

**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).

Respondent details	Please enter your details
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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	<p>Do you believe that the CMP345 Original solution, WACM1, WACM2, WACM3, WACM4, WACM5, WACM6, WACM7 or WACM8 better facilitates the Applicable CUSC Objectives?</p> <p>We believe that the options WACM1, WACM3, WACM6, WACM7, and WACM2, would all better facilitate the Applicable CUSC Objectives than CMP345. However, we do not endorse any one particular option.</p> <p>We do not believe that the CMP345 Original solution better ‘facilitates effective competition in the generation and supply of electricity’ and ‘facilitates effective competition in the sale, distribution and purchase of electricity’ because:</p> <ol style="list-style-type: none"> <li>1. If the liquidity of energy suppliers is in question due to COVID, this is primarily 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.</li> <li>2. 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).</li> <li>3. 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</li> </ol>

		<p>forward and this would penalise the kind of innovators and risk-takers who have been encouraged to develop projects to date.</p> <ol style="list-style-type: none"><li>4. 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.</li><li>5. 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.</li><li>6. 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. In addition, the Government has decided, following the consultation on deferral of CfD supplier obligation levies, to offer an even more generous package to those liable for CfD supplier obligation levies, than was originally proposed. Suppliers with healthy business models are unlikely to be threatened with insolvency due to high BSUoS costs alone.</li><li>7. 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.</li><li>8. If large generators have hedged input costs (which are usually much lower in summer</li></ol>
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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.

9. Deferral of the BSUoS costs into next summer would likely increase the costs of electricity tariffs for consumers during 2021. This would unfairly impact commercial consumers, by partly shifting the costs from domestic to commercial consumers. In the context of the current crisis within the retail and hospitality sectors especially, the financial impact on these businesses needs to be considered. This concern is another reason why the wider economic implications of a major policy change such as the Original should be properly considered and consulted on at the level of BEIS.

We also do not believe that the CMP345 Original solution would promote 'efficiency in the implementation and administration of the CUSC arrangements', given that:

1. The Original solution would require the NG ESO to raise additional financing this year to pay for CMP345. The ESO sets out ESO investor concerns, including a requirement from the ESO that the total finance must be below £300 million and be recovered within year, to minimise VAT and accounting concerns.
2. The ESO has outlined that any option taking the costs beyond the current Charging Year would significantly increase the complexity and administrative burden of these BSUoS costs, at a time when the ESO's resources are already very stretched due to wider pressures resulting from the pandemic.

We believe that the options WACM1, WACM3, WACM6, WACM7, and WACM2, would all better

		<p>facilitate the Applicable CUSC Objectives than CMP345. However, we do not endorse any one particular option.</p> <p>We would not support WACM4 or WACM5, as these would raise many of the same concerns as the Original.</p>
2	Do you support the proposed implementation approach?	<p>No, we do not support the proposed implementation approach. In particular, we think that:</p> <ol style="list-style-type: none"> <li>1. The backdating of the proposals to 1 May would create a market distortion and risks disrupting the financial planning of SME embedded generation. Suppliers, which are relatively large businesses, would be put in a position of having to request that embedded generators, usually small enterprises, repay embedded benefits that had already been paid to them for the month of May.</li> <li>2. We also disagree with the fast speed with which CMP345 has been considered and consulted upon, and argue that a CUSC modification is not an appropriate format for a decision which will have wide-ranging financial implications, requiring a more considered approach.</li> <li>3. 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 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.</li> <li>4. We are also concerned that the interaction of CMP 345 with the work of the second BSUoS taskforce would effectively see any further proposals on CMP333 partially backdated to this financial year, if approved, which would</li> </ol>

		<p>risk undermining investor confidence in small-scale renewables.</p> <p>5. As said above, we are concerned that the impacts of deferring costs on tariffs for commercial consumers has not been fully considered.</p>
3	Do you have any other comments?	We are concerned that this modification sets a precedent for other major policy decisions with significant financial implications across a wide range of parties to be made at the CUSC level with minimal notice and consultation.

		<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"><li>• reduced power prices.</li><li>• reduced investment from the market in renewables.</li><li>• A sharp fall in domestic and workplace solar installations (some embedded generators are engaged in this side of the market as well).</li><li>• Supply chain pressures in the solar industry caused by a drop in international production and delivery problems.</li><li>• 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.</li></ul>
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- 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.

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

		<p>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 well-placed impartial market actors, is that any embedded generators in this position are a tiny minority proportion of embedded generators.</p>
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