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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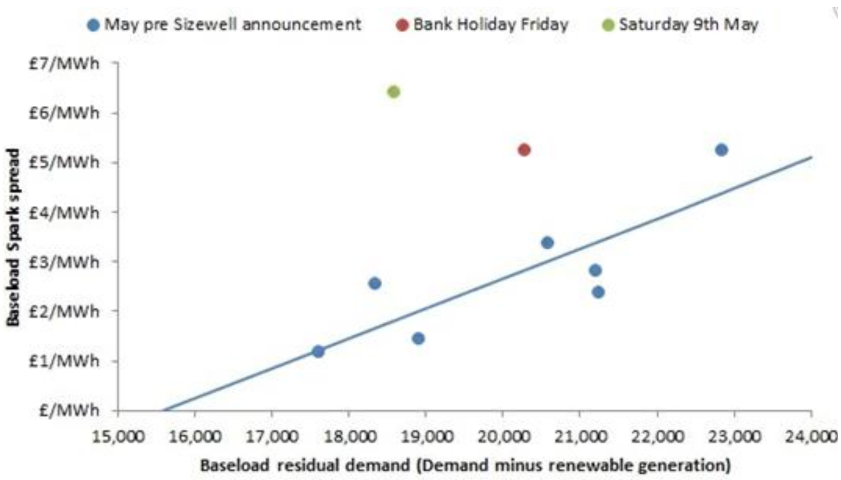
CMP345

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, specifically (a) and (c) during what is widely considered an unprecedented period for the ESO and the electricity industry
2	Do you support the proposed implementation approach for CMP345?	Yes, however please note that we believe some of the alternative solutions discussed are beyond the scope of the work group
3	Do you have any other comments?	VPI has highlighted concerns and discussed similar arrangements with National Grid and Ofgem bilaterally
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No, however we note that our initial preference was for costs to be smeared across winter 21, or a combination of winter 21 and winter 22
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, National Grid is now several months into this crisis and has published several versions of its BSUoS monthly forecast. Given the extent of ESO forward planning, and that several low demand periods of concern have now occurred (e.g. bank holidays), the market/ ESO should now be aware of all COVID mitigations/ system tools required over summer 2020. The ESO should therefore be able to list all “tools in the box” and be able to define/ categorise spend in line with the modification. VPI recognise that it is also important to draw a line between 2020 BAU and COVID-19 conditions. However the ESO is defining by using an electricity demand lower than 18GW, which we are ok to support.
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.	VPI strongly support COVID costs comprising ODFM, and bilateral agreements with nuclear power stations. We believe the former creates significant market distortions, and that the latter should have been tested with the market. It also remains unclear whether the BSLD contract is value for money vs taking bids over a smaller number of periods. The other costs listed are more standard features of ESO spend, however given the prolonged period of a relative lower demand [and ESO’s 18GW level], we accept that Super-SEL, 7A etc should also be deferred as unprecedented spend. Finally, it is logical that financing costs associated with management of the COVID account should also be deferred to the defined period.
7	Do you think any deferral of Covid costs should be i)	COVID related costs should either be deferred until the 2021/22 charging year, or deferred equally across the

	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.	2021/22 and 2022/23 charging years. We would accept either of these outcomes, however smearing across two years is preferable. Since early May, VPI has observed major price distortions due to a lack of transparency around COVID-19 related spend. This included the highest daily spark spread since winter in early May, despite lower demand and normal wind conditions. The level of uncertainty around COVID costs has translated into significant risk premia being applied by market participants. The lack of clarity has also created confusion around the prevailing value of equivalent balancing mechanism and ancillary services.  With regards to the timing of recovery, market participants prudently hedge several years ahead. Market participants with must-run generation will also hedge across the full year, so have likely found themselves particularly impacted by such a sudden increase in charges, and in effect, penalised for prudent market behaviour. Higher prices, driven by BSUoS risk premia, also prevents hedged participants from buying back hedges at economic levels (notwithstanding changes in gas and carbon costs). Further to the above, VPI also has concerns around the ESO's current approach to recovering COVID related costs (i.e. specific to each settlement period, or spread equally across settlement periods for the duration of a contract). This means that must run generation, which is already disadvantage due to likely prudent hedging strategies will shoulder a greater burden of COVID costs when demand is lower (e.g. overnight and weekend periods when the ESO has typically enacting ODFM, potentially uneconomically). The

		recovery of costs therefore undermines competition/ fair cost recovery. VPI therefore strongly supports the deferral of COVID costs **until 2021/22 at the earliest** so that the ESO can: - Provide clarity, increase market preparedness and reduce ongoing levels of distortion - Ensure all market participants are trading with the same information - Manage the burden on market participants who cannot now economically reoptimize trading positions in response to BSUoS changes at such short notice - Ensure a subsection of market participants are not disproportionately paying for unprecedented ESO COVID related actions during low periods of demand when BSUoS is spread over a smaller number of system users - Not penalise market participants with long-term hedges in place.
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.	Given BSUoS can be uncertain and also largely dependent on the weather, market participants will re-optimise hedged positions based on near-term opportunities or in response to anticipated system costs. For an asset such as Immingham CHP, it's must-run generation means that it must also consider electricity and steam contracts which influence its configuration and operational efficiency. As referenced in question 7, COVID-19 cost recovery currently means that the burden of charges is being placed on those who have less flexibility around their hedged position (e.g. Must run generation which generates all year round to meet industrial demand, including when demand is lower and BSUoS costs are high due to constraints). VPI strongly support charges being applied across an entire charging year on a MWh basis to reflect that unprecedented COVID costs should not be regressively applied to those unable to avoid charges. We also agree with the work group member who stated this is in line with the principles of the TCR SCR that all users should contribute towards costs of maintaining an available and stable system, even when they choose not to generate/ take demand from the network. For reference, VPI does not agree with the alternative proposals around extended payments terms, which ignores the issue around hedged parties being unable to recover high levels of BSUoS both now and in the future.

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.	VPI agrees with the ESO that a cap on costs is required. That said, the high levels of uncertainty should not prevent future one-off COVID related spend being treated by a separate modification (e.g. if GB experiences a second COVID wave which could result in a further phase of significant ESO actions, notwithstanding different system conditions if another lockdown occurred during the winter). Rather than committing to a £500m cap in this consultation, the ESO should also present a further forecast to reflect the correct amount to be deferred.
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?	VPI believe a second modification should be brought forward if high COVID related costs continue beyond August 2020. This may be necessary if the UK experience warmer weather, combined with the continued suppression of demand.
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.	VPI believe that recovery of COVID related costs is a standalone issue to wider BSUoS reform. VPI also fully support action being taken to address COVID impacts ahead of the taskforce timescales. VPI note that some of the alternatives suggest approaches that would have been expected to be considered in the taskforce (e.g. daily rolling average and BSUoS price cap). Although we believe there is merit in taking the opportunity to discuss these alternative BSUoS recovery mechanism, we believe there is a risk that the “matter at hand” is lost, and the priority of this modification should be fairer cost recovery and mitigating large, sudden increases in system costs. With regard to the BSUoS taskforce, VPI was extremely disappointed to hear about the suspension of the working group, especially when the working paper was about to be published. COVID has highlighted many of the issues around BSUoS including how lack of transparency/ high degrees of uncertainty can significantly impact market efficiency and influence risk premia. It is critical that Ofgem/ NG’s ambition around BSUoS reform is not delayed any further. VPI fully support implementation of wider reforms in April 2022 at the very latest, which provides more than enough time for Ofgem to work with suppliers, in the scenario where demand is placed on demand only.
12	Do you agree with the financing options set out above? Is there another way? Please provide rationale to support your response.	VPI has not commented on the various financing options possible for the ESO. However, we encourage Ofgem to be flexible and constructive to ensure ESO cashflow and credit arrangements are not damaged.

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.	VPI would like to reiterate the potentially regressive nature of current COVID cost recovery approach, especially on those have prudently hedged in the market and are also disproportionately shouldering a greater burden during lower periods of demand.