="list-style-type: none"> assessed by a Workgroup be treated as urgent and should proceed as such under a timetable agreed with the Authority <p>This modification was raised <i>dd month year</i> and will be presented by the Proposer to the Panel on <i>dd month year (Code Administrator to provide date)</i>. The Panel will consider the Proposer’s recommendation and determine the appropriate route.</p>
	<p>High Impact: Suppliers and Generators.</p>
	<p>Medium Impact: NGESO.</p>
	<p>Low Impact</p>

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Timetable		 Contact: Code Administrator
<i>The Code Administrator will update the timetable.</i>		 email address
		 telephone
		Proposer: Garth Graham
		 garth.graham@sse.com
		 01738 456000
		National Grid ESO Representative: Insert name
		 email address.
		 telephone
The Code Administrator recommends the following timetable: <i>(amend as appropriate)</i>		
Initial consideration by Workgroup		dd month year
Workgroup Consultation issued to the Industry		dd month year
Modification concluded by Workgroup		dd month year
Workgroup Report presented to Panel		dd month year
Code Administration Consultation Report issued to the Industry		dd month year
Draft Final Modification Report presented to Panel		dd month year
Modification Panel decision		dd month year
Final Modification Report issued the Authority		dd month year
Decision implemented in CUSC		dd month year

Proposer Details

<p style="text-align: center;">Details of Proposer: (Organisation Name)</p>	SSE Generation
<p style="text-align: center;">Capacity in which the CUSC Modification Proposal is being proposed: (i.e. CUSC Party, BSC Party or "National Consumer Council")</p>	CUSC Party
<p style="text-align: center;">Details of Proposer's Representative:</p> <p style="text-align: right;">Name:</p> <p style="text-align: right;">Organisation:</p> <p style="text-align: right;">Telephone Number:</p> <p style="text-align: right;">Email Address:</p>	<p>Garth Graham</p> <p>SSE Generation</p> <p>01738 456000</p> <p>garth.graham@sse.com</p>
<p style="text-align: center;">Details of Representative's Alternate:</p> <p style="text-align: right;">Name:</p> <p style="text-align: right;">Organisation:</p> <p style="text-align: right;">Telephone Number:</p> <p style="text-align: right;">Email Address:</p>	<p>Andrew Colley</p> <p>SSE Generation</p> <p>01738 456000</p> <p>andrew.colley@sse.com</p>
<p>Attachments (No):</p> <p>If Yes, Title and No. of pages of each Attachment:</p>	

Impact on Core Industry Documentation.

Please mark the relevant boxes with an "x" and provide any supporting information

BSC	<input type="checkbox"/>
Grid Code	<input type="checkbox"/>
STC	<input type="checkbox"/>

Other

(Please specify)

We do not anticipate any impacts on other Code Industry Documentation as this change is focussed on BSUoS which falls within the CUSC¹.

1 Summary

Glossary of terms used in this document

Acronym	Description
BSUoS	Balancing Services Use of System (charges), as set out in Section 14 of the CUSC.
ESO	Electricity System Operator (often referred to as 'NGESO' or more formally in the CUSC as 'The Company')

Defect

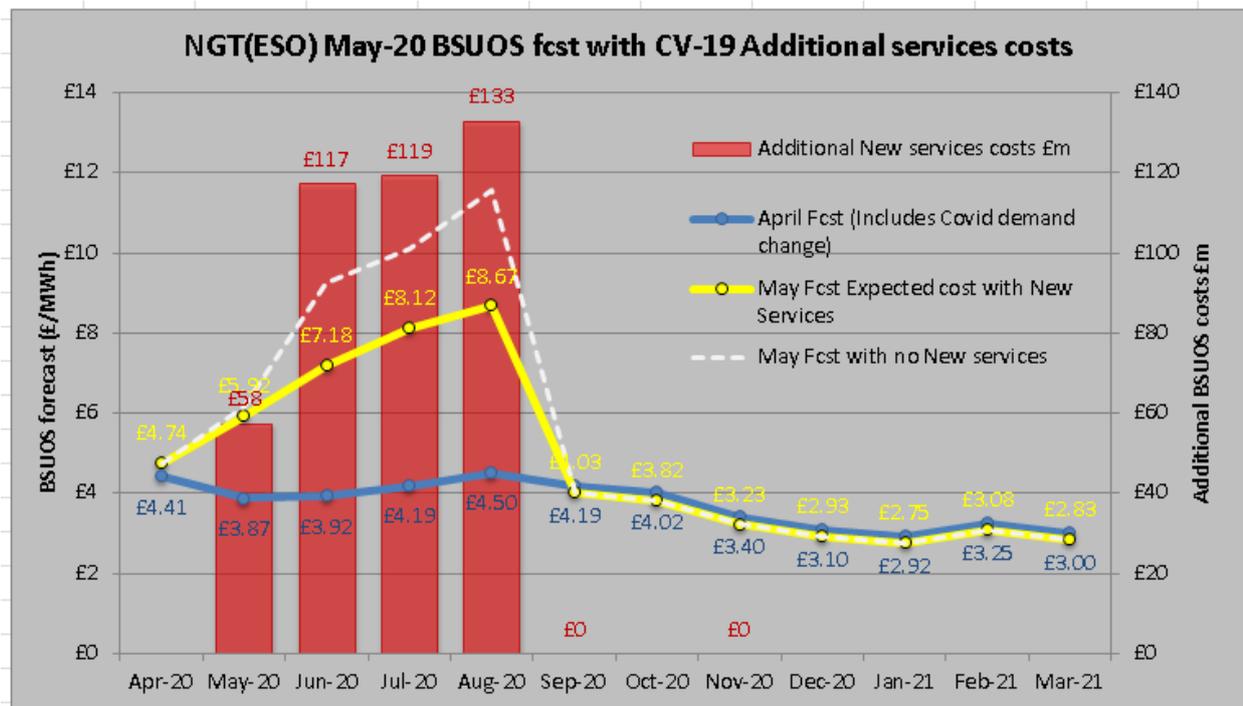
Late on Friday 15th May 2020 the ESO published² their revised BSUoS forecast for the rest of the 2020/21 year, taking account of the additional costs associated it expects to incur as a consequence of the Covid-19 situation. The ESO's published information, shown graphically, is as follows:

¹ Section 14 of the CUSC. BSUoS is found in Section 2 (14.29 onwards).

<https://www.nationalgrideso.com/document/91411/download>

² The ESO's Monthly Balancing Services Use of System (BSUoS) Forecast:

<https://data.nationalgrideso.com/balancing/bsuos-monthly-forecast?from=0#resources>



To put this into context, the February 2020 ESO forecast for BSUoS in 2020/21 was circa £1,478 million. As of 15th May³, the ESO is now forecasting BSUoS in 2020/21 as circa £2,000 million.

This 25%+ increase in the quantum to be recovered is further compounded by (i) it being applied, in practical terms, over a third of the 2020/21 year (May – August) rather than the whole year; and (ii) over a smaller charging base, with demand in GB down circa 20% due to Covid-19 lockdown / demand suppression. The combined impact is that BSUoS costs are forecast to increase by around 90% on average from June-August, with a high probability of BSUoS in individual periods effectively doubling the total cost of electricity.

This is a profound change, arising from Covid-19, to the expected cost of BSUoS that could be neither forecasted or expected by market participants (Suppliers and Generators) or indeed the ESO itself. The effect of recovering the additional costs arising from the unprecedented Covid-19 event from those parties under the status quo arrangements would be profound as they will be unable to fully recover the amounts via retails tariffs (for Suppliers) given fixed price contracting and price caps, or via wholesale prices (for Generators) given that most sales for May to August generation have already been made before indications of these significant BSUoS cost increases over forecast were given by the ESO.

We are proposing that the deferred amount for the 'Covid-19 Additional System Management Costs' should be set at £500M. We are basing this on the rough costs provided by the ESO in its latest BSUoS forecast. However, at the time of raising this proposal we note that this information is very limited in detail and we are aware that

³ <https://data.nationalgrideso.com/balancing/bsuos-monthly-forecast?from=0#resources>

market participants lack the visibility (in terms of the Covid-19 event) of what contracts the ESO has signed or whether they are value for money etc. Future contracts may also be entered into during the year. It is also possible that an Income Adjusting Event could be undertaken and, as we note under 'What' below, if that results in an amount, £X, being recovered in a different way (according to an Ofgem determination) then the £X should, we suggest, be removed from the £500M figure for the '*Covid-19 Additional System Management Costs*'.

Based on the very limited information currently available from the ESO as to the difference between its February and May BSUoS forecasts, we have proposed a £500M⁴ figure for the '*Covid-19 Additional System Management Costs*' (up until the end of August 2020). This consists of £427M for the additional new service costs (£58M in May, £117M in June £119M in July and £133M in August) identified by the ESO and £73M; which we attribute to the demand suppression effects in terms of transmission system management costs that are over and above the additional new service costs (£427M).

We would suggest that the £73M be deducted (to be deferred to 2021/22) equitably from BSUoS in May-August 2020. There are 123 days in those four months; which equates to 5,904 settlement periods. Thus the £73M would; when divided by 5,904; equate to a deduction (to be deferred to 2021/22) of £12k for each of those settlement periods in the May-August 2020 months.

What

Amend the "Total BSUoS Charge (Internal + External) for each Settlement Period (BSUoSSTOTjd) 14.30.5" and the "External BSUoS Charge for each Settlement Period (BSUoSSEXTjd) 14.30.6" in Section 14 of the CUSC to:

- (i) exclude, via 14.30.6, till Charging Year 2021/22, the recovery of any additional external BSUoS costs incurred by the ESO associated with the Covid-19 event (the '*Covid-19 Additional System Management Costs*') during Charging Year 2020/21; and
- (ii) recover, via 14.30.5, the amount deferred (the '*Covid-19 Additional System Management Costs*') under (i) along with the additional interest cost(s) incurred by the ESO (if agreed by the Authority) and recover the total quantum equally across all the settlement periods during 2021/22.

For the avoidance of doubt, if any part(s) of the additional external BSUoS costs incurred by the ESO associated with the Covid-19 event during Charging Year 2020/21 is dealt with by the Authority as an 'Income Adjusting Event' then that part of the costs will be recovered according to the route determined, in that case, by The Authority and will not (unless agreed otherwise by The Authority) be recovered equally over all the settlement periods during 2021/22. Therefore, there can be no risk of 'double recovery/double billing' etc., of any Covid-19 related BSUoS cost item(s) under this proposal and anything The Authority might, subsequently, determine.

⁴ The difference between £1,478M and £2,000M is £522M; however, we recognise that there may be some additional (non Covid-19 related) volatility in BSUoS as happened pre-Covid-19 and we are therefore suggesting that £22M (of the £522M) would be recovered in the normal way via day to day BSUoS in 2020/21 (with remaining the £500M deferred to 2021/22).

Why

The reason why this change is required is that according to the ESO's most recently issued BSUoS forecast, of Friday 15th May, the unit BSUoS costs, over the period to end August 2020, are expected to substantially grow. This unexpected change made with extremely short notice will have significant commercial impact on generators and suppliers and will adversely impact competition in the generation and supply of electricity. Furthermore, it could also see some parties unable to continue to operate with consequences for the market and, ultimately for customers. In the case of generation, it would have an adverse security of electricity supply implication in the case of suppliers, exacerbate the already heightened risk of supplier failures.

How

As noted under 'What' above; amend the "Total BSUoS Charge (Internal + External) for each Settlement Period (BSUoS_{TOT}) 14.30.5" and the "External BSUoS Charge for each Settlement Period (BSUoS_{EXT}) 14.30.6" in Section 14 of the CUSC to (i) exclude, via 14.30.6, till Charging Year 2021/22, the recovery of any additional external BSUoS costs incurred by the ESO associated with the Covid-19 event, during Charging Year 2020/21; and (ii) recover, via 14.30.5, the amount deferred under (i) along with the additional interest cost(s) incurred by the ESO (if agreed by the Authority) and recover the total quantum equally across all the settlement periods during 2021/22. We have provided indicative legal text in Section 9 below. We propose that this change, if approved, be implemented within one calendar day of an Authority decision, to ensure that it is excluded from invoices for the Settlement Periods commencing 1st May 2020.

2 Governance

Justification for Urgent Procedure

The ESO's most recently issued BSUoS forecast, of Friday 15th May, has identified an additional £500M increase in the cost of managing the electricity transmission system arising from the Covid-19 event. As it stands these will be recovered via BSUoS charges over the next four months (June-September BSUoS bills for May-August).

In seeking urgency, we are mindful of Ofgem's Urgency Criteria⁵.

In our view, the unprecedented Covid-19 event has led to exceptional and substantial additional BSUoS costs that could not be reasonably forecast by the ESO or market participants. It is "**a current issue that if not urgently addressed**" will have "**a significant commercial impact on parties, consumers or other stakeholder(s)**" and could give rise to "**a significant impact on the safety and security of the electricity and/or gas systems**".

The '**significant commercial impact**' arises for both Suppliers and Generators as they could not have forecasted or expected such surges in BSUoS (over such a sustained period of ~five⁶ months). Under the status quo arrangements those parties who pay

⁵ https://www.ofgem.gov.uk/system/files/docs/2016/02/urgency_criteria.pdf

⁶ Start of April 2020 to end August 2020.

BSUoS for the most part will be unable to recover the amount concerned via retail tariff changes (for Suppliers) given price caps and fixed price contracting etc., or via wholesale price increases (for Generators). These parties face a significant commercial impact from this current issue.

The '**significant impact on the safety and security**' of electricity arises, in particular for generators in GB, as they are faced with these sudden and substantial additional costs which they are unable to fully recover in the wholesale market given forward trading timescales. This, in turn, could threaten the commercial viability of some of those generators who, in these times of significant system management issues for the ESO (hence the highly abnormal additional BSUoS costs), could cease trading / operating which, could impact on the security of the electricity system.

Requested Next Steps

This modification should:

- be assessed by a Workgroup
- be treated as urgent and should proceed as such under a timetable agreed with the Authority

This proposal should proceed to an Urgent timescale such that the change, if approved, is applied prior to the 1st June 2020 BSUoS bills (for the preceding month of May 2020) issued by the ESO so they are not impacted by the Covid-19 Additional System Management Costs incurred by the ESO (with the requisite amounts deferred to 2021/22).

Given the material nature of this change it may be appropriate to have a Workgroup convened (but possibly without a Workgroup Consultation) in the period 21st May to 22nd May, such that a Code Administrator Consultation is held in sufficient time for a Recommendation vote by the CUSC Panel at its 29th May meeting with an Authority decision in time for the 1st June billing deadline.

3 Why Change?

Without this change then Suppliers and Generators in GB who each pay 50 per cent of the BSUoS costs incurred by the ESO will be unable to pass on most of the (currently forecast) 25%+ additional (Covid-19 related) costs, incurred over May-August, in their market prices as would be the case with more expected changes. This will likely lead to failures of some market participants which will reduce competition in both the supply and generation of electricity in GB (as well as possibly threaten the security of the electricity system). It will also give rise to substantial new risk premia (leading to higher costs) being applied by market participants henceforth to account for the manner in which the electricity system operation costs of the societal response to this situation have been managed.

4 Code Specific Matters

Technical Skillsets

Knowledge of Section 14 of the CUSC.

Reference Documents

Section 14 of the CUSC

The ESO's latest (15th May 2020) BSUoS Forecast and other relevant information provided by the ESO.

5 Solution

Amend the “Total BSUoS Charge (Internal + External) for each Settlement Period (BSUoSTOTjd) 14.30.5” and the “External BSUoS Charge for each Settlement Period (BSUoSXTjd) 14.30.6” in Section 14 of the CUSC to (i) exclude, via 14.30.6, till Charging Year 2021/22, the recovery of any additional external BSUoS costs incurred by the ESO associated with the Covid-19 event; during Charging Year 2020/21 and (ii) recover, via 14.30.5, the amount deferred under (i) along with the additional interest cost(s) incurred by the ESO (if agreed by the Authority) and recover the total quantum equally across all the settlement periods during 2021/22.

“14.30.6

*The External BSUoS Charges for each Settlement Period (BSUoSXTjd) are calculated by taking each Settlement Period System Operator BM Cash Flow (CSOBMj) and Balancing Service Variable Contract Cost (BSCCVj) and allocating the daily elements on a MWh basis across each Settlement Period in a day but shall, from the first settlement period after CMP[xxx] is implemented until the last settlement period on 31st March 2021 only, exclude any and all **Covid-19 Additional System Management Costs.**”*

*“14.30.5 The Total BSUoS charges for each Settlement Period (BSUoSTOTjd) for a particular day are calculated by summing the external BSUoS charge (BSUoSXTjd) and internal BSUoS charge (BSUoSINTjd) for each Settlement Period which, for the year 1st April 2021 to 31st March 2022 only, shall include an equal share (per Settlement Period, for all days in the year) of any **Covid-19 Additional System Management Costs** incurred in 2020/21 along with any associated financing cost incurred by **The Company** as agreed by **The Authority**. For the purposes of this and the next paragraph **Covid-19 Additional System Management Costs** shall be determined as £500 million (being the bulk of the difference between **The Company's** February 2020 and May 2020 BSUoS forecast).”*

6 Impacts & Other Considerations

This proposal will impact the CUSC (Section 14) and in particular the processes of calculating and billing BSUoS. There should be little, if any system impact as the change relates to an (£) amount itself to be put into a calculation (not the running of the system) in 2020/21 being, instead, applied in 2021/22. There is not expected to be any other associated industry changes required.

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

We do not believe this Modification has any impact on any ongoing Significant Code Review or other significant industry change as it involves the deferral only of a (£) quantum of cost and does not, for example, deal with which parties should or should not pay that cost via BSUoS (or some other future mechanism).

Consumer Impacts

We believe this proposal will have a positive impact on consumers as it ensures that the BSUoS effects of Covid-19 are recovered in a fair, equitable and manageable way that avoids undue volatility that impacts on competition and security of supply.

7 Relevant Objectives

Impact of the modification on the Applicable CUSC Objectives (Charging):

Relevant Objective	Identified impact
(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;	Positive
(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);	None
(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;	Positive

(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	None
(e) Promoting efficiency in the implementation and administration of the CUSC arrangements.	None
*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).	

This proposal will be positive in terms of Applicable Objective (a) as it will ensure that BSUoS paying market participants are not adversely impacted by the costs incurred by the ESO to manage the transmission system during the Covid-19 event and thus this will 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.

This proposal is neutral in terms of Applicable Objective (b).

This proposal will be positive in terms of Applicable Objective (c) as it will ensure that the BSUoS methodology properly takes account of the developments in transmission licensees' transmission businesses arising from the unprecedented Covid-19 event.

This proposal is neutral in terms of Applicable Objective (d).

This proposal is neutral in terms of Applicable Objective (e).

8 Implementation

This proposal should be implemented within one calendar day of an Authority Decision and applied from the first Settlement Period at the start of the day.

9 Legal Text

Our indicative legal text is as follows (additions shown in red):

“14.30.6

*The External BSUoS Charges for each Settlement Period (BSUoS_{EXT}Tjd) are calculated by taking each Settlement Period System Operator BM Cash Flow (CSOBM_j) and Balancing Service Variable Contract Cost (BSCCV_j) and allocating the daily elements on a MWh basis across each Settlement Period in a day but shall, from the first settlement period after CMP[xxx] is implemented until the last settlement period on 31st March 2021 only, exclude any and all **Covid-19 Additional System Management Costs.**”*

“14.30.5 The Total BSUoS charges for each Settlement Period (BSUoS_{TOT}Tjd) for a particular day are calculated by summing the external BSUoS charge (BSUoS_{EXT}Tjd) and internal BSUoS charge (BSUoS_{SINT}Tjd) for each Settlement

*Period which, for the year 1st April 2021 to 31st March 2022 only, shall include an equal share (per Settlement Period, for all days in the year) of any **Covid-19 Additional System Management Costs** incurred in 2020/21 along with any associated financing cost incurred by **The Company** as agreed by **The Authority**. For the purposes of this and the next paragraph **Covid-19 Additional System Management Costs** shall be determined as £500 million (being the bulk of the difference between **The Company's** February 2020 and May 2020 BSUoS forecast).*

Text Commentary

The suggested legal text, puts into effect the solution we have outlined in this proposal.

10 Recommendations

Proposer's Recommendation to Panel

We ask that the Panel recommend this proposal to the Authority as urgent and that, if time permits, a short Workgroup assessment (without a Workgroup consultation) be held this week followed by a Workgroup Report to Panel (Special Panel on Tuesday 26th May) and a short Code Administrator Consultation closing on Thursday 28th May, with a Panel recommendation vote on Friday 29th May and a Final Modification Report issued to the Authority late on Friday 29th May for decision ahead of implementation, at the latest, with the first settlement period on Monday 1st June 2020.

- Agree that Normal governance procedures should apply
- Refer this proposal to a Workgroup for assessment.

11 Modification guidance and using this template

Transmission Charging Methodology Forum

Prior to raising a formal modification, we encourage Proposers to bring their modification to the Transmission Charging Methodology Forum to gain industry views on the Proposal and enable the modification to be developed prior to being formally submitted.

If you would like more information, please contact The Code Administrator at CUSC.Team@nationalgrideso.com

[Given the urgent need to address the defect we have identified and the timing of the TCMF, it has not been possible on this occasion to present this proposal to TCMF. We apologise to stakeholders for this, but we are certain that they will appreciate why it has not been possible in this case.]