

# CMP345 Workgroup

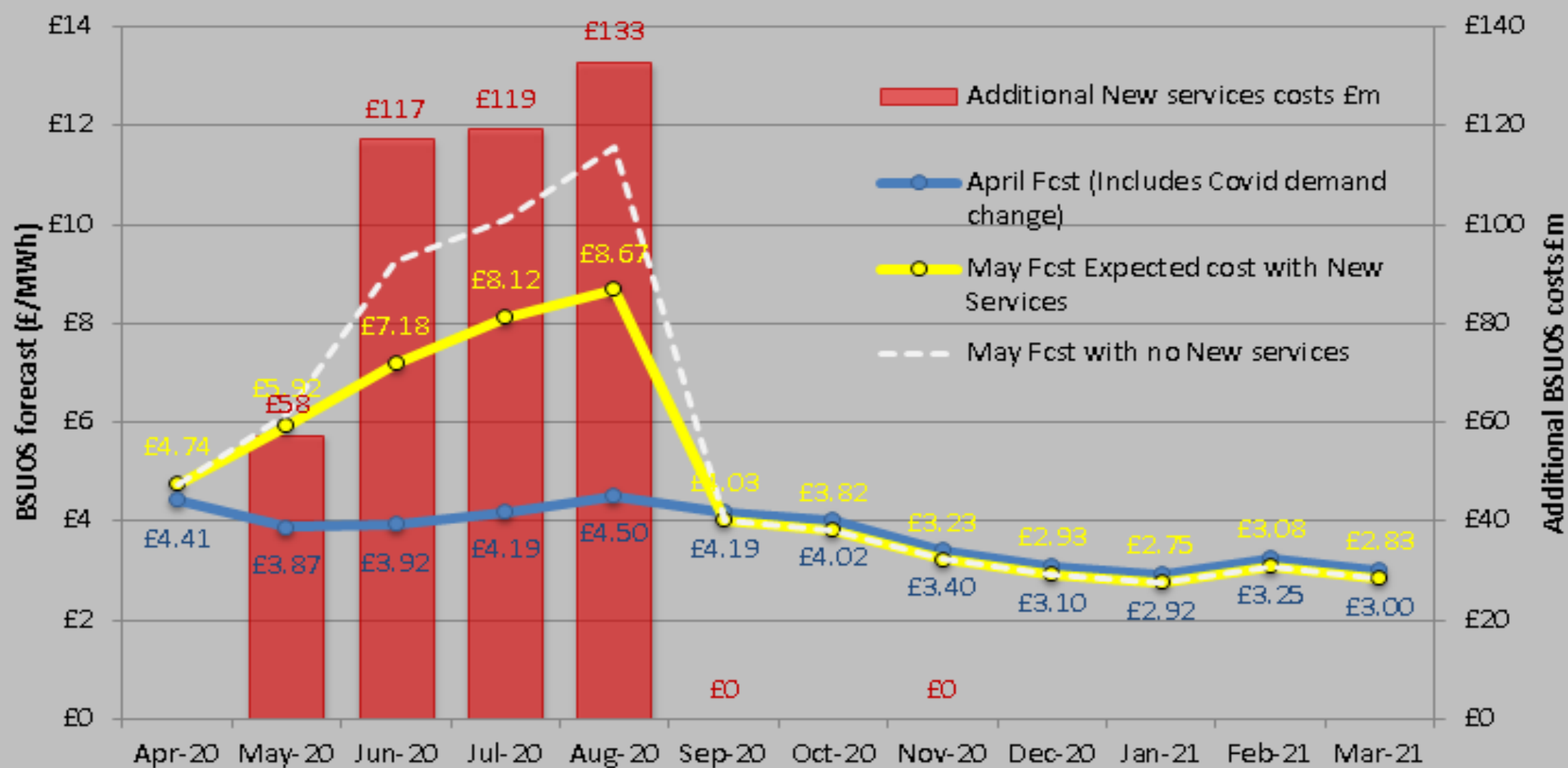
Tuesday 26<sup>th</sup> May 2020

Garth Graham, SSE Generation, Proposer

# Summary (1)

- **To defer the additional BSUoS costs arising from Covid-19 that are incurred in 2020/21 to 2021/22**
- Rest of BSUoS recovered as BAU
- Identified by ESO as £500M
- Profound change to cost of BSUoS 20/21, arising from Covid-19
- Neither forecasted or expected by market participants (Suppliers and Generators) or ESO

# NGT(ESO) May-20 BSUOS fcst with CV-19 Additional services costs



# Summary (2)

- Effect of recovering unprecedented Covid-19 via status quo arrangements
- Suppliers unable to recover bulk of extra cost via retails tariffs
- Generators unable to recover bulk of extra cost via wholesale prices given forward trading ahead of cost forecast increase announcement

# Summary (3)

- Recovering Covid-19 costs via status quo will have significant commercial impact on Generators and Suppliers
- Parties leaving the market adversely impact competition in the generation and supply of electricity
- Could see some parties unable to continue to operate – market and customer consequences
  - For generation, would have adverse security of electricity supply implications
  - For suppliers, would exacerbate the already heightened risk of supplier failures

# Summary (4)

- Simple legal text change, £500M based on ESO forecast hard coded, means certainty for all – Ofgem would need to agree any change via new mod (simple to reduce, further justification if higher)
- Implement within one day apply from 1<sup>st</sup> June BSUoS bills
- Applicable Objective (a) Positive – reduces adverse competitive impacts of Covid-19 extra cost in 20/21
- Applicable Objective (c) Positive – takes account of developments in transmission business arising from additional Covid-19 costs
- Applicable Objectives (b), (d) & (e) Neutral

# Basis of £500M (1)

- Based on the 15<sup>th</sup> May ESO revised forecast compared to February 2020 forecast
- Taking the ESO figures in good faith
- Limited details available of composition of the cost increase
- £427M for the additional new service costs (£58M in May, £117M in June £119M in July and £133M in August)
- £73M attribute to demand suppression system management costs over and above the additional new service costs

# Basis of £500M (2)

THE  TIMES

Friday May 22 2020

Business



## Slump in electricity use to cost National Grid £500m



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New measures to keep the lights on as the pandemic's toll on electricity demand will cost about £500 m this summer, National Grid estimates (Emily Gosden writes).

The costs, including paying surplus power plants off, will be passed on to suppliers and generators and ultimately charged to homes and businesses through their

our May 0th forecasts into a single most likely view, using a rather for May 2020. This update is labelled **Impact on BSUoS dces**. This update shows expected BSUoS had the ESO developed and is provided for purposes of comparison

ed a new main forecast, labelled **BSUoS Forecast for Summer** est view of weather and overlays the forecasted costs and benefi

£m	Outturn	Forecast date			
		April	8th May		
	2019	Normal Weather	Normal Weather	Extreme Weather	BSUoS Forecast for Summer 2020 – including new services
May	64.4	101	177.3	276.7	166
June	89				207.7
July	71.1				214.9
August	108.7				237.7
Total	333.2				826.3

ecasts can be found on the ESO data portal [here](#)



# Terms of Reference

- Examine each item (a) to (j) from Workgroup scope
- Based on Panel version issued to Workgroup 22<sup>nd</sup> May
- Proposer's suggestions

a) which parts of BSUOS charge should / could be deferred

- Only those additional BSUoS cost items related to Covid-19, as the ESO has forecast to market participants - £500M

BSUoS components to be included : Green probable; Red: No

b) appropriate level of BSUoS that can be deferred / upper limit

- £500M

## c) Can Implementation Date be backdated to 1 June 2020 ?

- Ofgem Urgency criteria - general principle: Mods are not retrospective, but
- *“there may occasionally be exceptions that could give rise to the need for a modification which would have retrospective effect”*

If Covid-19 £500M extra costs are not exceptional then what is?

- *“consider any retrospective modifications on a case by case basis, though the particular circumstances that could give rise to the need for a retrospective change”*

Should apply to CMP345

## c) Can Implementation Date be backdated to 1 June 2020 - Ofgem Urgency criteria (cont'd)

- *“combinations of circumstances that could not have been reasonably foreseen”*
  - Could not have foreseen £500M BSUoS cost for Covid-19
- *“or where the possibility of a retrospective action had been clearly flagged to the participants in advance, allowing the detail and process of the change to be finalised with retrospective effect.”*
  - Was flagged in Panel discussion / request for urgency letter to Ofgem
- *“consider that in any event, any cost/loss incurred due to the prevailing rules would need to be material in order to warrant a retrospective modification”*
  - £500M is material

## d) Impacts of Covid-19 wider policy changes

- There are many different potential policy outcomes within GB which are currently difficult to account for
- This Mod is based around ESO's current expectations
- Alternative Covid-19 policies are unknown and unknowable at this time
- As other policies are unknown the impact of other policies should be discounted from consideration of this proposal by Workgroup – other policies may require other Mods?

## e) Alternative options - e.g. income adjusting event

- Income Adjusting Event
  - If event occurs which ESO could not have foreseen or controlled which increases or decreases ESO's position against the BSIS target by a material amount, ESO may apply for IAE
  - ESO required to raise IAE as soon as practical, but takes account of circumstances
  - Under BSIS, ESO may submit a request for IAE up to 3 months after end of 2020/21 (~June 2021)
  - If approved by Ofgem, specific costs related to IAE removed from calculation of ESO's incentive payments and IAE costs recovered by ESO as normal through BSUoS (see 2016/17 Black Start example)

## e) Alternative options - e.g. income adjusting event (cont'd)

- Issue of delay - market participants may not get IAE answer till summer 2021 (when BSUoS invoices have been paid - cashflow)
- Addressed in CMP345 – if IAE approved, £XM will be deducted from £500M
  - No double recovery/ double charge under CMP345 with IAE



## e) Alternative options - e.g change approach to half-hourly

- Apply equally across the whole of 2021/22
  - ~£29K for each settlement period in the year
  - Reflects the wider societal nature of the unprecedented Covid-19 event that the £500M relates to
  - Removes risk of avoidance / gaming
- Apply to equivalent settlement period in 2021/22 as 2020/21
  - recover £500M over less than 2,000 settlement periods (ESO say need is for less than 35% of the four months – weekends & overnights mainly)
  - Average £250k per settlement period, some much higher than that
  - Harsh ‘signal’ unrelated to what is happening on the system in the settlement period in 2021/22 – potential unintended consequences
  - Risk of avoidance / gaming as cost and period is known in advance

## f) billing system impacts

- Little impact – use existing system, no change
- ESO billing has element for incentive scheme forecast which feeds through into BSUoS - can be amended up and down easily to get to the correct BSUoS amount to be billed taking account of CMP345
- 1<sup>st</sup> June to [X] June billing reconciliation
  - ESO manually calculates Covid-19 BSUoS costs (as per forecast methodology) applies to MWh volumes used to bill the rest of BSUoS to parties and issues credit note(s) to parties

## g) financeability of ESO - ability to defer BSUoS recovery

- ESO deferring of BSUoS recovery to a future year has been done in the past (half of exceptional Black Start costs in 2016/17 deferred to 2017/18)
- Issue is cashflow impact – see later slide

## g) financeability of ESO – bad debt

- Everything else being equal - X is historic level of bad debt
- Y1 2020/21 bad debt without CMP345
  - (higher risk of parties being unable to pay)
- Y2 2020/21 bad debt with CMP345
  - (lower risk of parties being unable to pay)
- Z1 2021/22 bad debt without CMP345
  - (no greater risk than X)
- Z2 2021/22 bad debt with CMP345
  - (known cost, priced accordingly, no greater risk than X)

## g) financeability of ESO – bad debt

- Everything else being equal - X is historic level of bad debt
  - Y1 bad debt greater than X
  - Y2 bad debt same as X
  - Z1 bad debt same as X
  - Z2 bad debt same as X
- Conclusion: CMP345 reduces bad debt concerns across the two years
- For any X bad debt, ESO has credit in place and mutualisation (CMP345 does not change those existing arrangements)

## g) financeability of ESO - how would ESO recover cost for financing (cashflow)

- Cost of financing £500M
  - eleven Months at £500M (10 in 2020/21, April in 2021 BSUoS bill month in arrears)
  - 12 months at £500M, declining at ~£42M per month (May 2021-April 2022)

g) financeability of ESO - how would ESO recover cost for financing (cashflow)

- Recover the financing cost in 2021/22 BSOS
- Annual cost of BSUoS 2020/21(excluding Covid-19) ~ £1,500M
  - ~£4M per day on average

## h) impact on Consumers,

- Costs for 2020/21 stay broadly as expected w/o Covid-19, costs increase in 2021/22 compared to what would be expected under baseline
- Potential reduced risk premium compared to baseline given industry response to unforeseeable cost increase in 2020/21 under baseline
- Reduced impact of supplier/generator failure and mutualisation cost increase
- Reduced risk of consumers acting against interest of system due to high BSUoS costs resulting in Demand reduction during high 2020/21 BSUoS periods



## h) impact on Generators,

- Costs for 2020/21 stay broadly as expected w/o Covid-19, costs increase in 2021/22 compared to what would be expected under baseline
- Potential reduced risk premium compared to baseline given generator response to unforeseeable cost increase in 2020/21 under baseline
- Revenues in 2020/21 broadly unchanged as regards extra Covid-19 costs
- Revenues for 2021/22 can increase to reflect higher expected BSUoS costs for 2021/22

## h) impact on Generators, (cont'd)

- Lower risk of generator failure due to lower chance of unrecoverable increase in costs in 2020/21
- Reduced risk of generators acting against interest of system due to costs exceeding revenues during high 2020/21 BSUoS periods
- Loss of higher BSUoS income by small EGs is not a sound reason to decide against this proposal as it has been already recognised that BSUoS earnings are not justifiable. (? Do we want to face this off directly?)

## h) impact on Suppliers,

- BSUoS costs for 2020/21 stay broadly as expected w/o Covid-19, costs increase in 2021/22 compared to what would be expected under baseline
- Potential reduced risk premiums compared to baseline given Supplier response to unforeseeable cost increase in 2020/21 under baseline
- Revenues in 2020/21 broadly unchanged as regards extra Covid-19 costs
- Revenues for 2021/22 can increase to reflect higher expected BSUoS costs for 2021/22
- Reduced probability of failure due to reduction in unrecoverable cost increase in 2020/21.

## h) impact on - wholesale market prices

- Prices for 2020/21 – for most of forward trading period market prices have already closed – Original means market prices bear closer relationship to BSUoS costs incurred by generators in 2020/21
- Prices for 2021/22 – for bulk of traded volume forward prices can react to increased BSUoS.

## h) impact on - credit

- Baseline will result in more credit being called by ESO from Suppliers and Generators at risk
- Generators' / Suppliers' ability to pass credit cost on in prices is limited in 2020/21
- Original will increase credit posted in 2021/22 to baseline level in 2020/21
- Greater opportunity for Generators / Suppliers to pass credit cost on to consumers in 2021/22

## h) impact on - ancillary services income

- Ancillary services income is for revenue that would otherwise be received or for costs incurred in providing the service
- Individual party's ancillary services income does not match / offset increase in cost due to higher BSUoS
- Significant amount of increased ancillary services income will be received by parties who do not pay BSUoS - never mind pay extra Covid-19 related BSUoS costs (ODFM/Interconnectors)

## i) appropriate timeline for BSUoS support

- Appropriate timeline for the period of 'support' is that which the ESO outlines as when Covid-19 related BSUoS costs are being incurred
- Appropriate timeline for deferred costs to be repaid over is the whole of 2021/22.

j) whether proposed BSUoS deferral means potential increase in BSUoS VaR / credit

- With CMP345 the VaR should remain as was the case w/o exceptional Covid-19 BSUoS cost increase
- For Credit impact see comments under h) above.