

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.

| Respondent details | Please enter your details |
|-------------------------|---------------------------|
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CMP345

For reference the applicable CUSC Charging objectives are:

| Relevant Objective |
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| (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

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| 1 | Do you believe that the CMP345 Original Proposal better facilitates the Applicable CUSC Charging Objectives? | <p>We believe that Objective (a) is the most relevant when assessing CMP345 and have heard strong arguments on both sides of the debate. The basis of CMP345 is that charge payers are unable to recover the additional BSUoS costs that have arisen due to COVID. The objective being to provide generic relief to all parties so they can better recover the cost in 2021-22. This could mitigate some supplier failures in 2020-21 but potentially delay the inevitable with higher mutualisation costs to 2021-22. Though the arguments are compelling, at this stage we are not yet clear that CMP345 has a positive or negative impact overall in terms of the CUSC Objectives.</p> <p>Relevant Objective (a)</p> <p>CMP345 will impact competition but at this stage we are unclear whether it would be positive or negative overall. We agree that a deferral could help both generators and suppliers recover the additional cost where this has not already been factored into fixed retail contracts or forward power sold by generators in the wholesale market.</p> <p>When suppliers exit the market there is a reduction in competition and others have to pick up any shortfall in costs, which are then ultimately borne by consumers. A deferral could reduce the possibility of parties exiting the market as a result of being unable to recover the additional BSUoS cost.</p> <p>Conversely, some market participants may have been expecting BSUoS costs to be higher than the ESO's forecast in this charging year, or at least accounting for such potential liabilities in a conservative manner. Any deferral could allow some parties to continue to accrue liabilities only to fail in the 2021-2022 charging year, leading to higher mutualisation costs, in turn impacting those remaining parties.</p> <p>Additionally, deferring costs into future charging years could lead to some parties picking up a different proportion of the cost due to different generation / consumption patterns in 2021-22 to those experienced this year. Without additional analysis it's difficult to understand the impact this would have on competition</p> |
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| | | <p>and we think this requires some additional consideration by the workgroup.</p> <p>Relevant Objective (b)</p> <p>Drax believe CMP345 is neutral against Relevant Objective (b). The first BSUoS task force concluded that BSUoS charges should not send cost reflective signals and that BSUoS costs should be treated as purely cost recovery in a fair, non-discriminatory and non-distortive way.</p> <p>That said, under the baseline, balancing costs accrued in a certain settlement period are recovered through the BSUoS charge for that settlement period. Deferring costs to another period could be interpreted as less fair.</p> <p>Relevant Objective (c)</p> <p>CMP345 is considering how to deal with BSUoS costs arising as a result of COVID. These costs are incurred by the ESO and would be recovered regardless of this modification. The key issue is how these additional costs should be recovered to minimise the impact on consumers, market participants and competition. We believe CMP345 is neutral on Relevant Objective (c).</p> <p>Relevant Objective (d) & (e)</p> <p>We do not believe there is any impact on these objectives.</p> |
| 2 | Do you support the proposed implementation approach for CMP345? | Yes, should the original modification be approved, it makes sense to backdate it from the 1 st May to capture the additional BSUoS costs already incurred as a result of COVID. |
| 3 | Do you have any other comments? | <p>The cost of financing any deferral is necessary to thoroughly assess the benefits and drawbacks of this modification. It is imperative that the ESO provides the necessary detail to understand the eventual all-in cost of any deferral.</p> <p>Whilst we accept the urgent nature of the defect that has arisen, it has been difficult to undertake a comprehensive assessment of this modification as a result of the challenging timescales.</p> |
| 4 | Do you wish to raise a Workgroup Consultation | No, we do not wish to raise an alternative at this time. |

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| | Alternative Request for the Workgroup to consider? | |
| 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. | We do not think it is necessary to define exactly what costs are COVID related. A simpler and pragmatic approach, offering greater certainty, would be to fix the deferral amount. This would assist parties with their internal BSUoS forecasting and reduce any real or perceived administrative burden on the ESO. |
| 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. | It is difficult to accurately determine COVID related costs but the proposer has put forward a reasonable methodology. Whilst COVID has been responsible for reduced demand, we believe that high renewable generation (driven by weather conditions) compounded with more fundamental issues regarding system stability and the ESO's contracting strategy have led to this spike in balancing 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. | <p>The distributional impact of any deferral on BSUoS payers and consumers needs to be given careful consideration. If distributional impacts are minor and the risk of supplier default is mitigated then BSUoS deferral is a clear benefit to consumers.</p> <p>We would not support solutions that do not mitigate the risk of Supplier default or lead to disproportionate distributional impacts. We would oppose a within year deferral as per the potential ESO alternate. If parties are unable to recover the additional BSUoS costs over the May – Aug period it is unlikely they would be able to recover such additional costs between the Oct – Jan period given the short notice and contracting time horizons. We also believe a within year deferral would have an adverse impact on competition within the generation market where the generation mix varies at different times throughout the year.</p> |
| 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 | We do not have a view at this stage but careful consideration needs to be given to the distributional impact of a deferral and this will differ based on how the cost is recovered (e.g. smeared evenly or targeted at specific periods). |

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| | should that be on a per Settlement period only basis or on a per MWh basis? Please provide rationale to support your response. | |
| 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. | We consider it necessary to cap (or fix) the deferral amount, this will provide some certainty to market participants who are already entering into contracts covering the 2021-2022 period. Based on the ESO's forecast, £500 million seems appropriate. |
| 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? | Given the BSUoS forecast indicates the additional costs will predominately manifest between May – Aug, the proposed cut-off date seems reasonable at this point. However, depending on how and when lockdown gets relaxed and how the economy recovers, demand could continue to be depressed well into H2 leading to the ESO continuing to take additional balancing actions with the resulting effect on BSUoS. |
| 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. | <p>We do not believe this modification is the appropriate vehicle for enduring BSUoS charging reform. The BSUoS task force has been specifically set up by Ofgem to look at BSUoS more holistically and examine different options, ultimately making a recommendation to Ofgem.</p> <p>The potential alternate proposing a daily rolling average BSUoS would require more examination and a longer implementation lead time which would not be possible or appropriate as part of this urgent modification.</p> <p>Furthermore, we do not believe this potential alternate tackles the defect CMP345 is seeking to address. Should this potential alternate be taken forward as a formal WACM, then it would be appropriate to allow other WACM's that similarly propose more fundamental BSUoS reform.</p> |
| 12 | Do you agree with the financing options set out above? Is there another way? Please provide rationale to support your response. | <p>The cost of financing any deferral is critical to thoroughly assess the benefits and drawbacks of this modification. It is imperative that the ESO provides the necessary detail to understand the eventual all-in cost of any deferral.</p> <p>Should there be a deferral and the ESO incur financing costs, the ESO should be allowed to recover</p> |

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| | | <p>'reasonable' costs subject to appropriate scrutiny and approval.</p> <p>In relation to the ESO's extended payment terms potential alternate, we would not support an interest rate of 8.1%. This figure is taken from the CUSC in relation to late payment. We believe it is overly penal and actively designed to discourage participation which is ill-intentioned and not cost reflective.</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>Broadly, we agree with the high-level impacts identified in the report. Different generation technologies, suppliers and consumer groups (e.g. domestic, industrial) will all be impacted differently.</p> |