






Alternative Request Proposal Form		At what stage is this document in the process?
<h1>CMP345 WACM7:</h1> <p>Within Year Cost Deferral of £250m</p>		<div><div>01</div><div>Proposed Alternative</div></div> <div><div>02</div><div>Proposed Workgroup Alternative</div></div>
<p>Purpose of Alternative: The Original CMP345 solution will be difficult for the ESO to implement and will have unintended consequences on the industry by adjusting BSUoS prices over multiple years. This alternative is intended to be a simpler solution and shorter-term solution whereby a fixed amount of BSUoS cost is deferred until later in the financial year.</p>		
<p>Date submitted to Code Administrator: 03/06/20</p> <p>You are: A Workgroup member</p> <p>Workgroup vote outcome: Formal alternative</p>		

Contents		 Any questions?
1	Alternative proposed solution for workgroup review	2
2	Difference between this proposal and Original	4
3	Justification for alternative proposal against CUSC Objectives	4
4	Impacts and Other Considerations	5
5	Implementation	5
6	Legal Text	5
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1 Alternative proposed solution for workgroup review

The Original CMP345 solution will be difficult for the ESO to implement and will have unintended consequences on the industry by adjusting BSUoS prices over multiple years. This alternative is intended to be a simpler solution whereby BSUoS prices are only modified in one financial year and the need to identify specific 'Covid BSUoS' costs is removed.

Separating "Covid BSUoS" costs from "normal BSuoS" costs

Forecasting of the expected impact of Covid-19 on BSUoS is extremely difficult and highly likely to be incorrect as discussed in the BSUoS explainer document circulated to the workgroup by the ESO. As such, the intention is to use an assumption that Covid-19 will increase BSUoS costs by £62.5m each month between June and September 2020. As such, the intention is to defer a total of £62.5m of BSUoS costs (as this is assumed to be "Covid BSUoS") equally across all settlement days within each month until later within the financial year. The £62.5m a month is fixed ex-ante.

Whilst this won't be accurate at a Settlement Period level, the intention is that this is broadly accurate across a longer period of time.

We recognise that setting this value in advance, means that there is greater industry certainty but does not account for any changes in government policy or reduced impacts of Covid, we are open to consider variation of this.

Cumulative amount of ESO support

The amount of support provided by the ESO for "Covid BSUoS" will be capped to a cumulative total of £250m (£62.5m each month for 4 months) across all BSUoS liable parties based on the ESO's view that the risk of BSUoS increases due to Covid should be shared between the ESO and BSUoS liable companies. This is particularly important, as the ESO believes due to the volatile nature of BSUoS that parties will have already accounted for some increases. The ESO believes that a 50/50 split of the £500m potential increase in BSUoS therefore seems fair and remains suitable even if BSUoS costs do not turn out to be as high as £500m.

Eligibility for Support

All BSUoS liable parties will be subject to this BSUoS cost deferral.

Duration and Treatment of Support

Payment terms for BSUoS invoices will not change. The £62.5m monthly values (£250m cumulative total) and any administration costs associated with the cost deferral will be recovered equally from all days between October 2020 to January 2021. Within each day, there will be a proportionate recovery based on the volume for each settlement period.

Such administration costs will be based on 'cost pass through' and will include the cost of arranging additional financing, all associated facility fees and interest as well as the cost of implementing and running any IT system or business process changes. The ESO would need to be able to recover any bad debt in financial year 2021/22.

In order to ensure that BSUoS liable parties fully benefit from this support we propose that additional security amounts as defined in the CUSC, which would be have to be placed by some parties as a result of higher BSUoS costs would not be required.

Securities

There would be no requirement to provide additional security on the Covid related costs recovered through higher charges between October 2020 and January 2021. The ESO believes that the cash flow benefits of deferring charges for four months would be significantly reduced where users would be required to provide short term additional security cover as cash.

2 Difference between this proposal and Original

This alternative proposal is different from the original proposal in a number of ways including;

- The value of the support provided by the ESO is different, therefore it is aligned with the ESO's red lines
- Associated timescales for repaying the support are different
- How "Covid BSUoS" will be calculated

3 Justification for alternative proposal against CUSC Objectives

Impact of the modification on the Applicable CUSC Objectives (Charging):

Relevant Objective	Identified impact
(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;	Negative
(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);	Neutral
(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;	Negative
(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	Neutral
(e) Promoting efficiency in the implementation and administration of the CUSC arrangements.	Positive

*Objective (d) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).

This alternative proposal has the following impact against the CUSC Applicable Objectives (ACOs) compared to the Baseline;

1. Against Applicable CUSC Objective A, we believe this proposal is negative against this objective (but more beneficial than the original); whilst it would have minor benefit of supporting Suppliers/Generators during Covid 19 this is offset by the negative impact it would have facilitating competition. As a consequence we believe the proposal is also negative against ACO C as it will not accurately reflect the costs ESO incurs within the settlement periods they are incurred as per the BSUoS methodology.
2. The proposal is neutral against ACOs B & D.
3. This proposal is positive against ACO E as it provides the support required by industry (as discussed in ACO A) without needing to raise a subsequent CUSC modification to end the support.

4 Impacts and Other Considerations

This proposal has been designed to minimise any impact on processes, systems and codes. It will have any impact on the ESO's finance teams as they will need to manage the amount of "Covid BSUoS" support provided and update industry accordingly

Consumer Impacts

We believe this proposal will come at a cost to consumers, however this cost is minimised due to recovering costs within year, and the total value of support being lower. It will also have a benefit to consumers due to the stability provided to the market. . Whilst this will be a short-term market distortion, it will allow market participants to adapt to Covid and so protect competition in the long-term.

5 Implementation

Implementation will be as per Section 1 of this document.

6 Legal Text

To be developed by ESO