

**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](mailto: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](mailto:paul.j.mullen@nationalgrideso.com) or [cusc.team@nationalgrideso.com](mailto: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	<p>Do you believe that the CMP345 Original Proposal better facilitates the Applicable CUSC Charging Objectives?</p> <p>No.</p> <p>(a) The Covid pandemic and UK/International Government response to it has been a shock to business as usual worldwide which has had negative effects on many but not all GB individuals and businesses in multiple ways and to varying degrees. The UK Government has provided several support mechanisms in direct response to mitigate some of these, but by no means all. It is not obvious that all Suppliers and all Large Generators and Suppliers have been negatively affected by Covid. Although almost certainly some have, for those Generators and Suppliers that have earlier sold forward anticipating higher demand, they are able to buy back at depressed wholesale prices and make a margin without operational risk. Dependent on relative volume and contracting strategy, for some businesses this may offset the increased cost of BSUoS on the remaining sales/purchases. Similarly it is not the case that all Embedded Generators have been net beneficiaries of Covid, although some may have been and again depending on individual strategies followed. Embedded generators need to be generating during the periods of high BSUoS to see any related benefit and not all will have that opportunity. Therefore the current charging methodology for BSUoS has given opportunities to some system users and additional costs to others. It is also worth noting, in the support of our comment on the multiple impacts of Covid 19, that many embedded generators may be net losers to a significant degree given the likely impact of Covid 19 on the recycle value of Renewable Obligation Certificates which would not have been anticipated and could equally trigger a request for regulatory interference. In this context we do not believe the Proposer has made a sufficiently strong case that this means the CUSC has the defect claimed. The way that BSUoS is charged is under review via the 2<sup>nd</sup> BSUoS Task Force following Direction from</p>

		<p>Ofgem, but the methodology as it stands is operating correctly in a way that all market participants can see and take into account. It is widely acknowledged that the means of charging for balancing costs can be improved, but we do not think this should be through such a rushed process. It is not at all obvious to us that effective competition would be enhanced or restored by the change in the Original Proposal. On the contrary, retrospective and sudden short term future change of the nature suggested is likely to undermine competition and confidence in the traded market which is assumed efficient and so takes account of all available information as soon as it is available. Therefore on balance we consider the change proposed by the Original Proposal mildly negative against this objective, owing to the sudden change in charging BSUoS that would be imposed on the market that would negatively impact on parties that have made business decisions on the basis of the status quo.</p> <p>(b) Deferring costs in a charging year to a future charging year seems intrinsically less cost reflective. It is acknowledged (notably following the consideration of the 1<sup>st</sup> BSUoS Task Force) that the way BSUoS is currently calculated and charged could be improved, but the longer term deferral of the Original Proposal and similar alternatives is in our view negative against this objective.</p> <p>(c) Taking a narrow definition we consider this is not related to the transmission system but to the whole integrated electricity system and therefore the proposal is neutral against this objective.</p> <p>(d) Neutral against this objective.</p> <p>(e) The proposal demands a change to the calculation and charging of BSUoS which in our view is not necessary. We view the Original and all alternatives as negative against this objective.</p>
2	Do you support the proposed implementation approach for CMP345?	No. We view it to be administratively complex for the ESO and subject to subjective judgement at the margin. The ESO has said it is not willing to finance deferral of charges over the end of a charging year. As stated above we think the proposal is rushed and if approved would undermine confidence in the traded markets if they are subject to this short term regulatory

		<p>interference. Having a sudden and any retrospective change imposed would undermine the basis of business decisions which have been legitimately made based on current market rules and be to the detriment of perceptions of regulatory risk in the GB market and future investment.</p> <p>If Suppliers are in need of additional support as a result of Covid in our view this should be considered holistically by Ofgem taking account of all costs included in the price of electricity to consumers and not looking at this one element in isolation. We can understand there may be a case for a “Covid Surcharge” imposed on future tariffs for some or all consumers to reflect some exceptional costs incurred over recent weeks, but we do not believe disturbing specific market and charging mechanisms in this sudden way is the appropriate way to provide any part of such support.</p>
3	Do you have any other comments?	<p>This proposal has been raised at a time when the industry is already grappling with material regulatory change both decided (the TCR SCR) and ongoing (the AFLC SCR), and specifically when a change to BSUoS charging is in the midst of being actively considered (via the 2<sup>nd</sup> BSUoS Task Force.) We believe this proposal to change the CUSC to be unhelpful and an unnecessary distraction and use of industry time. We hope Ofgem will respond swiftly to remove uncertainty over this change and to conclude its SCR work to that the industry can plan and respond to longer term certainty over future network charging.</p>
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	<p>Yes. We believe the optimum outcome is to reject this proposal and retain the status quo. However if change is seen as needed then we think there is a better approach than the Original and that is to smooth the summer 2020 peak in BSUoS charges over the remainder of the 2020/21 charging year.</p>
<b>Specific Workgroup Consultation Questions</b>		
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	<p>No. The Workgroup identified the EDF Contract (to reduce Sizewell nuclear generation) and the ODFM service as requirements as a result of Covid, but noted it was almost impossible for the ESO to tag BM trades as exclusively Covid or non-Covid and these were where the majority of BSUoS costs were being incurred. Some</p>

	provide rationale to support your response.	of the low transmission system demand has been the effect of largely sunny but windy weather coincident with Covid, leading to high volumes of intermittent generation and likely lower heating/drying domestic demand.
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.	If it is necessary to define Covid costs then we think these should be limited to I, II and VI and VII in the Proposers list. We think the choice of an 18GW limit is arbitrary as given the weather effects it is not possible with certainty to set a level for exceptional low demand caused by Covid.
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.	If BSUoS costs are to be deferred then we strongly believe they should be recovered through charges in the same charging year. We note above we think this meets objective (b) of the CUSC. We also note this meets the constraints identified by the ESO regarding its financing and accounting treatment of any deferral. If some Suppliers are facing issues in passing through these costs then we believe it is for them to make the case for a future Covid surcharge to be applied to future tariffs covering all exceptional costs and taking account of exceptional benefits arising from Covid, not adopting this silo approach of focus on one element of bills.
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.	In the context of the 1 <sup>st</sup> BSUoS Task Force conclusion (which we support) that BSUoS is a cost recovery charge, we do not think that it is relevant to seek to recover the charge over targeted Settlement Periods in the future. We agree with Workgroup comments made that another approach may have perverse incentives and could encourage gaming in future. We think recovery on a flat per MWh is most appropriate and this forms the basis of our alternative, albeit we believe this recovery needs to be within the same charging year. This is both a point of principle but also we suggest that recovery of the higher BSUoS charges is best done at a time of lower wholesale prices (noting the two are directly linked) and not deferred to a time when wholesale prices may reasonably be expected to outturn at a higher level.
9	Do you consider it appropriate to codify a capped figure for the	No we do not believe in putting a number on a cap for Covid costs to be deferred, because we do not believe

	<p>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.</p>	<p>they have been defined or quantified with any shared confidence or certainty. We note the Workgroup challenged the use of the term “pessimistic” within the ESO forecasts of future BSUoS costs over summer 2020 and the conclusion that it appeared likely that outturn BSUoS costs would be lower than the estimates given by the ESO. A cap seems on principle arbitrary – if there were justification for deferring costs then all costs meeting that justification should be deferred without the imposition of any cap. To do otherwise is an unnecessary restriction on economic price formation.</p>
10	<p>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?</p>	<p>Since we do not support the principle of defining Covid costs nor agree with the definition it is difficult answering this question. If the Proposer’s argument is accepted then we understand the logic of this date in that context. However we believe there may be an ongoing issue if for example this situation were to be repeated next summer. Accepting this proposal therefore sets an unwelcome precedent opening the door to continual similar change modifications which undermine the stability of the electricity market.</p>
11	<p>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.</p>	<p>Yes. We have put forward this alternative Daily Rolling Average BSUoS proposal which we think could form the basis of an enduring solution for charging BSUoS, but we have tabled it as an alternative that addresses the issue raised by the Proposer in what we believe to be an efficient, constructive and market sensitive way. For avoidance of doubt we believe the best option is to reject this modification proposal in its entirety and leave the 2<sup>nd</sup> BSUoS Task Force to complete its work. This group could then give proper scrutiny and consideration to charging alternatives, of which this (or a variation of it) may be one alternative. However if Ofgem considers this modification issue needs addressing urgently then the rationale sets out benefits over the Original.</p> <p>We do not agree with the comments reported in the Consultation Document that this alternative would be “complex”, change the way BSUoS is calculated and may not be implementable in the timescales.</p> <p>We suggest it could work by sending out two invoices/credit notes for each period. One invoice would be as now – existing systems and inputs completely unchanged (so de-risking implementation and avoiding</p>

contamination of existing data) giving the BSUoS cost for a user that would have been charged absent this modification.

There would be a second invoice calculation post processing the data through a new system, working like a contract for difference. For each party liable to BSUoS and each Settlement Period (SP) take the new daily BSUoS price, subtract the calculated and invoiced BSUoS price, multiply by that party's volume and there would be a payment difference for that party per SP. Sum these up over the invoice period and this would be the total amount of credit or additional payment due.

This second process could be backdated to any period in the past as well as look forward. If it were applied to past periods there would need to be retrospective "forecasts" provided as inputs for look forward BSUoS total and chargeable MWh total. We would suggest using perfect foresight for these forecasts, i.e. using the known actual outturn values within the "forecasts" for dates prior to the implementation date.

Whilst this would mean a separate "system" being created, it could be on a simple spreadsheet and easily automated – once done the same principle would apply to every day and every user, both look back and look forward, and open only to manifest user error. We believe this could be developed and tested in the time taken to conclude this modification.

We suggest this is not significantly more complex than any other alternative (and simpler than some), it doesn't affect the way BSUoS is calculated only the way it is charged, and it should be easily implementable in the timescales. There is no reason why a spreadsheet solution could not be placed in the public domain for any user to double check their own calculation.

We understand Supplier representatives within the Workgroup have acknowledged that this alternative would go some way to allowing them to price higher BSUoS into their future consumer tariffs (including the default capped tariffs). We note they believe the volume and time of deferral does not go far enough as it does not address all tariffs, but as we state earlier we believe the stress on their businesses needs to be tested holistically considering all elements of their tariffs and the options to mitigate through (or take advantage of)

		the current market environment. This takes some but not all their pain away.
12	Do you agree with the financing options set out above? Is there another way? Please provide rationale to support your response.	We have in principle concerns about using what we view as a penal interest rate (the ESO suggested 8.1%) and then smearing back any over-recovery to a different set of parties. Our alternative treats all market participants the same and limits the ESO exposure to within a charging year with no material change to bad debt exposure profiles owing the form of the recovery of any cumulative undercharging of BSUoS costs mid-year.
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.	We broadly agree with the impacts. We would like to highlight the divergent views expressed in the Workgroup and would urge caution against general categorisation e.g. “all Large Generators and Suppliers will benefit and all Embedded Generators will lose” as the reality is more complex. In our response above we ask that the issue will be looked at in an holistic way considering all the costs and benefits facing industry participants and consumers, and not consider this cost element in isolation. Our view is that in this context this modification is in principle an inappropriate way to deal with any stresses on some market participants, it has negative impacts in terms of unnecessary regulatory interference in market processes, and it should be rejected. To some extent this is a market risk and we think some market participants did foresee the potential outcome for BSUoS over 2020/21 as early as March. If urgent change is deemed necessary, then we strongly believe the Daily Rolling Average BSUoS is the least bad way to make that change.