

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 the Applicable CUSC Charging Objectives?	<p>At E.ON and npower we believe that the original proposal of deferring the Covid related costs in BSUoS until 2021/22 better facilitates the CUSC Charging Objectives. Business as usual will see suppliers having to pay large BSUoS costs without the option to pass these through to the majority of our customers. Most customers are either on fixed price contracts with limited options to reopen or are on price capped tariffs which most of the industry have set at the cap level, meaning that there is have no option to raise tariffs. Without the mitigation of pass through, most suppliers will have to take the additional BSUoS costs into their own P&L. Losses could then be high enough to push a significant number of suppliers into a position where they have to exit the market via the Supplier of Last Resort (SoLR) process. The costs of this process are mutualised across the rest of the industry meaning that all customers could be subject to significant SoLR costs as well as the higher BSUoS costs. In a worst case (but not infeasible) scenario, this could cause a cascade of failing suppliers.</p> <p>Options that look to defer payment rather than look to defer costs do not appreciate that suppliers cannot charge losses made in previous years into tariffs for current years without pricing themselves completely out of the market. Costs need to be deferred <u>for all suppliers</u> to ensure that markets can continue to function on a level playing field.</p> <p>Also, without deferral, suppliers will have to review the level of risk premia it charges customers in the future to cover similar events in the future.</p> <p>There is a precedent for deferring unprecedented and unforeseen BSUoS costs. In 2016/17, National Grid ESO deferred a significant hike in black start costs (~£94m). With the level of Covid costs an order of magnitude higher than this, it would seem prudent to follow a similar process.</p>
2	Do you support the proposed implementation approach for CMP345?	We do support the proposed implementation approach for CMP345 (deferring Covid related costs from 1 st May to 31 st Aug 2020 until 2021/22 and then spreading these equally across all settlement periods).

		<p>We think that as National Grid ESO have identified historical Covid related costs from May 2020 until August 2020 that backdating deferrals is a sensible option. We appreciate that the May deferral will have to be done outside of the normal systems (as the SF run has already been processed), but this code modification has been raised at the soonest possible opportunity and been granted urgency in order to reduce the 'out of system' credit notes needed. We also believe that spreading the deferred costs equally across all settlement periods is the simplest and easiest option to implement. We believe spreading costs across 2 years will add too much costs to customers through financing requirements the ESO would have to put in place and could threaten their own P&L for two years rather than just the one.</p>
3	Do you have any other comments?	<p>Whilst it is not in the remit of the CUSC Panel to consider impacts to customers, it is worth highlighting that BSUoS under the low demand/high renewables scenario rewards the wrong behaviour and penalises the right behaviour i.e. a customer lowering their demand exacerbates the costs and actions that the system operator needs to take but lowers their costs whilst a customer increasing their demand helps reduce system balancing costs but increases their costs. Covid 19 has given us an insight into the problems of the future with higher penetration of renewable generation. A long term solution needs to be developed. At E.ON and npower we await the outcome of the BSUoS 2nd taskforce trusting that it will address these issues.</p>
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>We believe that defining Covid related BSUoS costs is the best theoretical option as it ensures that only the correct costs are deferred, and all the other costs are charged and paid through the normal process and timeframe. However, we appreciate that whilst this may be the correct solution, a feasible compromise may be required. ESO have indicated that it may be very difficult in these difficult times to ascribe actions taken by their Control Room as being Covid related or not. Also, the process will have to be highly manual and prone to potential errors. Therefore, we are open to the modification (any alternative proposals) that looks to</p>

		simplify the process. We are open to considering all BM actions that occur below 18GW as being Covid related by default (but allowing for the removal of actions that have a clear non-Covid reasoning) as well as an option that capped BSUoS prices at historical high levels (though what this level should be would be a matter of significant debate).
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.	On the basis of the seven categories shown in the consultation we believe that the categorisation of Covid related costs is broadly correct. E.ON UK and npower also concur with the Proposer that the Covid related costs, though known qualitatively from the start of lockdown, were unable to be incorporated into tariffs and power prices due to the long periods over which suppliers and generators hedge the majority of their consumption/generation.
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.	<p>We do not believe that deferring costs to later periods in 2020/21 allows suppliers sufficient opportunity to mitigate the majority of the Covid costs via tariffs. Price capped products are repriced in Oct but will not use all the BSUoS costs from the May-Aug 2020 period in question and will not be reopened until Apr thereby hitting residential P&L accounts. Residential fixed price tariffs are renewing constantly and to recoup all the Covid costs before Apr 2021 will mean significant hikes in prices across the market. Some B2B and I&C tariffs will allow for pass through of BSUoS costs, but a large proportion of customers are on fixed contracts, therefore suffering the same issues as residential fixed price tariffs.</p> <p>Deferral until 2021/22 does allow for a fuller mitigation of the extraordinary BSUoS costs such that they can more fairly be captured across all tariffs and customers, especially if this deferral is smeared out across the entire year.</p> <p>As stated in Question 2, whilst a two year deferral would allow for the full mitigation of costs, it would appear to place a huge financial burden on NGENSO as well as costing customers the financing costs for two years rather than a single year. Therefore E.ON/npower believes that the fairest option across all industry bodies is to defer the costs for just one year.</p>
8	Do you consider it appropriate to smear the entire deferred Covid costs equally across the whole of a Charging Year e.g.	E.ON UK and npower believe that it is appropriate to smear the entire deferred Covid costs equally across the whole charging year. Whilst there may be an argument for applying the costs to the same (or equivalent)

	<p>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>settlement period, this means very volatile prices over the May-Aug 2021 period. This would be an issue for customers who receive pass through BSUoS costs who are likely to see very volatile BSUoS prices over the year. Customers have often cited the volatility of BSUoS costs as a concern and this would only further those concerns.</p> <p>There is some concern that smearing the charge across the whole year on a per Settlement Period would unfairly penalise those customers whose demand is higher during week day daytime (when BSUoS costs have been lower) and benefit those customers whose demand is high overnight and at weekends (when BSUoS costs have been at their highest). At first glance, there would appear to be merit to this concern. However, the first industry BSUoS taskforce stated that <i>“it is not feasible to charge any of the BSUoS components in a more cost-reflective and forward-looking manner that would effectively influence behaviour that would help the system and/or lower costs to customers”</i> and suggested that BSUoS be treated on a cost recovery basis. Therefore, E.ON UK and npower are more comfortable with a simple smearing of the total cost equally across all settlement periods which is then divided by the chargeable demand for that period. It is clear that this option does create winners and losers in that I&C customers will end up paying for BSUoS next year that they wouldn't have paid for under BAU (due to their low levels of demand over the May-Aug 2020 period) and that residential customers will pay a lower proportion of the total costs under a one year deferral smeared out. However it feels more equitable that residential customers and I&C customers pay nearer BAU proportions of the total cost than residential customers pay a much higher proportion as they would under BAU conditions.</p> <p>By smearing cost equally across all settlement periods this should also encourage uniform adoption of cost recovery across the industry and therefore less opportunity for gaming or avoidance of what are essentially fixed costs.</p>
<p>9</p>	<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</p>	<p>Given that NGESO have themselves estimated a Covid cost of £500m, it feels that this is the correct level to cap total costs at. Even if costs do start to reduce through the loosening of the lockdown, the £500m is only a cap and not the actual costs that will be deferred.</p>

	provide rationale to support your response.	
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?	Given that we have no indication from NGESO that Covid costs will continue out beyond Aug (and any deferral needs to constrain the total costs such that financing can be arranged) this would appear to be a sensible point to limit the deferral. If at any point NGESO forecasts suggest further Covid cost beyond Aug 20 then this topic should be revisited.
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.	Whilst EON UK and npower are in agreement that the current BSUoS methodology is flawed, there may not be consensus on this across the whole of industry. As the option to consider the entire BSUoS methodology was not made explicitly clear in the terms of reference for this code modification there may be parties who would have wanted to be involved in such a discussion. The second BSUoS taskforce feels the right place to continue these discussions and not to shoehorn them into an urgent code modification just because it has a quicker implementation timescale than the taskforce. In reality, the discussions (and consultation period) needed for a wholesale change in the BSUoS methodology need much longer than the few days allowed for this modification.
12	Do you agree with the financing options set out above? Is there another way? Please provide rationale to support your response.	E.ON UK and npower agree with the financing options as set out in the Table on pages 18/19 of the consultation. We do have some concern over NGESO's willingness (and ability) to finance the Original Proposal. A suggestion might be to appeal to Treasury to back the £500m deferral through an interest free (or very low) loan that can be managed by NGESO but not taken into their own set of accounts.
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.	E.ON UK and npower agree with the impacts set out in this consultation.