

## 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	Do you believe that the CMP345 Original Proposal better facilitates the Applicable CUSC Charging Objectives?	<p>Yes, we believe that the CMP345 Original Proposal better facilitates the Applicable CUSC Charging Objectives.</p> <p>This proposal will be positive in terms of Applicable Objective (a) as it will ensure that BSUoS paying market participants are not adversely impacted by the costs incurred by the ESO to manage the transmission system during the Covid event and thus this will facilitate 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.</p> <p>This proposal is neutral in terms of Applicable Objective (b).</p> <p>This proposal will be positive in terms of Applicable Objective (c) as it will ensure that the BSUoS methodology properly takes account of the developments in transmission licensees' transmission businesses arising from the unprecedented Covid event.</p> <p>This proposal is neutral in terms of Applicable Objective (d).</p> <p>This proposal is neutral in terms of Applicable Objective (e).</p>
2	Do you support the proposed implementation approach for CMP345?	Yes, we support the proposed implementation approach for CMP345.
3	Do you have any other comments?	No.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No. <a href="#">Click or tap here to enter text.</a>
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>It is highly desirable to define Covid related costs for the purposes of BSUoS charging to achieve the highest level of transparency for GB stakeholders.</p> <p>Transparency is an overriding principle enshrined both in the ESO's licence (C16 1(g)) and in Ofgem's ESO</p>

## Reporting and Incentive Arrangements Guidance (ESORI).

Transparency ensures that procurement of services by the ESO is competitive and ultimately in the best interests of current and future customers.

Furthermore, under the ESORI 1.36 the ESO should be able to justify its decisions to procure a particular portfolio of products to the market. As the ESO has procured additional services to meet the challenges of managing demand suppression on the system we believe that it should be possible for the ESO to specifically identify Covid related costs. Such identification will bolster all market participants' confidence in the ESO's choice of actions.

This also ensures that the legal obligations the ESO is required to meet by virtue of the System Operations Guideline<sup>1</sup> (SOGL) in terms of ensuring and enhancing transparency<sup>2</sup> (as well as its internal targets of achieving a high level of transparency as part of its (ESO) Performance Panel objectives<sup>3</sup>) are achieved.

However, if the ESO is unable to determine, with some degree of certainty, what are Covid related costs then it should be noted that the Original applies the ESO's 15<sup>th</sup> May 2020 forecasting differential (compared to the previous, pre-Covid, forecast) of £500M as the Covid related costs.

Clearly by having both the Covid related costs and the £500M within the Original it provides the highest level of certainty, in these uncertain times, as to what (within the ability of a CUSC party, who is not the ESO, to know) the cost would be.

In the Original Proposal, the composition of the £500M for the cap on the Covid related costs (from 1<sup>st</sup> May to 31<sup>st</sup> August 2020) was based on the £427M (£58M in May, £117M in June, £119M in July and £133M in August) identified by the ESO in its 15<sup>th</sup> May 2020

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<sup>1</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017R1485&from=EN>

<sup>2</sup> See, for example, Article 4(1)(g) and 4(2)(b) of SOGL.

<sup>3</sup> See, for example, the circa 50 times *transparency* is referred to in the ESO's Forward Plan for 2019-2021

		<p>forecast and a balance of £73M (to reflect other Covid related costs).</p> <p>Without prejudice to our response to the forthcoming ODFM EBGL Article 18 consultation<sup>4 5</sup>; we note the Workgroup discussion set out at footnote 3 on page 6 of the consultation document. Specifically, whether, at this moment in time, from a legal perspective, it was actually possible for the ESO to recover any costs associated with the new ODFM balancing service (which went live on Friday 8<sup>th</sup> May 2020) prior to (i) a public consultation and (ii) an Ofgem decision, as required by EBGL (and possibly ERNC<sup>6</sup>; in terms of Article 4(2)(a) and Article 7; in respect of the terms and conditions for defence service providers and holding a one month public consultation).</p> <p>In this respect we note that the only public consultation undertaken by the ESO in relation to ODFM (for later submission to Ofgem for approval) is the EBGL Article 18 consultation which is due to close on 19<sup>th</sup> June 2020.</p> <p>We appreciate that the ESO believes that the ODFM service would become, as an Ancillary Service, a cost to be recovered via BSUoS. However, the question at hand is: can this recovery, via BSUoS, be approved by Ofgem retrospectively (back to 8<sup>th</sup> May 2020) in late June 2020 (or beyond?) via the Article 18 EBGL proposal (and / or the ERNC Article 4(2)(a) and Article 7 requirements)?</p>
6	<p>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.</p>	<p>With respect to:</p> <ul style="list-style-type: none"> <li>• the Original Proposal;</li> <li>• the 'Cost Deferral to 2022/2023' potential alternative;</li> <li>• the 'Target Covid costs to specific Settlement Periods' potential alternative; and</li> <li>• the 'Extended Payment Terms – Other' potential alternative option.</li> </ul>

<sup>4</sup> <https://www.nationalgrideso.com/events-calendar/consultation-open-ebgl-article-18-optional-downward-flexibility-management-odfm>

<sup>5</sup> We have concerns as to the robustness of the new ODFM balancing service in the context of EU law requirements, which we will set out in our response to that separate ESO consultation.

<sup>6</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017R2196&from=EN>

in all four cases what constitutes Covid related costs is as listed in the business rules based on the Original Proposal; as set out in paragraph 3 (i)-(vii) of Annex 5 to the consultation; and therefore we agree with that definition.

In terms of the '*Within Year Cost Deferral*' potential alternative option the £62.5M figure, that the ESO suggests is the Covid cost, appears to be arbitrary in nature and not representative of the variation of the Covid related costs anticipated by the ESO (£58M in May, £117M in June, £119M in July and £133M in August), based on the updated forecast published 15<sup>th</sup> May 2020.

In terms of the '*Extended Payment Terms – ESO*' potential alternative option the figure of fixed ex-ante at 30% of full BSUoS charges; that the ESO suggests with that option as the Covid cost; appears to be arbitrary in nature and not representative of the variation of the Covid related costs anticipated by the ESO (£58M in May, £117M in June, £119M in July and £133M in August).

We do not consider that the '*BSUoS price cap*' approach adequately addresses Covid related costs. In effect it conflates the occurrence of high individual settlement period BSUoS level for any reason with occurrences of high charges for BSUoS that arise solely due to the unprecedented actions, arising from Covid, that are expected to be taken by the ESO itself. In this way there is little recognition of the fact that the unprecedented costs associated with responding to Covid are out with what could have been expected by generators and suppliers and as such the inability of them to recover the additional costs that they face will not be addressed, except where by chance the costs in a settlement period surpass high prices seen previously.

We do not see how the '*DRAB*' approach addresses Covid related costs as it seems to simply transfer Covid related costs from the settlement periods in which they occur into other periods within the same 2020/21 Charging Year with an indication that over or under recovery of BSUoS charges would be taken into account and is in reality more about smoothing underlying

		<p>BSUoS volatility as opposed to dealing with the defect identified by CMP345 Original. It doesn't seem to indicate what under or over recovery would be measured against and how the under-recovery if it was in any way due to Covid would be dealt with.</p>
7	<p>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>	<p>i) We do not think deferral should be within the 2020/21 Charging Year as this does not solve the defect identified in the Original Proposal concerning the ability of suppliers and generators to recover additional unforecasted Covid related costs.</p> <p>ii) We think deferral should be within the 2021/22 Charging Year as this addresses the defect identified in the Original proposal concerning the ability of suppliers and generators to recover additional unforecasted Covid related costs.</p> <p>iii) We think deferral should be within the 2022/23 Charging Year as this addresses the defect identified in the Original proposal concerning the ability of suppliers and generators to recover additional unforecasted Covid related costs.</p> <p>iv) We think deferral should be within the 2021/22 and 2022/23 Charging Years (£250M per year) as this addresses the defect identified in the Original proposal concerning the ability of suppliers and generators to recover additional unforecasted Covid related costs.</p> <p>In respect of (ii), (iii) and (iv) we believe it is appropriate to recover the costs of the unprecedented Covid related costs in future periods where the sales prices for generation into the wholesale market and the sales prices for electricity in the supply market can take these costs into account allowing generators and suppliers to properly act as agents for collecting costs associated with operating the system. We believe that if this does not happen, generators and suppliers will have to substantially increase risk premia associated with the BSUoS costs they face such that they are not in the future left exposed to bearing these costs. This will be a poor outcome for consumers in the medium and long run.</p> <p>In addition, deferral of BSUoS charges would, in our view, lessen the risk of supplier failures as a</p>

		<p>consequence of suppliers having to fund these unforeseen additional costs which have not been factored into tariffs.</p> <p>The reduction in demand triggered by the Covid situation is impacting non-domestic energy suppliers' (i) revenue and margins and (ii) mark-to-market exposure, whilst at the same time increasing non-commodity costs (NCCs, which are being recovered over a smaller charging base during the Covid period). In addition, bad debt charges across the supply market are increasing and will be particularly felt in the non-domestic sector.</p> <p>We recognise that Ofgem has, as a consequence of Covid, required suppliers and network operators to provide regular updates on their financial position. In this context, we note that Ofgem has access to the necessary Covid related information to make an informed judgement on the market-wide impacts arising from the unforeseen increase in BSUoS charges that Covid related costs give rise to.</p>
8	<p>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>	<p>Yes, we believe it is appropriate to smear these costs equally over the period that they will be deferred into. These are costs that arise from the actions the ESO has taken and anticipates taking as a response to the exceptional drop in electricity demand resulting from the societal actions that have arisen from the Covid situation.</p> <p>BSUoS costs have been shown in the first BSUoS task force<sup>7</sup> to be not cost-reflective and to have the purpose of cost-recovery. This is even more the case with the costs of maintaining the system during low demand periods directly attributed as being additional Covid related costs.</p> <p>It is not appropriate to charge generators and customers on the basis of their output only at the time these additional Covid related costs occur as these costs are not directly related to either individual levels of production or consumption at these times. This principle extends to the deferral periods. In addition, to charge the additional Covid related costs on a rate that varies by a narrow set of settlement periods will result in unintended and perverse consequences.</p>

<sup>7</sup> Ofgem Open Letter 21<sup>st</sup> November 2019 (launch of a Second Balancing Services Charges Taskforce) *“The overall conclusion of the first taskforce was that balancing services charges should be treated as cost-recovery charges.”*

		<p>Charging the costs across the whole deferral period on a flat rate is fair and reflects that Covid related costs are unprecedented, societal costs but also their quantum is not directly related to generation or consumption at any particular time. This is similar to how the costs for emergency provision such as Black Start costs are recovered.</p> <p>All users benefit from the maintenance of a balanced system by the ESO and it is fair that all share the cost.</p> <p>Furthermore, we are aware that under the retail price cap methodology BSUoS charges as published by the ESO for each settlement period are combined to calculate a weighted average annual BSUoS charge. For summer the methodology in the Supplier licence condition (28AD Charge Restriction Periods) the BSUoS charges are based over the year running from 1 January to 31 December. For winter charges are based over the year running from 1 July to 30 June. The cap methodology is then adjusted to reflect actual BSUoS, with a lag of one year.</p>
9	<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 provide rationale to support your response.</p>	<p>Yes, we believe it is necessary to codify a cap to give all market participants and the ESO certainty over the limit of the relief afforded. This acknowledges that the solution will be based on actual costs up to the cap. If the costs are below those currently outlined by the ESO then the quantum of the deferral will be smaller.</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>Yes, SSE Generation agrees that the period to be covered for deferral of Covid related costs should be limited to those incurred up to 31<sup>st</sup> August 2020, because the ESO forecast has not indicated any additional extra costs beyond this date at this stage.</p> <p>SSE Generation considers that if further Covid related costs are identified by the ESO for a subsequent period beyond the 31<sup>st</sup> August 2020 (but not beyond the 31<sup>st</sup> March 2021) then the intent of the modification should be extended to cover the extra period, subject to the approval of the Authority.</p> <p>Notwithstanding this, we note that, as the proposal stands, any extension beyond the 31<sup>st</sup> August 2020 (if approved by the Authority) would still retain the £500M</p>

		<p>cap, on Covid related costs to be deferred, without the need for a further modification to be approved.</p>
<p>11</p>	<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>No, SSE Generation believe these issues are different and should be considered separately.</p> <p>CMP345 is intended to urgently deal with the exceptional Covid related costs faced by the ESO to manage the Transmission System in unprecedented circumstances. Such additional costs have arisen as a result of the Government-led, societal response to a Public health emergency; which could not have been reasonably forecasted; and for the most part cannot be recovered as things stand with the status quo in the CUSC.</p> <p>Therefore, the aim of the modification is to deal with costs arising from a one-off event as an urgent matter; not to promote more fundamental underlying reform of BSUoS along the lines of the different approach suggested (which would put in place a wholly different and enduring solution for BSUoS cost recovery).</p> <p>SSE Generation does not believe that fundamental and enduring BSUoS change (which is being considered by second BSUoS Taskforce) is appropriate or necessary at this stage to deal with an imminent, urgent, one-off substantial increase in (Covid related) BSUoS costs.</p> <p>SSE Generation does not believe that changing the fundamental underlying approach to BSUoS cost recovery, which is being considered by second BSUoS Taskforce, is an urgent matter.</p> <p>SSE Generation believes that existing fora tasked with reviewing and recommending reform (e.g. the BSUoS Task Force) should consider the merits of this different approach, as part of its continued remit to develop options for more fundamental reform to BSUoS cost recovery, that provides the most equitable means of recovering the costs of day to day management of the Transmission System.</p> <p>Based on the statements we understand that Suppliers who sat on the Workgroup have made, it would seem to be the case that the CMP345 Original; and options that include deferral beyond the current 2020/21 Charging Year; will assist Suppliers who might otherwise exit the market in 2020/21 and therefore CMP345 Original (and</p>

		<p>those deferral options) supports competition to the benefit of consumers.</p>
<p>12</p>	<p>Do you agree with the financing options set out above? Is there another way? Please provide rationale to support your response.</p>	<p>Yes, we agree with the financing options set out. We are currently not aware of other ways of addressing this matter.</p>
<p>13</p>	<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>We agree with the following impacts associated with the Original and alternatives that defer costs out of 20/21:</p> <p>CMP345 will impact Generators as without it they would not be able to recover the extra costs where they have forward traded ahead of the additional Covid related costs being forecast.</p> <p>CMP345 will positively impact Generators who might otherwise go out of business.</p> <p>CMP345 will positively impact competition in generation by reducing the unexpected and potentially significant risk of generator business failure associated with the additional Covid related costs.</p> <p>CMP345 will positively impact security of supply and system stability by reducing the likelihood of some generators who provide system services e.g. inertia, voltage and footroom, which could be lost if they were made financially unviable due to the unexpected increase in unrecoverable BSUoS costs arising from unprecedented Covid related system actions.</p> <p>We agree that CMP345 will positively impact suppliers as they may currently be unable to recover the additional costs via retail tariffs (due to a combination of fixed term supply contracts and constraints of the price cap). It gives suppliers more opportunity to correctly price in the exceptional costs to customer tariffs and achieve the fair recovery of the additional Covid related costs within BSUoS that have arisen.</p>

We agree that CMP345 will reduce the risk that the additional Covid related costs may exacerbate the already heightened risk of supplier failures.

We agree that CMP345 Original and those potential alternatives that defer costs out of 2020/21 will allow Suppliers more time to alter customer tariffs to reduce their exposure to the increasing costs of BSUoS.

We agree that the alternative options with actions that reduce costs for short periods or delay payments may help Suppliers plan for increasing costs over a different period, but may not give them enough time to recover the costs from end user tariffs.

We agree extending payment terms does not stop companies failing – it may just alter the time when they fail. If a number of deferred costs are all recovered at a similar time, there may be a larger number of defaults and this could create a domino or avalanche effect due to the mutualisation arrangements across the market. This is another reason why options that involve extending payment terms are not a sensible way of dealing with recovery of the Covid related costs support.

We believe that CMP345 Original (and the potential alternative options with a deferral beyond 2020/21 Charging Year) will have a positive impact on consumers, as it ensures that the market will be able to avoid increased risk premia associated with BSUoS uncertainty linked to unprecedented events (such as Covid). They are recovered in the future which avoids undue volatility that impacts on competition and security of supply.

Embedded generators may see lower embedded benefits, compared to the higher BSUoS scenario (which includes Covid related costs) but they should not see any lower embedded benefits to what they could have expected without the additional Covid related actions (and costs) being required to be taken by the ESO. This could have a material impact on their income, depending on their sales strategy compared to the status quo in the CUSC. However, we do not see this as being an unjustifiable reduction in income; rather it is a fair loss of an unwarranted windfall arising from an increase directly associated with Covid related costs only and does not arise from any service they are providing (for which the embedded generator could, if

		<p>they wished, received income via ODFM from the ESO for a service provision).</p> <p>We do not agree with the following impacts associated with the Original and alternatives that defer costs out of 2020/21.</p> <p>We do not agree that customers on fixed prices will not be affected at all. Whilst they may see a short-term benefit in avoiding the costs associated with Covid related costs if CMP345 was not progressed they would be exposed to the underlying increase in BSUoS that will likely occur.</p>
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