

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	<p>Do you believe that the CMP345 Original Proposal better facilitates the Applicable CUSC Charging Objectives?</p> <p>No.</p> <p>No evidence has been presented in relation to the impact of high BSUoS charges on competition. No analysis has been submitted about who the winners and losers are, and to what extent they may be winning or losing. Further, there have only been assertions made about generators going into administration and thereby a security of supply issue, and that suppliers will go into administration because of these BSUoS charges.</p> <p>So, in relation to the CUSC objectives:</p> <p>A. We see no evidence whatsoever, nor even convincing arguments, that this mod would improve competition in the markets and in fact, due to the proposed temporal distortions, this mod is negative against this objective.</p> <p>B. This mod is unambiguously negative against this objective, as it will remove costs incurred in a settlement period and defer them to a future unrelated settlement period with no relationship nor messaging of the cost reflectivity. We note the issues that exist with BSUoS already widely acknowledged and were due to be addressed by the furloughed BSUoS task force.</p> <p>C. The mod is negative against this objective - it imposes a cost and obligation on the ESO that is completely unrelated to their normal business. The ESO is not enabled via licence conditions or other to give loans to parties that may or may not need it.</p> <p>D. No comment</p> <p>E. Any deviation from the current approach to charging and collecting BSUoS which involves a deferral of cost recovery, particularly to a future charging year, will be inefficient and costly. As noted above - the costs and benefits of this mod have not been assessed. Administratively this mod adds costs without clear benefit.</p>
2	<p>Do you support the proposed implementation approach for CMP345?</p> <p>No.</p> <p>We disagree with this mod entirely.</p> <p>The parts we most disagree with are deferral of cost recovery to a future charging year and retrospective adjustments.</p> <p>Both are highly distortionary and will create winners and losers, particularly penalising parties whose strategies and</p>

		<p>business plans are more suited to the current market conditions. In that sense, this mod undermines competition, innovation, and proactive risk management practices.</p> <p>This result is clearly not aligned with broader long-term policy and regulatory ambitions. As it undermines investor confidence, it will have long-term impacts on the types of investment in the market and the cost of that investment, having overall negative impact on market stability and competitive functioning.</p>
3	Do you have any other comments?	<p>We really struggle to understand how the commercial arrangements of some parties constitutes a CUSC defect, or even a CUSC “issue”. The only argument provided has been the unprecedented nature of the global pandemic.</p> <p>The pandemic has placed some suppliers, and perhaps some other parties under financial pressure - we do not dispute that. However, it is not the role of the CUSC to provide financial support to struggling parties, indeed – the methodologies laid out in the CUSC are intended to provide forward looking stability and transparency. Not financial aid.</p> <p>It is important that winners and losers of this mod are distinguished from winners and losers from the current charging approach and distinguished again from which parties are at risk – directly because of Covid-related BSUoS costs – on insolvency. As it stands the workgroup has no idea.</p> <p>We provide a chart see appendix that shows the evolution of BSUoS from 1 April 2017 through to 21 May 2020. Volatility has been high over the whole period, and the average cost has been steadily increasing. Through the month of May the average and highest BSUoS are not out of line with the time series back to 2017. This shows that there are no additional costs that suppliers or other parties would not have priced into longer term contracts/hedges.</p> <p>Further, we propose that sensible parties would have noted the increase in average BSUoS, and the volatility, combined with the risk of high renewables output, and taken some prudent mitigation actions. Should those that did be punished?</p> <p>This mod will definitely create winners – this is why the mod was raised. But it also creates losers. We don’t actually know which parties are winners or losers, though assertions have been made, nor do we know whether any of these parties are</p>

		<p>actually in financial distress due to BSUoS costs, as asserted. The BMRS website doesn't show any arrears. Ofgem themselves say that they see no evidence that the price cap should be revisited.</p> <p>But, more to the point – despite the pandemic and the lower customer charging base – that BSUoS is unpredictable and risky has been long accepted and should have been factored into business plans and strategies. Sure – nobody would have predicted Covid – but they could have reasonably predicted the costs seen through May at least, and they could have reasonably predicted that in a scenario of high renewable output over the summer would lead to high BSUoS costs.</p> <p>The ESO has published a slew of documents in the past couple of years describing the issues with balancing the system in high renewable periods. Parties that have business models and investments designed around helping the ESO solve these problems now and in the future will be heavily penalised by this mod.</p> <p>Future costs - June, July and August, remain unknown. The ESO forecast is grim, with ODFM and the nuclear deal are included. Yes, this is a shock to the system, but it is a shock to a system that is used to seeing high degrees of volatility and where costs have been trending up for years.</p> <p>Further, the ESO themselves say that the forecast the precipitated this mod is pessimistic. We already have a loosening of pandemic lockdown protocols, and it is entirely possible that renewables output could return to normal levels. Then what? There will have been a distortionary transfer of benefit between market participants for no reason at all, never mind the asserted reasons.</p>
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	<p>No.</p> <p>Viridis Power are not submitting an alternative, we did consider submitting one in which EdF defers payment for their costs to over the whole of this charging year. It seems to us more sensible to ask them to provide loans to the electricity sector than the ESO – they are asset rich and they have French Government backing. They can provide financing more cheaply than the ESO. If it is ridiculous to expect one private entity to finance loans to the market, then it is equally ridiculous to ask another (noting that asset rich network companies are offering targeted loans for network costs).</p>

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>Yes.</p> <p>Covid costs could reasonably be the nuclear deal (estimated in the Times at £50m) and possibly ODFM.</p> <p>Constraints and other balancing costs related to turning off renewables or other related inertia costs etc should not be included.</p> <p>As per above, BSUoS costs have been rising for years, and the issue with predictability and cost reflectivity has been known and widely acknowledged for years. The BSUoS task force should be reinstated to address these issues instead of a highly distortionary mod with no underlying cost benefit analysis or study of the impacts on individual parties.</p>
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.	<p>No. See above – we think only the nuclear deal and the ODFM costs have even a semblance of justification to be included in this mod.</p> <p>We note also that we think that ODFM will be a permanent product. This lends an argument to the case that it is not in fact a Covid related cost.</p> <p>Under no circumstance should costs going past August of this year be considered exceptional and unforeseeable.</p>
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>There is no question that this mod is distortive. It is being consulted on without any analysis of the impacts on winners and losers nor even a clear defining of who they may be.</p> <p>Nor is there even more than an assertion of the need for this mod. Then, to defer the costs to a different charging year entirely – when who knows what the “emergency” then will be? – is taking the destructive distortions too far.</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	<p>As above, under no circumstances should costs be deferred to a different charging period.</p> <p>We think the charges can be smoothed equally over settlement periods between mod implementation and the end of the charging year, April 2021, or over the winter (our preference). Winter has appeal as it makes sense to charge it</p>

	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.	over higher demand periods. Equally however, the impact would be lower if smoothed over more settlement periods. Trying to identify similar settlement periods next year makes no sense.
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.	The simplest approach would be to codify the value of the nuclear turn down deal. As per above, we are open to including ODFM in this mod (noting we are against the mod in the first place), and in this case, an estimate of the cost – capped – for the sum of nuclear and ODFM up until August would be acceptable. £500m is a huge distortion, and we believe limiting the value of the deferral to clearly identifiable costs would cause minimal damage, especially if deferred to within this charging year.
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?	It is inappropriate to raise an urgent mod proposing to insert a £500m distortive jolt to the market without analysis or meaningful and deep analysis of the costs and benefits and a full understanding of the distributive effects. Not only is this mod asking the ESO to fund suppliers balance sheets – indirectly though a deferral of BSUoS costs, it is asking to fund all their balance sheets regardless of whether needed or not AND it is asking other market participants who will lose out from this mod to fund those balance sheets – in their case without the benefit of later payments or interest.
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.	The BSUoS taskforce should have been reinstated to review this mod. At the very least, but ideally instead of raising this mod. Further, after this mod was raised, Ofgem has sent out a letter outlining their support for a targeted loan from network owners to needy parties. Ofgem notes in this letter that needy parties should seek out appropriate commercial loans if needed and should only approach the (asset-rich network-owning) monopolies where needed. And, where these monopolies are asked to provide loans for deferred network charges, that the costs are repaid before the end of the charging year. Ofgem also say that they see no need to adjust the cap – suggesting that they have not see ultra-high costs on net as an issue for suppliers.

		<p>Ofgem's view is therefore very well aligned with our own (I find myself surprised to write) in relation to Covid related costs and pressures market parties.</p> <p>Fundamentally though, the Ofgem letter proposes to offer up to £350m of support to needy parties. This is not insignificant – and we humbly suggest that any parties that take this help and then still require additional help are beyond the help of this mod.</p>
12	<p>Do you agree with the financing options set out above? Is there another way? Please provide rationale to support your response.</p>	<p>The ESO is not a bank. If it is asked to be one, then it should be given the option of offering deferred payment terms (as their mod proposes) to targeted parties.</p> <p>Another way this issue could be addressed is through the DRAB alternate proposal suggested by Infinis. This would smear the costs, essentially, over this charging year, and it would continue to do so for upcoming charging years. Though this is arguably stepping on the toes of the BSUoS task force, it is aligned with their high-level recommendations. Why not implement this change and then let the BSUoS task force fine tune adjustments at their leisure?</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>It is completely inappropriate to insert a distortive £500m jolt into the market without a full cost benefit analysis and a detailed review of winners and losers.</p> <p>Where losers are created – they are effectively subsidising winners through a very rough, and unfair, blanket redistribution.</p> <p>This mod will completely undermine investor confidence – every time prices get high, the regulator steps in? Isn't the missing money problem due to a lack of confidence in the regulator to let prices go high exactly what P305 and other regulator and government signalling over the past few years been trying to solve? Will this mod not undo all that work?</p> <p>How on earth will investors ever believe that Ofgem will allow prices to reach VoLL if this mod is rushed through? How will future investors react if the costs of high renewables are redistributed and parties that are designed to help with this issue are penalised?</p>

Appendix

The following charts show average Daily BSUoS and half hourly BSUoS (from the ESO [website](#)). The data covers 1 April 2017-21 May 2020.

