

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?	<p>Yes; The impact of CMP345 against the first CUSC charging objective that relates to competition compared to baseline is positive. The unit BSUoS costs, over the period to end August 2020, are expected to substantially (+£500m) grow in a way that wasn't forecastable, as indicated by Rob Rome of ESO's remark at the seminar on 25th March, the day after "lockdown" had begun, where he said "at the moment we don't have a clear answer on what's going to happen with BSUoS"¹. This unexpected and very material increase in BSUoS at short notice will, if nothing is done, have significant commercial impact on generators and suppliers, and will adversely impact competition in the generation and supply of electricity. It could see some parties unable to continue to operate with consequences for the market and, ultimately for consumers.</p> <p>If CMP345 is not passed, the status quo approach will also give rise to a risk of substantial new risk premia (leading to higher costs) being applied by market participants in future to account for the manner in which the electricity system operation costs of the societal response to this almost <i>force majeure</i> like, unforeseeable, situation have been managed.</p> <p>As to cost-reflectivity : BSUoS is already acknowledged by both industry (via the output of the first task force report and its recommendation) and Ofgem (which formally accepted that recommendation) as a cost recovery type item, and not a market signal, so the change would be neutral against this objective.</p> <p>As to making sure that use of system charging takes account of the developments in transmission licensees' businesses, the impact of CMP345 over baseline here is positive; it will ensure that the BSUoS charging method properly takes account of the developments in transmission licensees' transmission businesses arising from the ctotally unprecedented Covid-19 event and its effect on transmission operations.</p>
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¹ <https://data.nationalgrideso.com/plans-reports-analysis/covid-19-preparedness-materials>

- **From 20:40 timestamp in the video**

2	Do you support the proposed implementation approach for CMP345?	Yes
3	Do you have any other comments?	<p>We believe that both Centrica's ideas for variants also have merit against baseline – even more so than the original. We explain in our replies to the questions below why we believe the other suggested variants lack merit.</p> <p>We believe that baseline entails an entirely unexpected windfall benefit to embedded generation where it is of less than 100 MW capacity (SDG). BSUoS-related embedded benefits to SDG have already been found to be lacking in merit, and are due to be ended from 1/4/21 via CMP333, which is why embedded interests are resistive to this mod. We estimate the windfall benefit at £26m for SDG that occurs under baseline (absent this mod); the effect of netting-off DG output reduces the chargeable demand denominator for BSUoS calculations, and leaves consumers paying more.</p> <p>CMP345 would remove this windfall benefit, also avoiding a risk of supplier failures due to high BSUoS. The idea of a short term BSUoS payment holiday risks triggering supplier failures further down the line, in autumn, when the deferred bills have to be paid.</p>
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.	<p>No, it is sufficient to use the ESO's "before and after" Covid forecasts of additional BSUOS costs relating to Covid, as the original proposal suggests, to identify a fixed amount to be carried forward that is likely to be approximately representative of the relevant costs. We do not believe that it is feasible for the ESO to precisely identify the surplus costs it incurs on account of the virus in each half hour; each action that it takes has several potential benefits, some relating to covid effects and some to other prevailing demand/generation conditions. As to the list in the consultation document of costs that could be caused by Covid, we feel that the list isn't necessary, certainly for the purposes of the original. We agree with this statement in the consultation document :</p> <p><i>"The difficult question to address was how to differentiate on a real time basis between those</i></p>

		<i>Balancing actions taken by the ESO where the low transmission demand is due to covid and those taken due to other circumstances, such as fine weather. The majority of the Workgroup agreed that it would be difficult for ESO to be able to say with confidence whether any individual action was Covid-related or not; that would place an additional administrative burden on ESO for something that would be almost impossible to audit.”</i>
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.	See answer to question 5
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.	We consider that deferral of these quite exceptional costs as far forward as is possible given any constraints that may exist on ESO financing, is best, so that Suppliers are able to price them in to retail contracts which are not yet fixed, or sold forward. Therefore, Centrica’s suggested deferral variant to 2022/2023 is our ideal, followed by Centrica’s alternative suggested deferral variant where the costs would be spread across 2021/22 and 2022/2023, followed by the original. We do not think that deferral only within 2020/21 is useful; this could merely defer the time when supplier failures are at risk of occurring within this charging year.
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.	<p>The deferred Covid costs are a (large and not-predicted) subset of BSUoS costs. BSUoS costs are cost recovery items, and not a signal. Once they have been moved to a different time period to that over which they were incurred, there is no logic in targeting the same “season” in a different year. This approach of targeting summer 2021 would increase the cost for each settlement period to ~ £250K rather than ~ £29K per half hour (if spread across all periods in 2021/22 evenly) This could trigger avoidance / gaming and would have unnecessarily strong effects on retail tariffs and on parties’ cash flows in summer 2021. If the cost is spread over all of 2021/22 as per the original, the effects are more modest and participants will be far better able to manage them in their pricing/hedging/general business operations. This is still more so if they are deferred until 2022/23, as per our reply to question 7</p> <p>Concentrating the costs into summer 2021 (when demand is low, so the effect is then greater) would have adverse effects</p>

		<p>on energy-intensive consumers' industrial international competitiveness at this time; it should be avoided.</p> <p>As to whether to apply the delayed BSUoS costs across the next charging year (in the original) on a per Settlement period only basis or on a per MWh basis : given that demand is lower in summer, to ensure an even effect £/MWh across a year, a £ per MWh basis that aims for an even £/MWh uplift to BSUoS across the next charging year may represent a better approach, with more certainty for participant. This approach would avoid a (modest) enhanced effect in summer when demand is lower, that would arise from a £cash sum per period approach, which would have (modest) adverse effects on energy-intensive consumers' industrial international competitiveness at this time.</p>
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.	<ul style="list-style-type: none"> - No, the figure to be deferred should be the forecast extra costs incurred in summer 2020 as identified in the original proposal.
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?	<ul style="list-style-type: none"> - Yes, the proposal has to have a defined scope/period of time; post 1st September 2020, these costs cannot be foreseen; the university of Oxford and AstraZeneca are aiming to have a vaccine available in the month of September with the first 30m doses, reserved for UK use, already reported to be under production so they are ready if the tests now under way are positive.
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.	<ul style="list-style-type: none"> - The work of the second BSUoS Taskforce is delayed and this very urgent and material issue faces the industry right now. Changes to trading arrangements resulting from the second BSUoS task force are very unlikely to be feasible for implementation in time for 2021/22; that would represent too short a notice period for industry.

12	Do you agree with the financing options set out above? Is there another way? Please provide rationale to support your response.	<p>The proposal under the ESO's potential variant for Extended Payment Terms, whereby interest is charged at 8.1% for those using the delayed payment option offered under that potential variant, with a rebate to 2021/22 BSUoS as the ESO doesn't intend to make a profit, entails an onerous rate of interest from existing CUSC text 6.6.6. that was only intended for unauthorised late payments, to incentivise timely payment. It is not appropriate for this purpose, and would comprise a cross-subsidy from those using the late payment option, to those paying BSUoS in 2021/22. It seems distortive, as those using this option would be the more thinly-financed and vulnerable parties.</p> <p>All other options entail interest costs only as incurred by the ESO (and agreed by Ofgem) – this seems appropriate.</p>
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.	<p>We agree that the modification could avoid business failures, particularly of suppliers. The deferral of costs to be spread out over all of 2021/22 avoids a concentrated delayed effect that could have adverse impacts in summer 2021. We note an argument has been made by some workgroup members that energy-intensive customers who are currently not consuming will, under the deferral options, face costs next year that are related to periods when they were shutdown. We consider that these costs will be well spread out under the original proposal, and not concentrated in summer (as under the Uniper proposal), and that these customers' sites did enjoy the security of supply that BSUoS pays for, during the covid period.</p> <p>We are concerned that the interests of consumers on BSUoS pass through have been overlooked. There are three references to consumers which shut down this summer. Another group seems overlooked.</p> <p>We note that embedded generators will not see a windfall, unpredictable BSUoS-related embedded benefit in summer 2020 if this mod prevails; this has without any doubt been at the root of their opposition to the mod at the workgroup.</p> <p>We do not support BSUoS-related embedded benefits, as they are distortive, and in this case we are talking about the loss of a wholly-unforecastable and unexpected windfall. That doesn't seem unreasonable.</p>