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?	With respect to the relevant objectives: (a) Yes. The proposal 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. As a result, 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. (b) Neutral (c) Yes. The proposal will ensure that the BSUoS methodology properly takes account of the developments in transmission licensees' transmission businesses arising from the unprecedented Covid event. (d) Neutral (e) Neutral
2	Do you support the proposed implementation approach for CMP345?	Yes - Implementation should be as quick as possible, i.e. the day following Ofgem being in a position to approve with costs backdated to account for the point at which National Grid ESO's forecast of BSUoS costs increased significantly taking account of additional costs related specifically to Covid actions.
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
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 it is necessary to define Covid related costs for the purposes of this Modification proposal. We accept that there is considerable complexity involved in distinguishing COVID and non-COVID related costs, but we would emphasise that it is not necessary to do this completely accurately (ie there may be some level of proxy as with all charging related calculations). The most important thing is for the definition to be workable and clear, so that all parties

		can understand the impact and there is no scope for subsequent dispute. The reason why this is required is to recognise the difference between costs which could have been reasonably foreseeable and therefore hedged and those which are attributable to a completely unprecedented event.
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.	Original Proposal Yes – We believe that the 7 different cost items listed on page 7 of the original consultation proposes a clear set of criteria that is consistent with information either known or published by National Grid in relation to Covid specific contracts including costs associated with actions to cope with demand where it is less than 18GW. We believe this definition meets the workability criteria mentioned above and will achieve a level of accuracy sufficient for the purpose of this modification, particularly if there is an overall cap. BSUoS price cap No. Proposing that all Covid related costs are those of the total BSUoS price net of historical extreme prices is not unreasonable. However, there would need to be significant consideration given to generation mix at every historic period. There would be a need to understand what plant was dispatchable including weather influences on plant availability which would make for a significant piece of analysis to ensure there's a like for like comparison. Therefore we do not believe this is an option that properly considers 'Covid-related costs'
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.	It is clear from the WG consultation that there are divided opinions as to whether this should be seen as a mechanism to mitigate the impact of COVID on parties' cashflow or profit. We are firmly of the view that it should be seen primarily as a cost-recovery mechanism to mitigate the P&L impact on suppliers (and generators) of unforeseen COVID-related costs (noting that suppliers have incurred a wide range of additional costs, many related to the support they have voluntarily provided to their customers, and it is entirely reasonable that they should be afforded the opportunity to recover costs where possible). The impact on cash-flow is secondary, and likely to be unnecessary for suppliers in light of the alternative network cost deferral scheme announced by Ofgem on 2 June.

		i) Within the 2020/2021 Charging Year only. No, for the reasons set out above, this would frustrate the whole purpose of the mod in terms of allowing improved cost recovery. ii) Deferred to the 2021/2022 Charging Year. Yes – this would allow generators and suppliers) to reflect a reasonable proportion (but by no means all) of the costs that were not reasonably foreseeable into future prices iii) Deferred to 2022/2023 Charging Year. Yes – this would allow the highest proportion of costs to be recovered and is therefore preferable to (ii) and (iv). iv) Deferred equally across the 2021/2022 and 2022/2023 Charging Years. Yes – this would allow a higher proportion of costs to be recovered and is therefore preferable to (ii)
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.	Smearing across whole Charging Year(s) vs targeting equivalent settlement periods We believe that smearing the entire deferred Covid costs equally across the whole of a Charging Year (or Years) is a much better option than targeting the equivalent settlement periods. This gives suppliers more opportunity to pass the costs through to a greater proportion of customers on fixed tariffs. It also gives customers more time to pay for the additional costs and reduces the level of distortion on fixed tariff pricing in the May to August period. In terms of generation, spreading the cost over the whole year reduces any distortion in the summer months of 2021. Conversely, targeting the equivalent settlement periods may encourage cost avoidance and have unintended consequences resulting in more unexpected volatility in the balance of generation and supply. Per Settlement period basis vs per MWh basis We believe it would be preferable to recover costs as a fixed amount per settlement period than on a fixed £/MWh basis. Recovering costs as a fixed amount per settlement period would be simple for all parties to understand and would be straightforward to implement. Recovering costs on a fixed £/MWh basis would require an estimate in advance of 2021/22 of the total TWh in that year, and then some form of truing up/down mechanism towards the end of the year. This could be challenging to define

		in the timescales available, and we do not believe this extra complexity would be justified.
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 – Where any capped figures have been proposed, either in the original, or under an alternative, we believe they should be codified. The reason being that the defect raised (and the proposals to rectify the defect, where a capped figure is noted) are designed to deal with a specific time period of a specific incident with determined criteria. We believe the capped figure should be £500m as this reflects the best estimate of additional costs as published by National Grid ESO.
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?	National Grid ESO forecasted additional costs and lower demand for the regulatory charging year 2020/21 up to 31 August 2020, with a significant reduction in BSUoS costs between August (£8.67/MWh) and September (£4.03/MWh). While we hope the UK economy has a speedy return to its position pre-COVID, it would be prudent to assume that the economy will not bounce back fully in one month and that additional COVID-related BSUoS costs will persist beyond 31 August. However, while we recognise that it would be possible to define the period with reference to alternative milestones (such as the government's furlough scheme which is planned to continue until October), these would require extra time to think through. We believe the priority should be to implement this modification quickly, and the 31 August date is sufficient for the purpose.
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.	No, on the assumption that this modification is implemented in a way that preserves the cost recovery benefits, which is at the core of the defect, we do not see a compelling need for a different approach to charging BSUoS in advance of the second BSUoS Taskforce completing its work. However, we do agree that the experience of the COVID pandemic has highlighted problems with the current BSUoS regime which will become more apparent as the proportion of intermittent renewable generation increases, and these should form a key aspect of the Task Force's deliberations.
12	Do you agree with the financing options set out above? Is there another way? Please provide rationale to support your response.	As noted above (Question 7) we believe the primary focus of this modification (and indeed the core of the defect) should be to give suppliers and generators a better opportunity to recover additional COVID costs from the market (noting the significant voluntary

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<tr><td></td><td></td><td>commitments that suppliers have made and are making to their customers, exposing them to additional costs that may not be recoverable, and noting that it is not in the long term interests of consumers for otherwise viable suppliers to exit the market). Financing options which result in the modification being merely equivalent to a loan (such as is envisaged in the network charge deferral scheme) would be of little benefit.

<u>NG ESO Financing costs</u>

We agree that NG ESO should be fully compensated for any financing or other costs efficiently incurred in implementing the modification, and that these should be added to the BSUoS costs to be recovered. The Original proposal (financing cost based on cost of capital/loan as approved by Ofgem) seems a reasonable and pragmatic approach.

<u>BSUoS bad debt costs</u>

We agree that if NG ESO can provide evidence to Ofgem that it reasonably expects to incur additional bad-debt costs as a result of this modification, it is reasonable for an estimate of such costs to be recovered in 2021/22 (subject to truing up/down when the final impact is known.)

<u>Other options not facilitating cost-recovery</u>

For the reasons above (ie the need to achieve improved cost-recovery) we would be strongly opposed to the following options (and the associated financing proposals) since they would effectively deny suppliers and generators the opportunity to recover additional costs from the market:
Defer costs to Reconciliation billing
Defer within year
Extending payment terms</td></tr>
<tr><td>13</td><td>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.</td><td>We broadly agree with the list of potentially impacted parties set out in the consultation. The consultation sets out a range of views on the impacts for each set of parties. In brief our views are:

<u>Generators</u>: The primary impact on generators will be an improved ability to recover unforeseeable COVID-related BSUoS costs from the market. We do not agree that the risk of creating ‘windfall profits’ is material.</td></tr>
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		Suppliers: The primary impact on suppliers will be an improved ability to recover unforeseeable COVID-related BSUoS costs from the market. This is a more effective form of support than a measure which merely alleviates cash-flow, and avoids the risk of discrimination/competitive distortion that arises with schemes targeted at financially distressed suppliers. Consumers: Although this will result in consumers paying higher costs (to the extent that improved cost pass-through is achieved) it is in the clear long-term interests of consumers that the market operates efficiently and suppliers and generators are able to recover efficiently incurred costs. If otherwise viable companies were to exit the market, this would be detrimental to competition and investment.