

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>(a) Neutral - This modification should smooth out a bump in BSUoS costs which should ease cash flow issues for a range of parties. However, it arguably distorts the market by reallocating a lot of costs from some parties to others, in a way the latter couldn't really have hedged against.</p> <p>(b) Neutral</p> <p>(c) Positive</p> <p>(d) Neutral</p> <p>(e) Negative - potentially requires further modifications to adjust cap and/or period of time the deferred payments cover.</p>
2	Do you support the proposed implementation approach for CMP345?	<p>No. We are concerned that the implementation approach is too complicated for the ESO to deliver in the time needed. If the original modification is approved, we would prefer that Covid-related costs are backdated to 1st June 2020 and not 1st May 2020. This approach would allow for risk to be shared between users and consumers given that BSUoS charges for May 2020 have already been paid. Parties should expect some fluctuations in BSUoS and therefore it's appropriate that some of the risk remains with users.</p>
3	Do you have any other comments?	<p>There is a conflict in what problem the modification is really trying to address. The modification seeks to recover costs from consumers without parties accepting any risk in fluctuating BSUoS costs. However, market participants must accept that BSUoS can fluctuate and accept some level of risk due to external factors. There's a strong argument that much of the impact of Covid-19 could have been factored in since at least March 2020 with market participants able to take a global view on the impact of the pandemic on other economies and power systems.</p> <p>We are concerned that the original modification may result in windfalls for some parties at the expense of consumers. Balancing costs are high because parties are being paid to reduce or increase output. In 2021/22 the charging base for BSUoS changes, so costs will be smeared across a different charging base than in 2020/21. Suppliers are already selling, and have already sold, fixed priced tariffs that stretch into the recovery period. They will not be able to recover any unexpected new costs.</p>

		<p>It is possible this deferral may reduce consumers' exposure, by allowing some suppliers or generators to survive who would otherwise fail. But equally, it may increase it, by simply delaying their failure to a later point at which they have accrued more debts. The risk of the latter is material, and it will be important that both Ofgem and the BEIS keep strict oversight of the sector's debt situation, and intervene, if necessary, to stop consumer exposure from escalating.</p> <p>The duration of the pandemic is uncertain and therefore it is unknown whether market participants will be better able to pay the deferred debts on their new due date.</p> <p>Government loan schemes should be the preferable option for extending credit to market participants. If they are unable to access it, there may be genuine question marks over whether they can afford to repay even with an extension.</p> <p>There are heightened systemic risks during the pandemic and that it may be hard to deliver SoLRs smoothly during the period. Consumer experience may be better if any failures are deferred until more normal times return.</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.	Yes. It's important for the ESO to distinguish, as far as practicable, where additional actions have been taken as a direct result of the Covid-19 pandemic. We recognise that it might be difficult to pick out actions which might only relate to the low demand caused by the pandemic and not related to low demand as a result of the unseasonably warm weather.
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.
7	Do you think any deferral of Covid costs should be i) within the 2020/2021 Charging Year	All options have downsides associated with them. In particular, we are concerned with all options that defer costs to future years. These options will offset risk away from market participants onto consumers and therefore consumers

	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.	may pay more than if costs were to be recovered within the same charging year (2020/21).
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.	On balance, smearing Covid-related balancing costs across a whole charging year is preferable to targeting specific settlement periods. We agree that there is a risk of gaming and unexpected/unintended market behaviour if specific settlement periods are targeted. However, we also note that smearing costs is potentially unfair to parties that wouldn't have been charged them in the first place.
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.	Yes. A cap is appropriate and provides market participants and the ESO certainty. However, the figure should be reevaluated if Covid-related costs for May 2020 are excluded from the implemented solution. The proposer noted that the costs for May were £58m, therefore it is reasonable that this amount is removed from any deferred figure, including the cap.
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?	Yes. Parties should now be adjusting their outlook and risk profiles from September onwards.
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. While we acknowledge that there are issues with the way in which BSUoS is charged, it's not the right time to attempt to implement a solution ahead of the BSUoS taskforce delivering their conclusions. We think implementation of this approach in a very short period is risky and adds undue and unnecessary pressure on the ESO.

	<p>timescale for implementation do you agree with the approach in the option outlined above? Please provide a rationale with your response.</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>We note that Ofgem's open letter to energy supply companies, gas shippers, Distribution Network Operators (DNOs), Gas Distribution Networks (GDNs), Transmission Owners (TOs), and the Electricity System Operator (ESO) outlined that the expected interest rate charge is 8% which aligns with CUSC section 6.6.6.</p> <p>Ofgem has allowed support up to £350m, to be repaid by March 2021. BEIS's CfD deferral was for up to £100m, to be reallocated to Q1 2021 (and paid in early April 2021). With that in mind, it may be inadvisable to have another big deferral becoming due on or around the same date.</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>The workgroup has had limited time to explore impacts fully. Ideally the distributional impact of the modification would have been investigated more thoroughly.</p> <p>Consumers: We disagree that the original modification has a positive impact on domestic consumers. The modification removes all Covid-related BSUoS risk from market participants and moves this to consumers. This is not acceptable.</p> <p>Suppliers: The duration of the pandemic is uncertain and therefore it is unknown whether market participants will be better able to pay the deferred debts on their new due date. It is possible this deferral may reduce consumers' exposure, by allowing some suppliers or generators to survive who would otherwise fail. But equally, it may increase it, by simply delaying their failure to a later point at which they have accrued more debts. The risk of the latter is material, and it will be important that both Ofgem and the BEIS keep strict oversight of the sector's debt situation, and intervene, if necessary, to stop consumer exposure from escalating.</p> <p>Generators: As per Supplier paragraph. We do not agree with the proposer that there is a material impact to security of supply as a result of not implementing the original proposal.</p> <p>ESO: We agree with the risks outlined.</p>