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.

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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	Objective (a) "facilitates competition in the sale, distribution and purchase of electricity"

	the Applicable CUSC Charging Objectives?	NO – The proposer's rationale is one-side and ignores the impact of the proposal on current BSUoS participants who are not transmission connected or suppliers. I.e. embedded generators. Nor is it a positive impact on future participants and therefore future competition in the market. <u>Objective (b) – "cost reflectivity"</u> NO – the proposer has identified the impact as 'None' when in fact the impact is **negative** in so much as the ringfenced costs are intended to be smeared across future participants who may or may not have participated during this stress event. <u>Objective (c) – "developments in transmission licencees' businesses"</u> Toucan Energy acknowledges that there is a material operational and financial impact from the reduced demand resulting from the Government enforced lockdown to inhibit the spread of the virus however the proposed solution of "kicking the can down the road" and socialising the ringfenced extra costs across future participants under a new charging regime is not justified or fair. <u>Objective (d)</u> No comment <u>Objective (d)</u> The original proposed solution is an additional admin burden that would need to be overlaid with the changes already scheduled to come into play in April 2021 resulting from CMP333. This is in contradiction with the "promote efficiency" objective.
2	Do you support the proposed implementation approach for CMP345?	NO The proposed implementation dates are suitable provided the implementation is a deferral of cashflows and not a change in ultimate beneficiary or contributor to the cashflows under the pre-modification charging methodology.
3	Do you have any other comments?	Toucan Energy is supportive of measures to ease cashflow issues that participants might face as a result of the increased BSUoS costs arising from the Covid-19 pandemic but does not agree that deferring these costs to a future period or allocating them under a new methodology is appropriate. Toucan Energy do not believe that NGESO's role in the market should be to pick winners and losers, either retrospectively or without sufficient notice, by deferring profits or losses to different time periods and/or different participants. The balancing market is, by its own nature, volatile and will have winners and losers. The rules as they've have evolved over time have promoted competition in line with objective (a), to move the goal posts retrospectively would be against the objective. The originally proposed permanent transfer of value from distributed connected generation to transmission connected generators and suppliers would be a distortion of the market and does not facilitate effective competition

		where parties do not have the same routes to market as one another. This modification has been put forward a party who is heavily weighted in transmission connected renewable and thermal generation and stands to benefit financially by parking the additional costs amongst future generation and demand. We would expect that any such non-zero marginal cost generation with input costs would have matched any hedged position across both its revenues and costs and so would either benefit from the higher wholesale prices available pre Covid-19 or the record low commodity prices that we are now seeing. They also have sufficient time and warning to change their balancing positions ahead of time. In respect of suppliers, BSUoS costs (prior to Covid) traditionally would make up between 4% and 5% of the third party charges incurred for suppliers. The 25% increase in forecast BSUoS costs is more than compensated by the much lower wholesale pricing now prevalent and available to suppliers. We also note, as a supplier ourselves, that Ofgem have said in their open letter dated 2 June 2020 that they have created a scheme to make available £350m of support to suppliers who, if unable to utilise the government backed schemes, will be able to defer payment of network charges to later periods. We note that this is specifically a **deferral of payment not profits or losses** and is targeted at a much larger part of the cost stack. We also note that as individual consumers we are still able to access retail tariffs significantly below the retail price cap which is suggestive that there is sufficient headroom in the system for suppliers to absorb this short term volatility. There are few winners from the impact of the Covid 19 pandemic. It would not be fair to change the rules retrospectively to reduce the suffering of one party at the expense of another.
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.	To some extent, otherwise the modification proposal would be ambiguous. However how does the proposer and wider workgroup suggest that we quantify the balancing cost that the 1 in 1000 year sun event has just caused. Should we raise a separate modification to defer this additional cost to a period where the sun doesn't shine as much?
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.	Lines I, II, and VI of costs as noted on page 7 of the consultation as **Covid Costs** are reasonable in Toucan Energy's eyes since they are separable and can be quantified as costs from actions that would have been likely not to have occurred had there not been the significant fall in demand caused by pandemic and resulting lockdown. The arbitrary 18GW as noted in costs III, IV and V cannot be directly tied back to the impact of Covid-19 and must be considered alongside other balancing impacting events. i.e. the mild, but windy weather that the UK has never seen before coinciding with bank holiday weekends which would most likely have resulted in record low demand even without the impact of Covid-19.

		In respect of financing costs, if a deferral of BSUoS payments across the whole industry needs to be financed through the ESO accessing external credit facilities then this could be reasonably included within the bucket of Covid Costs and would most likely be preferable in any case as the ESO should be able to secure more favourable financing terms than individual participants.
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.	Deferral of **cashflows** relating to Covid Costs should be within the 2020/2021 charging year only, under the prevailing charging methodology and payable/receivable amongst participants active during the HH in which costs are incurred. There should not a be a deferral or re-distribution of value amongst participants, present or future. The most suitable and transparent (and elegant) option as briefly discussed in the consultation paper is to recover the deferred costs via the RF settlement run for BSUoS payers giving them a 14-month cash flow holiday but fulfilling the cost-reflectivity requirement of objective (b).
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.	Any 'smearing of costs' across any period other than the HH in which the costs are incurred is in direct contradiction of relevant objective (b) – "cost reflectivity" and therefore we do not consider any deferral of costs to be either appropriate or necessary.
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.	Toucan Energy does not agree that any costs should be deferred. Only cashflows should be considered for deferral. If a centrally managed method of BSUoS payers deferring their share of additional Covid-19 costs cannot be conceived and if there is a desire or necessity for individual participants to delay the cash settlement for their BSUoS costs this should ideally be discussed with market participants on a case by case basis.
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?	Assuming there are no subsequent peaks and/or extended lockdown measures, the 31 August 2020 appears to be a reasonable date up until which to bucket the additional and extraordinary expenditure, that has been identified as causing a cashflow issue to participants. To provide too long a period would be detrimental. In the full cost stack BSUoS is a small slice. We would expect there to far more issues in respect of suppler compliance with the RO which is looming.
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	No BSUoS charging and cost recovery, is already the subject of its second taskforce whose aim is to provide a long-term forward-looking solution to BSUoS cost recovery. The timelines as currently proposed do not provide sufficient time for all market participants to react and change their commercial positions. To accelerate one of the taskforce's proposed modifications without providing sufficient

	timescale for implementation do you agree with the approach in the option outlined above? Please provide a rationale with your response.	time to consult the industry as a whole and allow those impacted to adapt is anti-competitive and in contradiction with the objectives of cost reflectivity and competition promotion. In addition, this retrospective and unbalanced value grab on smaller embedded generation is yet another negative signal to our industry and will only serve to stifle future investment despite the deployment of more renewable generation being a requirement for the Government's wider decarbonisation goals.
12	Do you agree with the financing options set out above? Is there another way? Please provide rationale to support your response.	Toucan Energy is in agreement with all financing options which do not recover costs against charges raised in future periods. Any such costs should be levied on participants active during the associated period. Our rationale being: a) There have been a raft of cheap financing facilities made readily and relatively easily available by the Government to businesses of different sizes across the board to assist them in any cashflow issues they are suffering as a result of the Covid-19 pandemic. b) Ofgem's open letter dated 2 June providing suppliers, unable to access other solutions, with credit support for costs and not a change in costs. c) The most obvious and agreeable solution to Toucan Energy would be a change to a methodology to allow the extra bucket of costs to be recovered through the RF settlement run and therefore collected 14 months after the HH in which the costs are incurred. This would however need to be financed via National Grid centrally (potentially via one government backed loan/facility) and collected via the RF run. Any bad debts from participants exiting the market prematurely would be mutualised as per the existing methodology. We would expect any mutualisation from bad debts to dwarf that of the blanket mutualisation proposed by SSE generation. This solution maintains the status quo of the existing and adopted methodology but would alleviate the alleged cash flow issues at minimal cost to participants.
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.	As an owner of distribution connected solar generation, we disagree with the Workgroup members who believe that we should only entitled to our BSUoS embedded benefit to the extent of pre-Covid forecasts: *"However, this viewpoint was not supported by all Workgroup members who noted that the bulk of the forecasted BSUoS in 2020/21 (~£1,500M) would still be paid as would have been expected by embedded generators pre Covid"* This is purely a profit grab from one market participant to another via a retrospective change of the rules to their advantage. As embedded generators we have not been able, until ODFM was introduced, to easily or efficiently access balancing services and we are also seeing our immediate and future revenues being impacted by the fall in wholesale markets. Has the proposer set out what their organisation and similarly positioned peers would stand to gain financially at the expense of other market participants by deferring the costs to future participants under their initial proposed solution?