

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
Respondent name:	Daniel Brown and Isobel Morris
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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?	We believe that this proposal undermines effective competition in the generation and supply of electricity.
2	Do you support the proposed implementation approach for CMP345?	We support backdating the change to the 1 st June 2020 and spreading out payments until the end of this financial year to prevent a distortion of the market and ensure embedded generators do not lose out on payments owed.
3	Do you have any other comments?	<p>We have outlined specific concerns in detail below. At the top level however we would like to raise the following points:</p> <ul style="list-style-type: none"> • If the liquidity of energy suppliers is in question due to COVID, surely this is a policy-related issue for the Department for Business, Energy, and Industrial Strategy to address. We are concerned that policy-making through code modifications leads to adverse and unanticipated outcomes, and unduly benefits those with the most resources at the expense of smaller enterprises. • We are concerned that the needs of embedded generators are not fully accounted for in these proposals at best, and at worst these proposals represent a way of covertly advancing an industry debate (relating to the validity of embedded benefits) that should take place in an open, transparent, and structured way. Proposals as they currently stand threaten to strip embedded generators of embedded benefits which would further undermine investor and public confidence in the Government's commitment to the renewable energy agenda (even if this decision is made by Ofgem). • For developers and operators of many forms of energy storage assets, the impact of these changes represents a significant blow. Ofgem and BEIS have spent the past four years encouraging flexibility assets to come forward and this would penalise the kind of innovators and risk-takers who have been encouraged to develop projects to date.

		<ul style="list-style-type: none"> We understand that COVID has had significant impacts on the UK electricity market, and that it is beneficial to maintain competition in generation and supply of power. We do not disagree with the principal of participants being flexible on payment dates in response to a global crisis so much as the wider threat of a fundamental shift in market value away from smaller distributed generators. New transmission generators coming on to the grid in the next financial year risk being penalised by a decision to move the Covid-19 BSUoS costs into the next Charging Year, because they would not have to pay these costs should the costs be kept to the current financial year. This also risks undermining investment to bring renewable projects forward, and possibly incentivises project planners to delay new transmission-generators from coming on to the grid in the next charging year. We also note that Ofgem has recently announced a £350 million support package to suppliers, which significantly reduces any need for measures such as CMP 345. Suppliers with healthy business models are unlikely to be threatened with insolvency due to high BSUoS costs alone. The additional BSUoS costs have been clearly indicated and forecast by the NG ESO, giving transmission operators weeks and months of notice to factor them in to dispatch decisions. If large generators have hedged input costs (which are usually much lower in summer than balances received from customers) and cannot benefit from low commodity prices, then they are likely to have fixed revenue costs at a higher level than current wholesale prices. They may be able to close positions at a neutral level and avoid incurring high BSUoS costs by generating if this would be an overall expense.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	We support backdating the change to the 1 st June 2020 and spreading out payments until the end of this financial year.
Specific Workgroup Consultation Questions		
5	Do you believe it is necessary to define Covid related costs for	We agree that it is necessary to define Covid-related costs as a result of this Modification proposal, though

	<p>the purposes of BSUoS charging as a result of this Modification proposal? Please provide rationale to support your response.</p>	<p>we note that we do not agree with the proposal to defer the costs into the next Charging Year, but could support an option which keeps the deferral within the current financial year. Should Covid-related costs not be defined, there could be extensive disagreement and argument between the ESO, suppliers and embedded generation over what constitutes a Covid-19 cost. This could have a negative effect on market confidence and depress investment, particularly given that the pandemic has not yet subsided and forecasted costs may change in the coming months and years.</p>
6	<p>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>	<p>Click or tap here to enter text.</p>
7	<p>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>	<p>We believe that the deferral should take place within the 2020/2021 Charging Year only, should CMP333 also be implemented.</p> <p>CMP345 would effectively see the proposed CMP333 modification partially backdated to the relevant Settlement Period to which CMP 345 applies, despite the second workgroup consultation on CMP 333 being unpublished and no Authority Decision on CMP 333 having been made.</p>
8	<p>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>	<p>We would argue that should the decision be made to keep the payment within this Charging Year, if no modification is made to the CMP 333 proposals that would see the full payment from Covid-19 to which embedded generators are entitled, rolled over into the 2021/2022 Charging Year.</p> <p>The work of the second BSUoS taskforce around CMP 333 has yet to be brought forward for a second consultation and approval. The interaction between CMP 333 and CMP 345 would effectively see CMP 333 partially backdated to the current Settlement Period, once approved. Given that CMP 333 has yet to go through the next consultation process or to receive the Authority Decision on the final outcome, partially</p>

		backdating it via CMP 345 to the current Settlement Period would be inappropriate.
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.	Click or tap here to enter text.
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 do agree that the period to be covered for deferral of Covid-19 costs should be limited to those incurred up to 31 August 2020. This is in line with the Government timeline for reducing social and business restrictions and from late summer 2020 onwards we would expect to see balancing pressures decreasing on the grid due to the relaxation of restrictions and reduced solar generation.
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.	<p>We do not agree that this proposal should be implemented in advance of the second BSUoS Taskforce completing its work, given that whichever proposals outlined in the forthcoming CMP 333 consultation will have a significant impact on the distribution of BSUoS payments in the next Charging Year 2021/22. This proposal risks advancing the work of the second BSUoS taskforce without adequate opportunity for analysis and consultation. Any measures that benefit larger generation at the expense of negative consequences for some smaller renewable players in the market, risk undermining competition and should be carefully considered by central Government, rather than self-administered by the industry.</p> <p>Furthermore, CMP 345 has been put to consultation for a very short period of time, less than 60 hours, which does not give sufficient opportunity for consideration and response from SME generation.</p> <p>Small and medium sized embedded generators, who have limited representation on the Workgroup, will have had minimal input into the proposals and have had very little time to provide a considered response. On the whole, embedded generation has had very little</p>

		<p>opportunity to feed into the proposals or represent their interests as small and medium sized enterprises. We fear well-resourced large generators and suppliers could unduly benefit from these changes at the expense of smaller embedded asset owners or hosts – often farmers, SMEs, industrial sites, etc.</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>Click or tap here to enter text.</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>This proposal will have significant negative effects on embedded generation, and this is not clearly identified or justified in the proposal. Under the current proposal to backdate this BSUoS charge deferral to 1 May 2020, suppliers would have to request embedded generators to return embedded benefits payments that they have already received for May. This would not be acceptable.</p> <p>Embedded generators are often smaller generation run by SME's with minimal headroom in financial decision-making, small financial reserves for emergencies, and high levels of investment risk.</p> <p>Such projects are typically project financed, with debt fully leveraged. This has made it impossible for them to access government Covid-19 financial support mechanisms as they are unable to take on additional loans. Any further disruption, exacerbating impacts on revenue caused by covid-19, could see such projects fail.</p> <p>This is unacceptable in an economic environment where many embedded generators operating solar farms, biogas CHP, landfill gas, biomass power and energy from waste sites are under significant financial pressure due to:</p> <ul style="list-style-type: none"> • reduced power prices. • reduced investment from the market in renewables.

- A sharp fall in domestic and workplace solar installations (some embedded generators are engaged in this side of the market as well).
- Supply chain pressures in the solar industry caused by a drop in international production and delivery problems.
- Significant disruptions in waste collections, which has meant waste wood feedstocks for biomass power production have disappeared with biomass sites stopping energy production and losing RO revenue.
- Difficulties in ensuring timely repair at generation sites.
- Necessary diversion of employee workstreams to focus on developing safe working practices, away from activities that attract revenue.

By the implementation date, many embedded generators may already have spent the money provided for May, given the financial pressure caused by the above. The proposal provides no mechanism for how suppliers would retrieve this money in circumstances where generators are in difficulty and does not indicate or specify circumstances where exemptions could be made for embedded generators unable to return the money.

In addition, it should also be expected that the above issues will have ongoing implications for embedded generation beyond lockdown. For example, waste wood biomass generators have now used up their feedstock reserves usually required during winter, meaning ongoing covid-19 related impacts well into next year.

Although the proposal acknowledges that some embedded generators may struggle to repay the money, the proposal does not sufficiently consider the financial impact on embedded generators within the context of wider financial challenges faced by embedded generation and SMEs during the pandemic.

The short length of the workgroup consultation (published 1 June and closing on 3 June) also does not

provide reasonable opportunity for embedded generators to plan, work through and submit an Alternative Request.

We may suppose that at least some larger generators may have sold volume forward anticipating higher demand and have been able to buy back excess volumes at the lower overall wholesale prices, mitigating or possibly more than compensating higher BSUoS prices when they were generating. Also many larger generators will have been recipients of material revenues in the Balancing Mechanism as the ESO took the actions that gave rise to the high BSUoS costs, a revenue source not open to most embedded generators. We therefore do not think it appropriate to consider this BSUoS issue in isolation of all the other impacts facing market participants at this time.

There has also been some suggestion from the Workgroup that some embedded generators may be benefitting from high BSUoS charges through the Balancing Mechanism – we do not think that, on the whole, this is the case. Our initial understanding from our own membership and conversations with Electralink is that any embedded generators in this position are a tiny minority proportion of embedded generators.