

**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](mailto: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](mailto:paul.j.mullen@nationalgrideso.com) or [cusc.team@nationalgrideso.com](mailto:cusc.team@nationalgrideso.com).

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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?	<p>No.</p> <p>None of the options on the table are better against the CUSC objectives than the baseline.</p> <p>We do not believe that parties being unable to pass through costs is a CUSC defect, and so we do not believe that a CUSC modification is the route to solving the issue of high Covid related balancing costs.</p> <p>Intervention in this manner, such that an industry party raises a mod for commercial gain, but which also causes distortions and unknown direct or indirect winners and losers, is uncompetitive and inappropriate.</p> <p>Because this mod was considered urgent, it was not possible to do any analysis of which parties would be winners and losers. Plenty of assertions were made in the workgroup, but little to no evidence was provided. We find it difficult to justify a mod that moves around a half billion pounds based on commercial preferences of one or even a few parties and mere assertions of who are winners and losers, and by how much.</p> <p>Regardless of the evidence or lack thereof, we note the issues from a long-term efficiency and competitive perspective if parties come to believe that the CUSC is wielded to inflict damage on competitors. This leads to a distrust of regulatory stability and structure and sends a message to investors that this is an untrustworthy and risky market to invest in.</p> <p>The same cannot be said of the impact of pandemic related costs (on competition). This impact is not felt on just one party, industry or country, and no investor would see pandemic related costs as a reason to invest in a different industry or country. However, how the CUSC panel and the regulator decides on this matter will affect the investment climate for years to come.</p> <p>We think the approach already endorsed by Ofgem – to offer targeted payment holidays to needy parties – is the right way to go. WACMs 1 &amp; 6</p>

		<p>(deferring payments) propose a similar approach. We note that BEIS is offering a loan to the LCCC to cover increased CfD costs. All of these types of solutions are the least distortionary as they are unlikely to have wide ranging impacts across industry. Any unexpected consequences will be centred around those parties that take part and will not have significant competitive ramifications on the wider market (except by perhaps keeping businesses afloat that shouldn't but this is always a concern with any measure).</p> <p>WACMs 3 &amp; 4 would also have minimal distortive impacts. The value of the distortion is minimised - kept to the level of nuclear turn down and ODFM – as well as the temporal aspect of the distortion, with the costs deferred to later this charging year over higher demand months which makes sense. We prefer the option (WACM3) that includes transparency of the nuclear deal to bring it in line with the general approach for ancillary services.</p> <p>WACMs 3 &amp; 7 also minimise the size of the distortion and so would be less damaging than the original proposal, WACM5 and WACM8. These last three options represent the worst of the issues raised above.</p> <p>In relation to CUSC objective E, it is clear that there will be significant administrative and IT burden on the ESO. For unproven gains, without assessment of winners and losers, this additional cost is not an efficient use of resources.</p> <p>We are also concerned that the ESO is not in a position to take on additional IT projects with their ongoing backlog – what other projects (with assessed CB analysis and positive NPV) will get pushed down the queue?</p>
2	Do you support the proposed implementation approach?	<p>No.</p> <p>In no situation should the application of the distortion be backwards looking. It is impossible to gauge the effects of retrospectively re-smearing the costs and benefits going forward let alone in the past.</p>

		<p>Further, though outturn BSUoS has risen in the past couple of months, the trend doesn't really appear to be fantastically out of line with trends visible over the previous years, and are in line with expectations long-held by industry parties about the impacts of high wind and solar penetration on a low demand summer. The ESO has penned many documents over the past decade about this emerging issue.</p> <p>The potential for this occurrence has literally been at the centre of policy design for over a decade, underpinning much of the market reform we have seen to reflect the needs of a non-baseload-centric system in terms of ESO product design and market functioning.</p>
3	Do you have any other comments?	<p>This mod is based on the presumption that the extra low demand and the costs of managing this were unforeseen and exceptional. Obviously Covid is an unusual circumstance. But, while true that some parties may not have been adapting their business and risk management approaches to the evolving system, other companies have. Some companies (flexible generators and Demand Side Response) are designed specifically to address the evolving system and to meet unusual circumstances.</p> <p>These new and dynamic parties rely on price volatility and they rely on the regulator and policy makers to allow volatility. Aligned with the long-recognised missing-money problem, these parties should not be undermined or punished for being more adept at managing the system they have designed their businesses and technologies around.</p>