

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?	Yes. We consider that the Original Proposal better facilitates objective (a) by ensuring that market participants are not adversely impacted by unforeseen balancing costs resulting from COVID-19 which they would be unable to recover where power has already been sold and better facilitates objective (c) by allowing the ESO to recover the exceptional costs in a way which best facilitates competition in the market.
2	Do you support the proposed implementation approach for CMP345?	Yes, we support implementation on 23 June 2020. We consider that a separate credit note reconciliation should be run to cover May 2020 as the same issues relating to unforeseen costs would apply this period as to costs from 1 June 2020.
3	Do you have any other comments?	We consider that the Original Proposal strikes the best balance between the interests of industry participants and the ESO compared to the other options considered by the Workgroup. However, we would prefer the deferred costs to be recovered on a per MWh basis rather than a per Settlement Period basis in 2021/22. Given the impact that the publication of the ESO's BSUoS forecast has had on market liquidity, we consider that a decision on this proposal should be reached with extreme urgency.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	Click or tap here to enter text.
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.	Yes, we believe that COVID-related costs should be clearly identified to ensure that all balancing costs which could not have been forecast by the market are included.
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.	Yes, we agree with the Original Proposal regarding what constitutes COVID-related costs as this definition captures the costs of new balancing services as well as the costs associated with managing the system during periods of exceptionally low demand (ie. below 18 GW)

		that could not have been expected by market participants before the coronavirus pandemic.
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.	We consider that COVID-related costs should be deferred to the 2021/22 Charging Year. The issue faced by market participants is that the exceptionally high BSUoS costs which are now expected in summer 2020 could not have been forecast when hedging generation output for this period and are therefore unrecoverable. The scale of the increased costs means that they are outside the level of BSUoS volatility that market participants would usually assume. Deferring these costs until the 2021/22 Charging Year (ie. further than one season ahead) would give industry parties sufficient notice of increased BSUoS properly to factor this into trading decisions once the true additional balancing costs associated with COVID-19 are known.
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.	<p>We do not consider that targeting the deferred costs to the equivalent Settlement Periods in 2021/22 would be equitable. The changed composition of demand and generation in those periods in a year's time could mean that the costs are being recovered from a different subset of market participants. Furthermore, if market participants know in advance that there will be exceptionally high BSUoS in some Settlement Periods, this could lead to unintended outcomes as parties seek to avoid incurring those costs.</p> <p>Given that COVID-19 has affected all parts of society, we consider it reasonable that the additional cost associated with it is shared between all market participants by smearing it over the whole of the 2021/22 Charging Year.</p> <p>We consider that the deferred costs should be recovered on a per MWh basis rather than a per Settlement Period basis. This would address both the issue of equitability by ensuring that all parties take an equal share of the cost regardless of when they are generating and of predictability as it would result in a flat increase in BSUoS costs for every MWh of power.</p>
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.	We understand that the ESO may require a cap on the deferred costs in order to secure financing. We consider that £500 million is a reasonable value as this represents the ESO's pessimistic view of additional BSUoS costs in Summer 2020. It is crucial that there should be some form of reopener to change this cap in

		future should COVID-19 related BSUoS costs exceed current forecasts.
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?	We agree that time limiting the COVID-related costs is sensible as they are related to low summer demands. However, it must be recognised that an extension may be required if unforeseen costs were also to arise in September 2020.
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.	EPUKI supports options to make BSUoS more predictable and less volatile. While the proposal to create a Daily Rolling Adjusted BSUoS price would achieve these outcomes, it does not address the issues associated with recovering large unforeseen costs within year which we consider to be the primary concern surrounding COVID-related balancing costs. We therefore consider it would be better to wait for the outcome of the BSUoS Task Force before proceeding with more significant reforms to the nature of BSUoS.
12	Do you agree with the financing options set out above? Is there another way? Please provide rationale to support your response.	We consider that the ESO's financing cost should be approved by Ofgem and recovered equally alongside the deferred BSUoS costs.
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.	Yes, we agree with the analysis of the impacts in the consultation document.