

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
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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?	<p>Yes, specifically with regards to objectives (a) and (c).</p> <p>CMP345 supports competition by mitigating the unprecedented increase in BSUoS costs, impacting otherwise responsible suppliers and generators, unable. Their failure would reduce market diversity and competition for consumers (a).</p> <p>CMP345 is a direct response to an unexpected development within the transmission businesses – namely the exceptional circumstances brought about by Covid (c).</p>
2	Do you support the proposed implementation approach for CMP345?	Yes
3	Do you have any other comments?	No
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No
Specific Workgroup Consultation Questions		
5	Do you believe it is necessary to define Covid related costs for the purposes of BSUoS charging as a result of this Modification proposal? Please provide rationale to support your response.	<p>Yes, in practical terms some definition will have to be made by which the ESO can identify which specific costs of balancing can be considered attributable to Covid and which can be considered normal balancing action costs.</p>
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.	<p>Yes. The proposer has provided sound logic for the 18 GW demand threshold (i.e. the ESO's latest BSUoS forecast identifier) upon which three of the seven definitions hinge (III, IV, V).</p> <p>The additional definitions (I, II) are associated with specific new balancing products and services, introduced by the ESO in direct response to the recent low demand, brought on by Covid.</p> <p>Any financing costs directly incurred from deferred payments, resulting from CMP345 (definition VII), are clearly a Covid related cost.</p>

7	<p>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.</p>	<p>Deferred to 2022/2023. This would provide greater support for suppliers and generators, ensuring sufficient time can be provided to recoup the exceptional, excess costs. This would further stabilise the market, rather than threatening participants who are otherwise financially sound but had no means of planning this excess cost.</p> <p>The negative impact on suppliers from any additional collateral burden, from the ESO, that this might bring would be minimal, given suppliers have access to a good payment history option and independent credit assessments.</p>
8	<p>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.</p>	<p>Utilita consider it appropriate to smear the entire deferred Covid costs equally across the whole Charging Year, on a per Settlement Period only basis.</p> <p>This would remove any risk of participants deliberately gaming the system, effectively provided such participants some foresight of specific upcoming balancing costs.</p> <p>It would also remove the possibility of negative BSUoS costs.</p>
9	<p>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.</p>	<p>Utilita believe a hard-coded cap is appropriate, given that in practical terms it will be necessary for the ESO to provide financing.</p> <p>Given this reality, some element of forecasting will be required, to provide a pre-determined, fixed value, rather than an ongoing criteria/process that is subject to the variance of actual outturn (weather, demand, etc.).</p> <p>On this assessment, the Original Proposal's £500m is the most appropriate figure, based on the ESO's additional new costs (£427m), plus some assessment for demand suppression (£73m).</p>
10	<p>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?</p>	<p>Yes, given that Utilita believes a forecasted cap on deferred payments is appropriate (see 9 above), a limit on incurred costs will also be required, to set a forecasting period.</p>

		<p>Any period beyond 31 August 2020 (three months ahead) would further risk increasing the variability of any forecast.</p> <p>It may be appropriate to extend any agreed deferral beyond this date, depending upon the ongoing effects of Covid. This can be reviewed with greater clarity in the future; the existing proposal provides some immediate mitigation to those impacts already confirmed and reasonably expected to continue in the near-term.</p>
11	<p>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.</p>	<p>No, the alternative solution is excessively complex given the extremely short timescale for response and implementation. Suppliers and generators would require additional time to implement the change to their forecasting models and invoice validation processes.</p>
12	<p>Do you agree with the financing options set out above? Is there another way? Please provide rationale to support your response.</p>	<p>Utilita agrees with the Original Proposer's suggestion that any ESO financing cost would be based on the cost of capital / cost of the (£500m) loan, as approved by the Authority.</p> <p>This would ensure that the ESO remains cost neutral and that those opting into the scheme are not penalised, based on the logic that CMP345 is supposed to mitigate exceptional circumstances on market participants otherwise unable to recover the costs.</p>
13	<p>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.</p>	<p>Yes, Utilita agrees that all affected parties and potential impacts of CMP345 have been considered in this consultation.</p>