

CUSC Code Administrator Consultation Response Proforma**CMP345 'Defer the additional Covid -19 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 **3pm on 12 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 Panel.

If you have any queries on the content of this consultation, please contact Paul Mullen paul.j.mullen@nationalgrideso.com or cusc.team@nationalgrideso.com.

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For reference the applicable CUSC objectives are:

- 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. *Promoting efficiency in the implementation and administration of the CUSC arrangements.*

**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).*

Please express your views in the right-hand side of the table below, including your rationale.

Standard Code Administrator Consultation questions		
1	<p>Do you believe that the CMP345 Original solution, WACM1, WACM2, WACM3, WACM4, WACM5, WACM6, WACM7 or WACM8 better facilitates the Applicable CUSC Objectives?</p>	<p>Yes to the original, WACM2 (but only very slightly), WACM5, and WACM8.</p> <p>As to CMP345 <u>Original</u>, this has a positive impact compared to baseline against CUSC applicable charging objective (a), competition. It should mitigate against the exceptional losses that are otherwise likely to be incurred by Parties as a result of the virus. The deferral of costs to be spread across all of next charging year will allow Parties to reflect these exceptional costs into future tariff offers and into other business operations. Such protection, for exceptional, high impact risks such as Covid-19, will reduce the level of risk that will need to be factored into future tariffs and generation operations, and will facilitate effective competition in the generation, supply and purchase of electricity. Focussing on purchase of electricity, it would, if passed, stabilise costs to customers on BSUoS pass-through which are still operating as usual during the crisis and are being hit with costs they couldn't possibly have planned for, as we have noticed that some such customers have pointed out in their responses to the workgroup consultation. This will, as a result, lower the long-term costs to consumers. Embedded generators do lose a "windfall" – but BSUoS-related embedded benefits have been identified under TCR as a distortion that may be abolished under CMP333 from 1/4/21, if CMP333 is not delayed for a year to 1/4/22.</p> <p>As to CUSC charging applicable objective (c): the proposal takes account of the impact of the Covid-19 event on the ESO.</p> <p><u>WACM1 (Sembcorp) (Deferral of the Covid costs within the 2020/21 Charging Year by allowing an option for a Payment Holiday for up to 6 months for any identified Covid costs)</u> : The defect is high cost in 2020, and by not deferring out of 2020/21, the defect is not better met. Parties will not be easily able, if at all, to reflect these exceptional costs into future tariff offerings and other business operations, so this will not facilitate effective competition in the generation,</p>

supply and purchase of electricity. The embedded benefit windfall, an exacerbation because of COVID of an identified distortion that is to be abolished, is maintained as BSUOS is kept within 2020/21; this is anti-competitive and distortionary. Some of the suppliers that use deferred payment may, if they would have failed in summer, if WACM1 is passed, still fail with all the disruption that that brings, just slightly later on.

WACM2 Uniper – carry forward based on a cap : This alternative relies on an arbitrary and very high £15/MWh cap on BSUoS that will only have effect over a very small proportion of the time. There has been no analysis to show what the effects of this might be, and therefore what distortionary, or inadvertently-redistributive, effects could occur from its operation at times of very low demand, high wind and high BSUoS, relative to any benefits that it might provide. The amount that will be carried over is very hard to forecast as it depends whether there are lots of prices just below £15/MWh, or some that considerably exceed £15/MWh. Due to uncertainty around how much is carried forward, parties will not be easily able, if at all, to reflect these exceptional costs into future tariff offerings and other business operations, so this will not do much to facilitate effective competition in the generation, supply and purchase of electricity. The WACM is far less effective against defect than the original as to (a), competition.

The embedded benefit windfall, an exacerbation because of COVID of an identified distortion that is to be abolished, is maintained as most of the exceptional BSUOS costs are kept within 2020/21; this is anti-competitive and distortionary. Some Suppliers may still fail this summer under WACM2.

WACM3 (Lisa Waters) : (Deferral of costs on ODFM and nuclear Contract(s) to October 2020 – January 2021/February 2021, with daily reporting) :

Some contracts are categorised in this mod to give benefit only in relation to covid effects, even though they clearly also help to manage system balancing needs regardless of covid effects, whilst arbitrarily entirely excluding Super-SEL contracts, actions for the creation of “footroom” and some other sorts of action that clearly in part (or whole) contribute to covid

mitigation costs, and hence to exceptional BSUoS. Deferred costs still all fall within 2020/21, which is too soon, under WACM3, so parties will not be easily able, if at all, to reflect these exceptional costs into future tariff offerings and other business operations, so WACM3 will not facilitate effective competition in the generation, supply and purchase of electricity. The embedded benefit windfall, an exacerbation because of COVID of an identified distortion that is to be abolished, is maintained under WACM3, as the exceptional BSUOS is almost all kept within 2020/21; this is anti-competitive and distortionary. Some Suppliers may still fail.

WACM 4 Lisa Waters – comments as WACM3 (WACM4 differs from WACM3 only in having weekly not daily reporting resolution)

WACM 5 : Centrica (Cost Deferral of £250m to 2022/23) : like the original, this proposal will mitigate against the exceptional losses likely to be incurred by Parties as a result of the virus. It avoids the need for the ESO to separately identify Covid-19 related actions, making it easier to implement. A fixed level of support set at £250m represents some degree of risk-sharing (and allows for the £500m being an over-forecast). Deferral of costs to 2022/23 rather than 2021/22 is a better solution than CMP345 original, as it allows CUSC Parties to reflect the costs in future contracts and operations by going well beyond most contracting windows; it thereby reduces the chance of risk premia that arise from baseline CUSC, in future.

Deferring costs to a future period this far very effectively allows parties to reflect these exceptional costs into future tariff offerings and other business operations. WACM5 would, if passed, stabilise costs to customers on BSUoS pass-through which are still operating as usual during the crisis and are being hit with costs they couldn't have planned for. This will, as a result, lower the long-term costs to consumers. Embedded generators do lose a "windfall" bonus; BSUoS-related embedded benefits are an identified distortion that will probably be abolished as a TCR outcome from 1/4/21, if CMP333 is passed with effect from then.

WACM 6 – (ESO : Extended Payment Terms of 5 months for 30% of BSUoS Charges for users who opt in) :

The defect is the high cost in 2020, and by not deferring out of 2020/21, the defect is not met. Parties will not be easily able, if at all, to reflect these exceptional costs into future tariff offerings and other business operations, so this will not facilitate effective competition in the generation, supply and purchase of electricity. The embedded benefit windfall, an exacerbation because of COVID of an identified distortion that is to be abolished, is maintained as BSUOS remains; with a view to CUSC charging objective (a), this is anti-competitive, as it is distortionary. Suppliers that use deferred payment will, if they would have failed in summer, still fail with all the disruption that that brings, just slightly later on, exacerbated by the interest payment, that wrongly benefits all parties in 2021/22 as a BSUoS discount then – a curious distortion. Some with internal costs of capital just below 8.1%, will not be able to use the mod; there is some unintended distortion there.

Customers on BSUoS-pass-through are still adversely effected by the exceptional costs, even if deferred – which depends arbitrarily on their most recent choice of Supplier, and on whether it “passes-through” the delay.

WACM 7 (ESO : Defer a set £62.5m a month of BSUoS costs, as a proxy for Covid costs, from 1 June to 30 September; recoup from October 2020 – January 2021, spread over all settlement periods) :

The defect is high cost in 2020 – and by not deferring out of 2020/21, the defect is not met under WACM7. Parties will not be easily able, if at all, to reflect these exceptional costs into future tariff offerings and other business operations, so this will not facilitate effective competition in the generation, supply and purchase of electricity. The embedded benefit windfall is maintained as BSUOS is kept within 2020/21; this is anti-competitive/distortionary.

It is problematic that WACM7 makes explicit that there would be no requirement to provide additional security

on the Covid-related costs recovered through higher charges between October 2020 and January 2021 – because, the proposer feels, the extra securities that would have to be posted would counter-act the benefits of the mod. This means that users are not required to provide additional security cover, leaving a risk to other parties because the ESO says it would also “need to be able to recover any bad debt” (in financial year 2021/22) for the mod to be workable . In other words, the ESO as proposer does envisage bad debt as a result. This circumvents the usual careful protection against bad debt on BSUoS; normally the ESO is careful about this due to the (deliberate) lack of mutualisation, but here this risk is clearly being actively anticipated by the ESO as a result of the features of WACM7, and ESO intends that this risk be transferred to CUSC parties - which may have to price this risk into their business operations, contracts and tariffs, to the ultimate detriment of end consumers.

WACM 8 (SSE : as CMP345 Original, except this WACM would defer recovery to ‘22/23 rather than ‘21/22) :

WACM 8 will mitigate against the exceptional losses likely to be incurred by Parties as a result of the virus; our comments are generally as per the original, on which it is based, but deferment of costs to 2022/23 is a better solution as it allows Parties to reflect the costs in future contracts and operations by going well beyond most contracting windows; it thereby reduces the chance of risk premia that arise from baseline, in future.

Deferring costs to a future period this far therefore very effectively allows parties to reflect these exceptional costs into future tariff offerings and other business operations. Such protection, for exceptional risks, that are very high impact and very low probability, such as Covid-19 (which goes well beyond the electricity industry’s past pandemic considerations, on so many levels), will reduce the level of risk that will need to be factored into future tariffs and generation operations, and will facilitate effective competition in the generation, supply and purchase of electricity. It would, if passed, stabilise costs to customers on BSUoS pass-through which are still operating as usual during the crisis and are being hit with costs they

		couldn't possibly have planned for. This will, as a result, lower the long-term costs to consumers. Embedded generators do lose a "windfall" – but this is not a bonus that they could ever have foreseen, and BSUoS-related embedded benefits are an identified distortion that is to be abolished.
2	Do you support the proposed implementation approach?	Yes.
3	Do you have any other comments?	No.