

Alternative Request Proposal Form		At what stage is this document in the process?
<h1>CMP345 WACM1:</h1> <p>Extended payment terms (6 months)</p>		<div style="display: flex; flex-direction: column; align-items: flex-start;"> <div style="display: flex; align-items: center; margin-bottom: 10px;"> <div style="border: 1px solid black; border-radius: 5px; padding: 5px; margin-right: 10px;">01</div> <div style="background-color: #00a651; color: white; padding: 5px; border-radius: 5px;">Proposed Alternative</div> </div> <div style="display: flex; align-items: center;"> <div style="border: 1px solid black; border-radius: 5px; padding: 5px; margin-right: 10px;">02</div> <div style="border: 1px solid black; padding: 5px; border-radius: 5px;">Proposed Workgroup Alternative</div> </div> </div>
<p>Purpose of Alternative: To offer an optional extended payment terms to all parties to cover Covid-19 related costs, identified in the same manner as the original. The extended payment terms would be up to 6 months and interest charged on delayed payment.</p>		
<p>Date submitted to Code Administrator: 1 June 2020</p>		
<p>You are: A Workgroup Member</p>		
<p>Workgroup vote outcome: Formal alternative</p>		

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1 Alternative proposed solution for workgroup review

As described in the Workgroup Consultation under Extended Payment Terms (other), a “Covid” tariff would be created to recover the costs of Covid related costs. These costs would be identified and reported on by the ESO in the same manner as the Original.

The invoice issued to BSUoS liable parties would invoice for both “standard” BSUoS tariff, with normal payment terms, and “Covid” BSUoS tariff, with optional extended payment terms of up to 6 months. Interest would be charged on late payments, at a rate that is reflective of the cost of financing to the ESO. The modification would be back-dated, to apply to Settlement Periods from the 1st June

It is proposed that the ESO would not seek additional securities from parties who opt-in to the extended payment terms. The intention is that securities in this alternative aligns with the Extended Payment Terms as suggested by the ESO.

This alternative still requires the ESO to be able to identify Covid related costs accurately, which is technically challenging and an extra administrative burden on the ESO.

This alternative addresses the defect as it gives affected parties time to recover their costs (by adjusting short-term trades for generators, recovering BSUoS through pass-through etc) or access finance until costs can be recovered through long-term trades or future fixed tariffs. It therefore lessens the significant commercial impacts on generators and suppliers.

With note to Ofgem’s open letter¹ on relaxing network charge payment terms, published 2nd June 2020, this alternative is closer in form to the support schemes described than the original and addresses the cashflow risks the letter discusses. It is the intention that the Extended Payment Terms in this alternative are open to all BSUoS-liable parties, not just suppliers, in line with the stated defect. Without reference to other schemes that may be in place, it is not possible to set a cap that would comply with the overall network amounts mentioned. The information provided in the Modification proposal, comparing ESO forecasts pre- and during Covid, would suggest the “standard” BSUoS costs would comprise at least 50% of the monthly invoice amount^{2,3} and therefore have

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https://www.ofgem.gov.uk/system/files/docs/2020/06/open_letter_on_relaxing_network_charge_payment_terms_1.pdf

² April’s forecast gives a BSUoS forecast of £3.87, £3.92, £4.19, £4.50 for May, June, and August respectively. In May’s forecast, these figures have increased to £5.92, £7.18, £8.12, £8.67, suggesting

less effect on the ESO's ability to comply with its financial covenants and credit metrics. The letter describes extended terms of a three-month period, but this will not be long enough to address the defect as described. Six months is therefore proposed as being more effective, whilst still limited financial consequences on the ESO.

2 Difference between this proposal and Original

The additional Covid costs would fall on the same the same users as the baseline methodology, rather than smeared across a different charging base.

May's BSUoS would be unaffected, there is no requirement for credit notes or manual calculation of May's Covid costs. The alternative would apply from 1st June onwards.

Costs would be recovered sooner (starting at 6 months) than the Original, which would not see recovery start until April 2021. For the same amount of additional Covid costs, the overall cost to end consumer will be lower than the original, as repayment is sooner.

The amount of support provided by the ESO is not capped, unlike the proposed cap of £500m in the Original), but the fixed repayment terms will create a natural upper limit, should the current crisis continue. In additional, not all parties will necessarily use the Extended Payment Terms, reducing the amount of support the ESO is providing.

There is no proposed sunset clause, meaning extended payments terms can continue to be offered as long as the costs are identified as being Covid-related. As these additional costs reduce, the materiality of this modification will reduce.

The optional Extended Payment Terms and cost-reflective interest means the support will only be used by parties where it makes economic sense to do so, thus lowering the overall cost to consumers and limiting the ESO's financial exposure.

The lower exposure and earlier repayment, compared to the Original, means the profit loss at the end of the year for the ESO should be less.

standard BSUoS would account for between 65% and 52% a month, although individual parties' invoices will differ based on their profile.

³ Ofgem's letter describes a "minimum payment of 25% of the monthly invoice amount".

3 Justification for alternative proposal against CUSC Objectives

Impact of the modification on the Applicable CUSC Objectives (Standard):	
Relevant Objective	Identified impact
<p>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;</p>	<p>Negative.</p> <p>Users who can pay their BSUoS invoices immediately/access finance cheaper than the ESO will not face an extra financial burden of interest on the unpaid amount. The ability of Users to access cheap finance will depend on their individual circumstances and is less likely for smaller Users or those already under financial pressure. It is also worth noting that the security arrangements will not affect all Users equally, as larger Users often trade between payment allowance.</p> <p>However, this alternative is less Negative against this objective than the Original, which shifts costs onto users who would not normally be liable. These may be Users who have acted in good faith, based on the ESO’s forecasts, or Users who have since entered the market. If parties do exit the market during the Covid crisis, the ESO will be unable to recover any costs (even much reduced costs) and the burden will be borne by future Users.</p>
<p>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</p>	<p>Positive</p> <p>This alternative maintains the baseline charging structure, which is intended to be cost-reflective. The charges remain with the parties that would be liable under the baseline. It is not clear why Covid related costs should be</p>

<p>of a connect and manage connection);</p>	<p>socialised when other BSUoS costs are not.</p>
<p>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;</p>	<p>Negative</p> <p>The ESO has financial and credit status obligations. Should additional Covid costs be as great (or greater) than forecast, the ESO could be at risk of breaching these obligations. However, the presence of a capped amount of support would create an incentive for Users to take advantage of the Extended Payment terms early, before the cap is reached, rather than when economically efficient.</p> <p>The Original is also negative against this objective, due to the size of the cap: in Workgroup discussions, the ESO have provided ball park figures of £300m.</p>
<p>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</p>	<p>Neutral</p>
<p>e. Promoting efficiency in the implementation and administration of the CUSC arrangements.</p>	<p>Neutral</p> <p>Compared to the Original, this alternative has a much reduced risk of any follow-up Modifications to adjust a hard-coded cap, especially if the cap is based on forecast additional costs, rather than the support the ESO can provide. Since it does not reference dates, should the Covid crisis continue beyond August, there will be no need to make changes to the CUSC.</p>
<p>*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).</p>	

4 Impacts and Other Considerations

Consumer Impacts

See above

5 Implementation

1 June 2020. No end date for support.

6 Legal Text

To be developed by ESO