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.

Respondent details	Please enter your details
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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	Do you believe that the CMP345 Original solution, WACM1, WACM2,WACM3, WACM4, WACM5, WACM6, WACM7 or WACM8 better facilitates the Applicable CUSC Objectives?	At E.ON and npower, we believe that the ~£500m additional Covid related balancing costs that National Grid forecasted in their May forecast could not have been foreseen earlier in the year. Whilst some suppliers do factor risk premia into their tariffs to cover normal BSUoS volatility, this unprecedented level of increase (a doubling of BSUoS over the period May-Aug) is far beyond anything that could have been incorporated. Some I&C customers do have third party cost pass through contracts, but a significant proportion of industrial, commercial and domestic customers are on fixed tariff contracts. Therefore, under the current process, suppliers will be required to pay their proportion of the ~£500m additional costs and will not be able to pass this through to the majority of their customers. Suppliers will not be able to pass these costs on in subsequent years as the market tends to gravitate to short run marginal costs i.e. costs associated with supply in that year. This is because new entrants can come into the market after the Covid costs and offer tariffs at the "normal" level. Therefore, under the current process, suppliers will have to absorb the Covid related BSUoS costs or risk losing customers, both of which will threaten the financial security of any supplier. Therefore, in order to prevent the risk of a significant number of suppliers failing and exiting the market through the Supplier of Last Resort (SoLR) process, a deferral of the Covid related costs better facilitates electricity supply competition. If several suppliers do fail, then the costs of the SoLR process are mutualised across the rest of the industry, adding more financial pressure to struggling suppliers. **Therefore E.ON/npower believes that the Original proposal, WACM2 (BSUoS price cap with 1 year deferral), WACM5 (fixed £250m deferral for two years) and WACM8 (£500m cap with two year deferral) all better facilitate CUSC Objective a)**. The original proposal looks to attribute the Covid related BSUoS costs ex post in order to pass the

		actual costs through rather than an ex ante estimate. Whilst we appreciate that this is not a simple operation for National Grid ESO (especially with regard to identifying Covid related Balancing Mechanism Actions), we believe that for customers, deferral of the actual costs is better than deferral of a proxy (such as a fixed £250m as in WACM5 or BSUoS prices above £15/MWh as in WACM2). **Therefore E.ON/npower believes that the Original proposal and WACM8 (£500m cap with two year deferral) better facilitates CUSC Objective c)**
2	Do you support the proposed implementation approach?	E.ON/npower believes that retrospectivity in this case is appropriate as National Grid ESO clearly attribute additional Covid costs to May 2020 in their forecast (~£58m). We also believe that deferral for two years is more appropriate than the original as many I&C customers are on fixed tariffs that are longer than 1 year. A one-year deferral of costs will not allow pass through to these customers. However, at 8.1% interest rates (as suggested by NGESO), the financing will cost supply customers ~£20m p.a. which we believe is much too high and that Ofgem should look to ensure that any financing costs that customers face is cost reflective rather than based on a unrelated part of the CUSC (Section 6.6.6 is around late payment rather than deferred payment). **Therefore, we believe WACM8 is more appropriate than the Original proposal**. In terms of reapportioning the deferred costs, we believe that either option (fixed cost per settlement period or fixed £/MWh) is appropriate. We acknowledge that there will be some distributional impact across different types of customer under a deferral option (I&C customers who reduced their consumption over the period May-Aug will see higher BSUoS bills under the original proposal than under business as usual whilst residential customers will see lower BSUoS bills under the original proposal than under business as usual), but we believe this is fair as customers who reduced consumption during May-Aug have been part of the problem of higher BSUoS costs whilst customers who continued to consume actually helped the network.
3	Do you have any other comments?	There is a precedent for deferral of unforeseen BSUoS costs. In 2016, £64m of black start costs

		were deferred into the next charging year. Whilst this was done via the reconciliation (RF) run (which would not help in this instance), the idea of deferral was accepted and implemented. We acknowledge that since then, National Grid has legally separated into NGET and NGESO and that NGESO does not have as strong a financial position due to its asset light structure. However, we believe that lending agencies would look favourable on NGESO due to the strength of its parent company as well as the low likelihood of significant levels of bad debt being accrued across one year. We believe that the industry should approach Govt with regard to loaning the £500m to NGESO at low (or no) interest to reduce the costs passed through to customers. An even more recent precedent for this type of action is BEIS's one-off loan to the Low Carbon Contracts Company (LCCC) "in response to the exceptional circumstances of COVID-19", so that it can continue to pay Contracts for Difference (CfD) generators without needing to increase the Interim Levy Rate at short notice.This precedent takes place in response to exactly the same conditions facing BSUoS, and for the same purpose (to protect suppliers from insolvency). The loan to LCCC to cover CfD costs totalled £100m and was for a three-month duration. However, as stated earlier in this response, we believe a BSUoS related loan would need to be for a more extended period of two years in order to pass through the correct cost reflective charges to customers. The details of the loan BEIS made to LCCC have been kept confidential, but we would propose a £500m, 2-year loan being made on a similar basis.