

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?	<p>ESB believes that this better facilitates objective A and C of the CUSC objectives.</p> <p>Objective A – The forecasted £500 million is an unprecedented increase in BSUoS charges that has negatively impacted on competition. Some parties were able to incorporate or pass through this increase in BSUoS while others could not, and this leads to a competitive disadvantage. Parties prudently trading forward to manage risk are exposed to unforeseeable increases of a huge magnitude while those who do not have less exposure.</p> <p>The large swings on BSUOS charges that market participants have had to endure as a result of COVID are unacceptable and as they are not stable or forecastable makes it an unhedgeable risk (with an ex-post exposure calculation) which means that generators and suppliers are unacceptably exposed. The Regulator cannot consider this to be proportionate.</p> <p>As has rightly been pointed out in the workgroup report different parties will be seeing impacts differently; some are able to pass through these costs through contractual arrangements, such as cfd, and others such as interconnectors are not liable to pay BSUoS and yet are benefitting from an increase in instructions from the ESO. Clearly there have been significant impacts on competition as a result of these unforeseen BSUoS charges.</p> <p>The original proposal would return the market to baseline and to a level playing field between market participants with financial strength and smaller market participants who are unable to react or absorb these unforeseen costs.</p> <p>In addition, ESB is concerned that without this modification, it is possible that these unexpected costs will compound an already struggling business model for market participants and potentially lead to closures or mergers, reducing competition.</p> <p>Objective C – In ESB's view, the original modification is a reasonably practicable solution that would properly take into account the unexpected development that is the collection of extra BSUoS costs from suppliers and</p>
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		generators, which the ESO will have to do in its role as a Tx licensee.
2	Do you support the proposed implementation approach for CMP345?	Yes. ESB believes that the proposed solution is a simple one that allows market participants to recover these unexpected costs, while limiting the impact on the administration of the CUSC, and ESO resources.
3	Do you have any other comments?	Transparency of the Covid costs in a timely manner would be useful for the industry to see. For example, a weekly round up of what the costs are each week would be useful.
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.	<p>ESB believes that it is necessary to set boundaries of what constitutes a Covid related cost and what doesn't.</p> <p>We accept that it is difficult to tease out which balancing actions were as a result of Covid, and which were as a result of other factors that may have contributed to the need for more balancing actions. However for the purpose of this modification, there has to be some measure which the ESO can use to highlight costs that are to be flagged and taken out of the BSUoS charges for this year.</p> <p>Ultimately, the point of this modification is to provide market participants the opportunity to recover costs that were unprecedented and unforeseen and that they would otherwise have to absorb. So regardless of what caused individual actions, if this mod is able to reasonably and practically flag actions that are causing these unprecedented costs (without going over the cap) then it is achieving its purpose.</p> <p>Given that this modification has to be implemented quickly and is having a significant impact now, ESB does not believe that it is necessary to analyse to the nth degree what might be a Covid cost, and believes that SSE has set out a reasonable set of boundaries that will capture those extra ordinary costs.</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>For the purpose of this modification we believe that SSE has set out a reasonable approach as to what constitutes a Covid related cost.</p> <p>We believe that there are system services which were specifically created to deal with the unprecedented low demand, and contracts struck which are known costs</p>

		<p>and easy enough to separate. We accept that actions taken by the control room are more difficult to classify, but setting a boundary is necessary for this modification.</p> <p>SSE has used the ESO's own analysis of how Covid is creating unprecedented challenges to balancing the system, in order to determine what system actions are COVID related.</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>ESB supports option two that is to defer BSUoS charges relating to Covid to charging year 2021/22.</p> <p>While we understand that the ESO would prefer within year deferral, this will not be helpful to the majority of parties who have sought to prudently contract forward. The defect is that suppliers and generators have been unable to incorporate these unexpectedly high BSUoS charges into forward contracts and will be absorbing a significant additional cost burden. They cannot put the extra BSUoS costs into future contracts with customers, as they would then be pricing themselves out of the market. Deferring within year only helps with cash flow timing, and does not solve the problem its self.</p> <p>We do not believe that these costs should be pushed out to 2022/23 or across 2021/22 and 2022/23 charging years as we understand that the BSUoS taskforce will reconvene and will make recommendations that will change BSUoS within this timeframe. In order to ensure that this modification does not interfere with the work of the BSUoS task force or any of the future modification resulting from the task force, it should only defer charges into 2021/22 charging year to prevent cross over into 2022/23.</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>ESB believes that to implement a solution whereby you targeted the deferred Covid costs to the equivalent Settlement Periods in 2020/21 in which Covid costs arose would be overly complex. This would mean lead to a negative impact on the administration of the CUSC and therefore we support smearing over all HH period across the whole charging year.</p> <p>In addition, as was rightly flagged in the report, this would leave open the opportunity for gaming or avoiding certain settlement periods in order to avoid the costs.</p>

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.	<p>ESB believes that you do have to codify this capped figure. The ESO should have reassurance that they will not have to finance more than the £500 million at most. Having a cap will allow the ESO to negotiate a cheaper rate for finance than having no cap at all.</p> <p>Codifying a capped figure would also ensure that the £500 million figure would be properly built into the methodology for next year providing certainty and transparency for market participants.</p> <p>It is unreasonable to ask the ESO to finance more than the £500 million that they have forecast at most to be over spending on BSUoS charges.</p>
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?	<p>This seems like a reasonable date and we believe that having a list of Covid costs will mean that we aren't adding costs into the deferred pot unnecessarily. For example, if demand stops dipping below 18GWs before the 31st August because we have started to come out lockdown, then the pot of deferred BSUoS costs will not grow.</p> <p>While the cap is likely more relevant to the ESO, having a long stop date for this specific mechanism will also provide security.</p>
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>It is not the mandate of this working group to fundamentally change the charging methodology. The solution should be simple and easy to implement and should not interfere with the work of the BSUoS Task Force.</p> <p>This modification is a separate issue to the BSUoS Task force as it is a one off and should be as simple as possible.</p>
12	Do you agree with the financing options set out above? Is there another way? Please provide rationale to support your response.	<p>Yes we do. It is fair to pass on the financing costs because the ESO is having to take on financing risk on behalf of industry.</p> <p>ESB understands that the ESO is best placed to carry out the financing as they will likely be able to do this as a cheaper rate than individual market participants. This is cheaper overall for the consumer.</p>
13	Do you agree with the impacts we have set out in this Workgroup Consultation? Have	As has rightly been pointed out in the workgroup report different parties will be seeing impacts differently; some are able to pass through these costs in contractual

	<p>we missed any impacted parties? Please provide details to support your response.</p>	<p>arrangements such as cfd's whereas others such as interconnectors are not liable to pay for these costs and yet are benefitting from an increase in instructions from the ESO. The regulator should consider the material advantages and disadvantages that some parties have experienced as a result of these unforeseen circumstances.</p> <p>Given the basis of tariff design and the current extreme events, against which we are trying to manage financial fall out, there must be equal consideration of all parties affected by changes in BSUoS charges.</p>
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