

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.

Respondent details	Please enter your details
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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?	Yes. We agree that the significant and unexpected increase in BSUoS costs will damage competition and deferring these costs will therefore further relevant objective (a).
2	Do you support the proposed implementation approach for CMP345?	Yes. The BSUoS costs that have been incurred by the ESO as a result of COVID-19 have been since 1 May 2020 and so it is appropriate to backdate this change to take account of those circumstances.
3	Do you have any other comments?	Deferment of BSUoS costs is required to ease the pressure on suppliers; it does however increase the potential liability for suppliers in the future if some suppliers exit the market in an uncontrolled fashion and avoid these costs. A mechanism to manage all market liabilities (not just CUSC costs) longer-term is also required to ensure they do not stifle any economic recovery after the COVID-19 pandemic, though this sits outside the scope of this change.
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.	Yes. This modification has been raised to mitigate the impact of unanticipated actions undertaken by the year so as a result of the COVID-19 pandemic. Defining such costs provides clarity to both the industry and customers as to why these costs have been deferred and which costs are impacted.
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.	We do not have any concerns over the proposed definition of COVID-19 related costs.
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)	We have concerns that the repayment of deferred BSUoS costs may coincide with the payment of deferred CFD costs and mutualised SoLR costs, whilst suppliers are managing significant amounts of customer bad debt. If not managed appropriately this surge in costs for non-

	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.	domestic customers will potentially damage any economic recovery. Any repayment timescale for these deferred BSUoS costs should therefore be spread over a significant timescale to minimise the impact on the market. We support the proposer's intention to smear these costs across a whole charging year but would also support a longer timeframe.
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.	Further to our response to question 7 above, we believe that any cost recovery should be done in a manner to minimise the negative impact on the recovery of the market.
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.	We understand the concerns raised regarding the existence of a firm financial limit in this proposal, as it potentially limits the full cost of COVID-19 actions being captured. We agree however with the concept of a cap in this circumstance in order to provide certainty to both the ESO for purposes of financing any cap, and the wider industry regarding the level of costs being deferred. The information provided by the composer seems a suitable basis as any on which to set such a cap and so we support the value of £500m.
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?	We see the argument for an event specific (i.e. due to COVID-19), rather than a time specific (so up to 31 August 2020) set of criteria to determine which costs qualify, but a time-based criterion proposed here is sufficient and can be extended if required.
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	Yes. ICoSS members have identified that average demand destruction in the non-domestic sector is around 20% compared to pre-COVID volumes and many suppliers and their customers are experiencing significant cashflow issues now. Any deferral of costs relating from COVID-19 must be implemented as soon

	<p>timescale for implementation do you agree with the approach in the option outlined above? Please provide a rationale with your response.</p>	<p>as possible to avoid substantial damage to the non-domestic sector.</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>We acknowledge that any funding mechanism will need to ensure that the ESO is not exposed to long-term debt it cannot recover. Any interest charged on these deferred BSUoS costs should reflect the cost of funding that the ESO has incurred, rather than linked to the current penal interest rate payments set out in CUSC 6.6.6 which is not intended to be used in such a scenario.</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>As a non-domestic supplier trade body we have not reviewed the impacts on generators or the ESO.</p> <p>We broadly agree with the impacts identified on customers and suppliers, with the following exception.</p> <p>We do not agree with the ESO's assertion that Extended Payment options will lower costs overall. We are aware that transporters and the regulator are exploring options for bilateral support for the weakest suppliers in the market. We strongly oppose such a process as it will simply mean that failing suppliers will exit the market owing more than otherwise would be the case. Any support must be universal to avoid market distortions.</p>