Final CUSC Modification Report

CMP345 'Defer the additional Covid BSUoS costs'

Overview: To defer the additional BSUoS costs arising from Covid that are incurred in 2020/21 (between 1 May and 31 August 2020) to the 2021/22 Charging Year.

Modification process & timetable

1. **Proposal form**
   - 19 May 2020
2. **Workgroup Consultation**
   - 1 June 2020 - 3 June 2020
3. **Workgroup Report**
   - 8 June 2020
4. **Code Administrator Consultation**
   - 9 June 2020 - 12 June 2020 (3pm)
5. **Draft Final CUSC Modification Report**
   - 12 June 2020
6. **Final CUSC Modification Report**
   - 15 June 2020
7. **Implementation for Original Solution**
   - 23 June 2020 (Backdated to be effective from 1 May 2020)

Have 5 minutes? Read our Executive summary

Have 20 minutes? Read the full Final Modification Report

Have 30 minutes? Read the full Final Modification Report and annexes

Status summary: Final CUSC Modification Report. This Report has been submitted to the Authority for them to decide whether this change should happen.

Panel Recommendation: The CUSC Panel recommended by majority that none of the proposed solutions better facilitated the CUSC Objectives than the Baseline.

This modification is expected to have a: high impact on	Suppliers, Generators, Consumers, National Grid ESO
Governance route	This modification has been assessed by a Workgroup and Ofgem will make the decision on whether it should be implemented. On the 22 May 2020, the Authority approved that CMP345 should be progressed as Urgent.

Who can I talk to about the change?

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Executive Summary

The low demand (driven by Covid[1] isolation measures) increases the balancing actions that ESO has to take to manage the system. These actions cost money, and the costs are recovered through BSUoS charges. The ESO's current published forecast shows a potential £500m increase in BSUoS costs for this summer compared to the ESO's forecast published in February 2020.

CMP345 seeks to defer the additional BSUoS costs arising from Covid that are incurred in 2020/21 (over the period 1 May 2020 to 31 August 2020) to the 2021/22 Charging Year.

What is the issue?

On Friday 15 May 2020 the ESO published a revised BSUoS forecast for the rest of the 2020/21 year, taking account of the additional costs it expects to incur as a consequence of the Covid situation. This equates to a ~£500m increase in BSUoS costs for this summer compared to the ESO's forecast published in February 2020.

The Proposer believes that this unprecedented and unexpected change will have significant commercial impacts on generators and suppliers and will adversely impact competition in the generation and supply of electricity.

What is the solution and when will it come into effect?

Proposers solution:

Defer the additional BSUoS costs arising from Covid (~£500m) that are incurred in 2020/21 to 2021/22	**Smear these costs across all BSUOS Payers over the whole 2021/22 charging year**	**Hard code a cap of £500m into CUSC**	**Covers Covid related BSUoS costs incurred from 1 May 2020 to 31 August 2020**	**Implementation Date 23 June 2020 / Backdate Effective Date to 1 May 2020**

Implementation date for Original:

The proposed implementation date is 23 June 2020.

The Proposer has requested that implementation is backdated (retrospective from an Ofgem decision date) such that it covers the Covid costs from 1 May 2020 to the 23 June 2020 (and beyond to 31 August 2020).

The ESO noted that if the modification is approved by Ofgem by 23 June 2020, this can be backdated to cover the Covid costs that applied from 1 June 2020.

However, a separate credit note reconciliation process would be needed for Covid costs from 1 May 2020 to 31 May 2020. An offline calculation would be required for the period 1 May 2020 to 31 May 2020.

[1] The term 'Covid' is used in this report in respect of the Covid / Covid-19 / SARS-Covid-2 / Coronavirus pandemic of 2020.

Potential other solutions:

Other solutions:

WACM1 – **Extended Payment Terms (6 months) -** Defer the Covid costs within the 2020/21 Charging Year by allowing an option for a Payment Holiday for up to 6 months for any identified Covid costs.

Implementation Date: 1 June 2020. No end date for support.

WACM2 – Apply a £15/MWh BSUoS price cap - Apply a cap of £15/MWh to the BSUoS price in each settlement period from the implementation date to the end of August 2020. Any under recovery of revenue from the application of the cap will be recovered through BSUoS charges equally across all settlement periods in the 2021/22 Charging Year.

Implementation Date: 2 working days after Ofgem decision. Support to be from Implementation Date and to end on 31 August 2020.

WACM3 - Deferral of costs on Optional Downward Flexibility Management (ODFM) and nuclear Contract(s) to October 2020 – January 2021/February 2021 with daily reporting - To remove the costs of the nuclear contract(s) and ODFM actions from BSUoS from implementation of the modification and to the rebill the money from October 2020 to January 2021/February 2021 as a fixed £/MWh charge. The ESO would report daily on these costs.

Implementation Date: 2 working days after Ofgem decision. Support to be from Implementation Date and to end on 31 August 2020.

WACM4 - Deferral of costs on ODFM and nuclear Contract(s) to October 2020 – January 2021/February 2021 with weekly reporting - To remove the costs of the nuclear contract(s) and ODFM actions from BSUoS from implementation of the modification and to the rebill the money from October 2020 to January 2021/February 2021 as a fixed £/MWh charge. The ESO would report weekly on these costs.

Implementation Date: 2 working days after Ofgem decision. Support to be from Implementation Date and to end on 31 August 2020.

WACM5 - Cost Deferral of £250m to 2022/23. To change the amount of support being offered to an absolute £250m and delay recovery of the Covid related costs to 2022/23.

Implementation Date: 1 June 2020. Support to cover the period 1 June 2020 to 30 September 2020.

WACM6 – **Extended Payment Terms (5 months) for 30% BSUoS Charges -** Offer extended payment terms for users who opt in from 3 days to 150 days (5 months) for 30% of their BSUoS charges (with the remaining 70% costs paid as usual) in the period between June 2020 and September 2020. There would be an absolute cumulative cap on support at £300m.

Implementation Date: 3 working days after an application. Support to cover the period 1 June 2020 to 30 September 2020.

WACM7 – Within Year Cost Deferral of £250m - Defer a set £62.5m a month of BSUoS costs, as a proxy for Covid related costs, from 1 June 2020 to 30 September 2020 to offer an overall level of support of an absolute £250m. Then recoup those costs from October 2020 – January 2021 spread over all settlement periods.

Implementation Date: 2 working days after Ofgem decision. Support to cover the period 1 June 2020 to 30 September 2020.

WACM8 – Cost Deferral of up to £500m to 2022/23 – As Original but defer the recovery to 2022/23 Charging Year rather than 2021/22 Charging Year.

Implementation Date: 1 May 2020. Support to cover the period 1 May 2020 to 31 August 2020 (unless agreed to be extended by Ofgem).

Workgroup conclusions: The Workgroup concluded by majority that none of the proposed solutions better facilitated the CUSC Objectives than the Baseline. 7 Workgroup Members voted for the Baseline, 4 Workgroup Members voted for the Original, 3 Workgroup Members voted for WACM5, 2 Workgroup Member voted for WACM2 and 1 Workgroup Member voted for WACM6.

Panel Recommendation: The CUSC Panel recommended by majority that none of the proposed solutions better facilitated the CUSC Objectives than the Baseline.

What is the impact if this change is made?

This modification will impact Consumers, Generators, Suppliers and National Grid ESO.

Interactions

This proposal will impact the CUSC (Section 14 'Charging Methodologies') and in particular the processes of calculating and billing BSUoS.

There is not expected to be any other associated industry changes required.

This proposal does not have any impact on any ongoing Significant Code Review or other significant industry change as it involves either the deferral of a (£) quantum of cost or extended payment terms.

Introduction

This document is the CMP345 Final Modification Report**.** This document outlines;

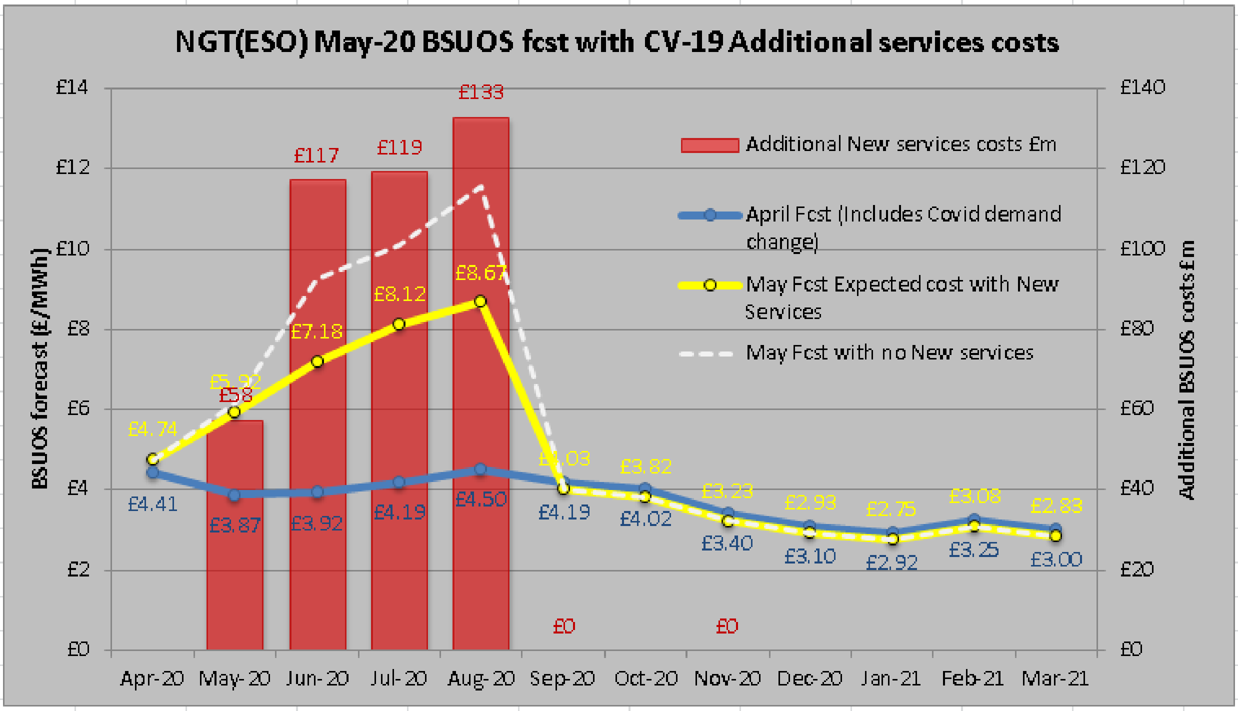
- **What is the issue?**
- **What is the solution?**
    - Proposer's solution
    - Workgroup considerations
    - Workgroup Consultation summary
    - Alternative solutions
    - Legal text
- **What is the impact of this change?**
    - Workgroup Vote
    - Code Administrator Consultation summary
    - Panel Recommendation Vote
- **When will the change taken place?**
- **Acronym table and reference material**
- **Annexes**

What is the issue?

What is the issue?

On 15 May 2020, the ESO published its revised BSUoS forecast for the rest of the 2020/21 year, taking account of the additional costs associated it expects to incur as a consequence of the Covid situation reducing demand.

The ESO's published information, shown graphically, is as follows:



To put this into context, the February 2020 ESO forecast for BSUoS in 2020/21 was ~£1,478 million. As of 15 May 2020, the ESO is now forecasting BSUoS in 2020/21 as ~ £2,000 million.

This 25%+ increase is to be applied

- From 1 May 2020 – 31 August 2020 rather than the whole year; and
- Over a smaller charging base, with demand in GB reduced by up to 20%[2] due to Covid lockdown / demand suppression.

The combined impact is that BSUoS costs are forecast to increase by around ~90% on average from June- August.

Why is it an issue?

According to the ESO's most recently issued BSUoS forecast of 15 May 2020, the unit BSUoS costs, over the period to end August 2020, are expected to substantially grow. The Proposer believes that this unexpected change will have significant commercial impact on generators and suppliers and will adversely impact competition in the generation and supply of electricity.

[2] See the ESO's weekly Covid webinar presentations, from late March onwards, for further information on the effects of Covid on electricity demand in GB. These can be found at: https://data.nationalgrideso.com/plans-reports-analysis/covid-19-preparedness-materials

Specifically:

- **Generators**
  - Will be unable to pass on most of the additional Covid related costs, incurred from 1 May – 31 August 2020 in their market prices given that most sales for May to August generation have already been made; and
  - Would also have to put in place additional BSUOS security for these Covid related contracts.
- **Suppliers**
  - Will be unable to fully recover the Covid related costs via retail tariffs given fixed price contracting and price caps. However, some Workgroup members noted that Suppliers could address the inadequacy of the price cap allowance through asking Ofgem as to whether or not they could levy a surcharge; and
  - Would also have to put in place additional BSUOS security for these Covid related BSUoS costs, as the value at risk month-ahead BSUoS forecast used to determine their security requirement will pick up the higher prevailing BSUoS costs under the baseline CUSC, without this modification.

However, some Workgroup members noted that not all parties would be impacted unfavourably: e.g.

- Parties in the Balancing Mechanism who can forecast BSUoS costs and price them into their offers;
- Embedded generators for whom BSUoS is an embedded benefit;
- Parties who trade in the daily power market rather than the forward power market. The Proposer noted that few parties (if any) trade 100% within day and not in the forward power market;
- Parties who have Contracts for Difference arrangements in place as they will be topped up to their Strike Price, particularly if they have traded forward and achieved higher power prices than the reference price. However, the Proposer noted that the end customer would bear the cost in this case; and
- Any other generators that have sold forward and locked in a spread (profit) who can buy back those positions at the lower current lower spread, and then either sell day ahead, or in the Balancing Mechanism, including BSUoS costs in their prices.

What is the solution?

Proposer's solution:

Defer the additional BSUoS costs arising from Covid (~£500m) that are incurred in 2020/21 to 2021/22	**Smear these costs across all BSUOS Payers over the whole 2021/22 charging year**	**Hard code a cap of £500m into CUSC**	**Covers Covid related BSUoS costs incurred from 1 May 2020 to 31 August 2020**	**Implementation Date 23 June 2020 / Backdate Effective Date to 1 May 2020**

Workgroup Considerations

Prior to Workgroup Consultation

The Workgroup convened seven times[3] prior to issue of the Workgroup Consultation to discuss the perceived issue, detail the scope of the proposed defect, devise potential solutions and assess the proposal in terms of the Applicable CUSC Objectives.

Scope

Charging for Covid costs

The Proposer believes that the costs for Covid in 2020/21 should be accrued in a 'Covid Account', to be recovered from Users through BSUoS charges applied in 2021/22. The total Covid Account shall be recovered across the total number of settlement periods in the 2021/22 financial year. The costs in each settlement period shall be paid by delivering Generation and Demand in each settlement period (£/MWh).

What do Covid costs comprise of

The Workgroup discussed which parts of BSUoS charge should / could be deferred and an appropriate level of BSUoS that can be deferred and sought to establish what constituted Covid costs. The Workgroup noted that ESO has, in addition to existing products and the Balancing Mechanism where most action is taken, introduced new products and services to manage sustained periods of low demand. The Workgroup agreed that any BSUoS costs associated with the fixed contract with EDF to reduce output as opposed to daily payments to reduce output in the Balancing Mechanism, Optional Downward Flexibility Management (ODFM)[4] along with other items would be Covid costs.

The difficult question to address was how to differentiate on a real time basis between those Balancing actions taken by the ESO where the low transmission demand is due to Covid and those taken due to other circumstances, such as fine weather. The majority of the Workgroup agreed that it would be difficult for ESO to be able to say with confidence whether any individual action was Covid related or not; that would place an additional administrative burden on ESO for something that would be almost impossible to audit.

The Proposer set out what he believes would constitute Covid costs. The Proposer also noted that the ESO's latest published BSUoS forecast identifies low demand levels as less than 18 GW. The Proposer has therefore put forward that balancing actions associated with reduced demand from 18GW to a number below 18GW would be considered as Covid Balancing Actions.

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[3] 26 May, 28 May (AM) 28 May (PM),29 May (late PM),4 June, 5 June and 8 June.

[4] The ESO stated that ODFM will be including in BSUoS charges. This is based on the ESO's view that Balancing Services contracts costs are defined as costs incurred for ancillary services as per section 14.31.8 Balancing Services Use of System Acronym Definitions. The ESO have Ancillary Services Agreements in place for ODFM. It was noted in the Workgroup by some members that ODFM had not yet been subject to a completed public consultation or Ofgem approval and therefore some Workgroup members were unclear on whether ODFM costs incurred up to this point could be included within BSUoS to date.

The Modification's identified **Covid Costs** shall comprise:

I) Costs associated with the Optional Downward Flexibility Management (ODFM) service;
II) Costs associated with contracts with nuclear power stations which are related to forecast demand of less than 18GW;
III) Costs associated with footroom, inertia and voltage needs which are related to forecast demand of less than 18GW; comprising the net costs in the Balancing Mechanism of (a) offers to change dispatch BMUs at power stations or interconnectors and (b) bids to change dispatch BMUs of at power stations, demand or interconnectors;
IV) Costs associated with the utilisation of Super System Export Limit (SEL) Contracts for demand below 18GW;
V) Costs associated with any relevant Schedule 7A contracts to manage demand when demand is less than 18GW;
VI) If relevant, any compensation arising from GC0143 emergency instructions to embedded generation; and
VII) Financing costs associated with the management of the Covid Account.

The Workgroup also noted that:

- The Financing costs (vii) would be an addition to the Covid costs – more commentary on this is set out in the Impacts section of this report; and
- Not all alternative solutions put forward require the identification of Covid costs, which some Workgroup members believed would be the only way that support could be implemented.

Original Proposal

The Workgroup discussed each aspect of the Original proposal. The discussion is set out below and following this, a number of alternative solutions are proposed.

Defer the additional BSUoS costs arising from Covid (£500m) that are incurred in 2020/21 to 2021/22

The Proposer suggested that the ESO shall accrue in a separate account the Covid Balancing Services Costs up to a cap of £500M. The accrual will take place from 1 May 2020 until 31 August 2020, or such later date determined by the ESO following a consultation and agreement with the Authority – such date would not be later than 31 March 2021.

The Proposer argued that the expected cost of BSUoS could be neither forecasted or expected by market participants (Suppliers and Generators) or indeed the ESO itself. Some of the Workgroup agreed and a Workgroup member added that the power market didn't take into account the £4/MWh increase in BSUoS costs. One Workgroup member evidenced this by reference to an ESO comment on BSUoS at an ESO Covid seminar on 25 March 2020 *that "at the moment we don't have a clear answer on what's going to happen with BSUoS".* However, there was challenge from some Workgroup Members as to whether costs later in the year were unforeseen given that Covid has been prevalent and increasing since March 2020 and that market participants already account for risk and volatility in BSUoS.

It was noted that there was also precedent for the deferral of unexpected BSUoS costs in the deferral of ~£64m in 2016/17 when Black Start costs saw a dramatic and unexpected rise although this was before the ESO separated from NGET.

The ESO therefore was not supportive that consumers should see increased costs of the ESO financing the full potential up to £500m of Covid costs, and that there should be a split of this risk between the consumers and market participants.

Some Workgroup members were concerned with the distributional impacts of deferring some BSUoS costs to 2021-22. This is because, assuming the economy recovers, there would be a shift in cost recovery from domestic to Industrial & Commercial (I&C). Some Workgroup members did not believe such a shift was appropriate as some I&C customers would not have been running during the Covid event. However, one Workgroup member observed it was the low level of I&C demand that was the cause of the abnormally low system demand being seen and it was in line with TCR SCR principles that these users should contribute towards these costs of maintaining a stable system available to them whilst they were not taking power from it. Alternative solutions were tabled to seek to address the distributional impacts by ensuring that the cost recovery is carried out later in the 2020-21 Charging Year (and not deferred, for example, to 2021/22) or to offer extended payment terms rather than redistributing costs.

It was also noted that there was no certainty that the demand situation next year would be different, for example were there to be further waves of Covid infections. Moving the additional costs into the following year may therefore add to a problem next year, though this could be mitigated by the way the funds are recouped.

Conversely, some Suppliers on the Workgroup argued that delaying the Covid related costs to 2021/22 Charging Year would mitigate their losses associated with the additional BSUoS costs but not eliminate these. Therefore, a Workgroup member from the Supplier community argued that the deferral should be delayed to the 2022/2023 Charging Year rather than 2021/2022 Charging Year to provide additional mitigation by allowing time to adjust prices to customers.

It was argued by some that Consumers would see increased costs from deferring charges to the 2021/22 Charging Year. However, other Workgroup Members argued that supporting market participants and minimising the risk of supplier failures would help consumers.

The ESO noted that due to the financial impacts noted in the "Summary of Financial Impacts on ESO" section, that they would not be able to provide finance outside of the current financial year.

<u>Smear these costs across all BSUOS Payers over the whole 2021/2022 charging year</u>

The Proposer argued that it is reasonable to socialise these Covid costs only across a wider group of Users. Furthermore, he noted that applying the Covid costs equally across the whole of 2021/22 would mean a cost of ~ £29K[5] for each settlement period in the year and:

- Reflect the wider societal nature of the unprecedented Covid event that the ~ £500M costs relates to; and

[5] Assuming that the Covid costs are up to the £500M cap – they may out turn lower that this, leading to a lower £/ settlement period cost.

- Remove the risk of avoidance / gaming.

The Proposer said it has been suggested that the deferred Covid costs should be targeted to the equivalent Settlement Periods in 2021/22. The Proposer believed that this increases the cost for each settlement period to ~ £250K [6]rather than ~ £29K (if applied equally over the whole year) opens up the possibility of avoidance / gaming and another Workgroup member added that this does not address the distributional impacts of moving the costs to later Charging Years. There was also a concern that there was a risk that the payback could lead to settlement periods with negative BSUoS depending on how BSUoS out-turned over the recovery period.

Some Workgroup members believed that smearing costs over all BSUoS liable users in the 2021/22 Charging Year would not be fair, particularly if there were new market participants who were liable for charges when they were not in operation the previous year. Also, were Ofgem to accept CMP333, then embedded generators would not get a deferred benefit, but instead lose income compared to a within year reapportionment of cost.

Hard code a cap of £500m into CUSC

The Proposer is suggesting that the deferred amount for the '*Covid Additional System Management Costs*' should be capped at £500M. This is based on the forecast costs provided by the ESO in their BSUoS forecast of 15 May 2020.

The £500m consists of:

- £427M for the additional new service costs and actions in the Balancing Mechanism (the latter being where the majority of costs are expected) - £58M in May, £117M in June £119M in July and £133M in August) as identified by the ESO; and
- £73m which the Proposer attributes to the demand suppression effects in terms of transmission system management costs that are over and above the additional new service costs (£427M).

The Workgroup agreed that the ~£500m was a forecast and some Workgroup Members expressed their concern over hard-coding a number based on a forecast into the CUSC. A member of staff familiar with the ESO's forecast attended the Workgroup to explain the variables in the forecast that were most likely to change the outcome, which were weather and demand. Some of the proposed alternative solutions contemplate a number lower than £500m and some suggested it would be simpler to clearly set out criteria/process instead and avoid a further Modification to change the £500m number in CUSC especially given the uncertainty around current BSUoS forecasts.

The ESO noted that in order for it to agree financing as a result of this modification, there would need to be a clear cap to the level of support it was providing.

[6] Proposer View: Based on recovering £500M over less than 2,000 settlement periods (ESO say need is for less than 35% of the four months – weekends & overnights mainly). Equates to an average £250k per settlement period, some much higher than that.

Covers Covid related BSUoS costs incurred from 1 May 2020 to 31 August 2020

The Proposer noted that this solution only covers costs to 31 August 2020 and added that post 1 September 2020, such costs could not be foreseen at this time. The Proposer added that if parties consider that 31 August 2020 is too soon, they could bring forward alternatives to extend this date out or raise a separate Modification.

There are a number of proposed alternative solutions which seek not to include a "Sunset Clause" or extend out the application of some form of relief beyond 31 August 2020, notably on the alternative options where parties are given more time to pay their BSUoS changes.

Implementation Date 23 June 2020 / Backdate Effective Date to 1 May 2020

The Proposer has suggested that retrospectivity should be applied. Whilst this is ultimately an Ofgem decision, some Workgroup members expressed some concerns with such treatment as parties trading in May since the ESO's forecast will have included the higher BSUoS costs. It was noted that those trading prompt products would have foreseen and factored in BSUoS costs, so to repay them BSUoS may create windfall profits. Embedded generators have also been paid their embedded benefits and suppliers would have to seek to reclaim these, which may not be possible.

The ESO clarified that Ofgem's decision would be needed by 23 June 2020 (22 June 2020 is decision date as per current agreed timeline) to allow backdating to 1 June 2020. This is because the SF run for June's BSUoS charges[7] is on 24 June 2020. The ESO noted that the Interim Initial (II) run[8] would be sent to BSUoS parties on 9 June 2020, but this wouldn't include the removal of the additional Covid costs as CMP345 would still be under consideration.

The ESO added that that this would only cover Covid costs from 1 June 2020. A separate credit note reconciliation process would be needed for Covid costs from 1 May 2020 to 31 May 2020. The Workgroup suggested a credit note reconciliation process would be the simplest way of achieving this. However other Workgroup Members were concerned about the potential windfall benefit of such a reimbursement and the ESO was uncomfortable about the complexity of this process.

The ESO argued that this would likely need to be an offline calculation - this inherently means that it would be a time-consuming and a potentially error-prone process for the ESO in short timescales where resource is already under increased pressure due to Covid impacts.

The ESO was also concerned about the benefits of doing this as, to date, all BSUoS liable users have continued to meet their payment obligations through the Covid period, and therefore the requirement for backward looking financial support is not clear. Some Workgroup Members stated their understanding was that the intention in the Original proposal was to facilitate the recovery of the additional BSUoS costs, rather than to facilitate BSUoS payment obligations.

[7] This the 1st stage of Final Settlement of a party's BSUoS charges

[8] BSUoS is not invoiced against the Interim Initial (II) run

Potential options discussed prior to Workgroup Consultation

The Workgroup discussed a number of potential alternative solutions for CMP345, these were:

Within Year Cost Deferral of £250m

What: Defer £62.5m a month of BSUoS costs, as a proxy for Covid related costs from 1 June 2020 to 30 September 2020 to offer an overall level of support of £250m.

How: There will be a fixed variation on the Original where £62.5m of BSUoS costs will be deferred per month, between June and September 2020. This would be done on an equal basis per settlement day. The overall support from the ESO will therefore be £250m. These deferred costs will be charged back to BSUoS users by allocating the £250m, plus the costs of the ESO providing this support, equally across all settlement periods from October 2020 to January 2021. The ESO would require written assurance from Ofgem that any bad debt and net scheme costs can be recovered through suitable regulatory mechanisms in 2021/22.

There would be no requirement to provide additional security on the Covid related costs recovered through higher charges between October 2020 and January 2021. The ESO believes that the cash flow benefits of deferring charges for four months would be significantly reduced where users would be required to provide short term additional security cover as cash.

Impacts:

The ESO believes that this option is better than the Original as:

- BSUoS liable parties will be very clear on the amount of support being provided per settlement period and will be able to account for this;
- This option would be easier to implement than the original as specific Covid actions would not need to be identified (which would not be possible in all instances, especially Balancing Mechanism actions) and the ESO would not need a manual process to back date to May; and
- This option allows fairer sharing of Covid costs between the consumer and industry.

The ESO is of the view that this option is more beneficial to consumers than the original as:

- It is simple and more cost efficient. There wouldn't be a significant cost associated with a new, manual process to calculate the Covid costs due to the simple value being removed from all settlement periods between June and September. This is counter to the complexity of the Original proposal;
- It would pass through less costs to consumers due to the repayment of deferred costs being within the same financial year, therefore, the period of interest being accrued is less and the value of support is lower than the Original; and
- Costs already billed and accounted for in May would not be changed, which may have caused some distortions as parties did not know of the support available.

Some Workgroup Members raised concerns on the £250m cap proposed as they would not be able to recover their Covid related excess costs which was at the core of the defect identified in the Original. The Proposer noted that it would not fully address the cost recovery aspects of the Original, which, in their opinion, was a core element of the defect.

Cost Deferral to 2022/2023

What: As per the Original, but defer the additional BSUoS costs arising from Covid (~£500m) that are incurred in 2020/21 to 2022/23 or defer half the Covid costs (~£250M) to the 2021/22 Charging Year and the other half to the 2022/23 Charging Year.

How: As per Original – just amend the Charging Year(s) referred to.

Impacts: Greater support for Suppliers and further mitigates the risk of not being able to recover the Covid related costs via retail tariffs given fixed price contracting and price caps. However, this does not address the distributional effects caused by not recovering in the 2020/2021 Charging Year and it would come at an increased cost to the consumer due to interest being incurred over a longer period.

The ESO noted that due to the financial impacts noted in the "Summary of Financial Impacts on ESO" section, that it would not be able to provide finance outside of the current financial year.

Concerns were expressed that no one knows what the future may bring and deferring these costs may add to increased costs that occur from now up to and within those future periods, making future consumers pay yet more.

The credit requirements this year would be lower as bills would reduce. However, in the years where the money is recouped, credit would increase as liabilities would be higher. There would be no change to the existing credit requirements set out in the CUSC.

Target Covid costs to specific Settlement Periods

What: As per the Original but target the deferred Covid costs to the equivalent Settlement Periods in 2021/2022.

How: As per Original but with the costs applied to the corresponding Settlement Periods in 2021/2022.

Impacts: Doing this would target similar users / usage of the system as this year so may be a fairer allocation of costs. The Proposer believed that this increases the cost for each settlement period to ~ £250K[9] rather than ~ £29K (if applying the ~£500M equally over the whole year) opens up the possibility of avoidance / gaming and another Workgroup member added that this does not address the distributional impacts of moving the costs to later Charging years. Some Workgroup Members noted that this would come at an increased cost to the consumer due to interest being incurred over the summer months when BSUoS is generally higher, so may create a similar problem next year.

The ESO noted that due to the financial impacts noted in the "Summary of Financial Impacts on ESO" section, that they would not be able to provide finance outside of the current financial year.

[9] Proposer View: Based on recovering £500M over less than 2,000 settlement periods (ESO say need is for less than 35% of the four months – weekends & overnights mainly). Equates to an average £250k per settlement period, some much higher than that

Extended Payment Terms (5 months) for 30% BSUoS Charges

What: Offer 5 months / 150 days of extended payment terms for “Covid BSUoS”.

How: This is proposing to extend payment terms for users who opt in from 3 days to 150 days (5 months) for “Covid BSUoS” charges in the period between 1 June 2020 and 30 September 2020. “Covid BSUoS” would be fixed ex ante at 30% of full BSUoS charges for each BSUoS liable user, with an absolute cumulative cap on support from the ESO at £300m. The interest rate for users choosing to opt in will be 8.1% as per 6.6.6 of the CUSC, however the ESO will remain cost neutral, make no profit from this, and will return any excess above the costs of implementing the support to consumers through reducing 2021/22 BSUoS charges. The ESO would require written assurance from Ofgem that any bad debt as well as net scheme costs can be recovered through suitable regulatory mechanisms in 2021/22.

For those users who choose to benefit from extended payment terms, there would be no requirement to place additional security with regard to charges for Covid related costs. The ESO believes that the benefit of easing cash flow for users, because of extending payment terms, would be significantly reduced where users would be required to provide additional security cover as cash.

Impacts: Some believe this is fair as users will have already accounted for some changes through their forecast and risk premia. Other Workgroup Members noted that this would not address the cost recovery aspects identified in the Original.

The use of the extended payment terms offered by the ESO would not adversely impact the security amounts participants would be expected to provide.

The ESO believes that this option provides support to those BSUoS-liable users who need it by giving an additional 5 months to pay 30% of their total BSUoS costs incurred between 1 June and 30 September. The ESO said that fixing the definition of Covid BSUoS *ex ante* makes this option viable to implement, compared to other options which try to identify the costs for specific Covid actions the ESO needs to undertake.

The ESO noted that the use of 8.1% interest rate is aligned with the interest figure already available through the CUSC and would ensure that there isn’t a competitive advantage for users choosing to opt into this scheme for the purpose of utilising the ESO’s access to potentially lower credit than their own, rather than those who are facing difficulty due to Covid.

The ESO said that the level of 8.1% is supported by the range of funding levels within the industry and is in line with Competition and Markets Authority’s published[10] weighted average cost of capital (WACC) rates in 2015. Costs already billed and accounted for in May 2020 would not be changed, which may have caused some distortions as parties did not know of the support available.

The ESO is of the view that this option would be more beneficial to consumers as the administration costs of this option will be lower due to;

1. Lower financing costs as support will be restricted to a single financial year;
2. Easier management of the support as no manipulation of the BSUoS charging methodology is required;
3. The value of support being lower than the Original due to a fairer sharing of risk between ESO and the industry; and

[10] https://assets.publishing.service.gov.uk/media/559fb6ce40f0b61567000049/Appendix_10.4_The_cost_of_capital.pdf

4. The scheme targeting support to those users who need it and cannot obtain financial support at rates lower than 8.1%

The ESO believes that this proposal will provide the required relief to BSUoS liable parties who may be facing cash flow difficulties due to Covid, whilst not providing a distortive benefit to all other BSUoS liable users by reducing their overall liabilities for the costs incurred through 1 June to 30 September 2020.

Some Workgroup members raised concerns on the £300m cap proposed as they would not be able to recover their Covid related excess costs which was at the core of the defect identified in the Original.

A Workgroup member noted there was also an incentive to opt-in in case the cap was hit quickly. Some felt that the interest rate was also penal and should instead be cost reflective.

There was some concern about the level of the interest rate proposed as the repayment of over recovery of financing costs, above the ESO's actual costs, would flow back to a different set of users to those who had paid the initial interest cost.

Extended Payment Terms (6 months)

What: Defer the Covid costs within the 2020/21 Charging Year by allowing an option for a Payment Holiday for up to 6 months for any identified Covid cost.

How: A standard BSUoS tariff is calculated to recover standard costs and a "Covid BSUoS tariff" is calculated to recover the cost of Covid related activities, using the same definition of Covid costs as per the Original. The ESO will issue the invoice in line with current procedure; however, the payment terms for the two tariffs are different. The standard BSUoS amount would be due under the current timescales. The Covid BSUoS amount can either be paid as normal, or after a payment holiday of 6 months, in which case the amount owed will include interest so that would be a decision for the liable party to weigh up. This would be backdated to 1 June 2020.

There would be no requirement to place additional security with regard to charges for Covid related costs.

Impacts: Provides support to those parties who are struggling to meet their BSUoS costs. but would not address the cost recovery aspects identified in the Original.

Baseline charging structure is preserved and there is no shifting of cost recovery between different types of party (i.e. domestic vs some of the I&C customers).

Since the "Covid BSUoS tariff" is calculated on the volumes in the relevant Settlement Period, there is no risk of gaming.

There are also lower impacts on ESO as its financial exposure is reduced if BSUoS parties manage to pay on time and billing system impacts will be less than other options as only 1 invoice needs to be issued. However, there would remain an administrative burden on ESO to identify Covid costs.

The interest should be reflective of the cost to the ESO, to allow the industry as a whole to make economically efficient decisions and reduce end cost to the consumer.

Some Workgroup Members disagreed with this option as they would not be able to recover their Covid related excess costs which, in their opinion, was at the core of the defect identified in the Original. Some Workgroup members were also concerned that there was no end date or cap to this support.

Apply a £15/MWh BSUoS price cap

What: Set a BSUoS price cap of £15/MWh based on historic extreme prices.

How: A BSUoS price cap of £15/MWh in each settlement period based on historic extreme prices. Any BSUoS prices which would ordinarily be set above this with the existing methodology will be capped and the associated under recovery of costs will be deferred to next year. This would move the cost of unpredictably high BSUoS prices to next year.

Impacts: This approach would address extreme high prices, but not necessarily a higher number of instances of less extreme high prices. However, it is seen as a compromise solution whereby the risks, costs and benefits of the proposal are spread out across the industry parties and the ESO.

It should also be more predictable for industry participants going forwards through 2020/21 Charging Year, as the Original solution would make forecasting BSUoS in real-time more complicated as it creates uncertainty over how much cost will be identified and backed out. A cap gives a set figure for industry participants to factor into their BSUoS forecasting and risk management processes. The ESO would need to confirm and report on how much had been deferred on a regular basis so that parties could assess the likely impact on next year's prices. The ESO was concerned over the practicalities of implementing this option due to the need to interrupt the BSUoS data processing, manipulating the data (in accordance with the approach) and then reinserting this manipulated data back into the process. The proposer of WACM2 understands this concern and has suggested that this would not be necessary. Instead, the ESO could run the BSUoS calculation as normal and separately calculate credits, which would be owed as a result of prices being capped out. This should not be a complicated process and the credit notes could be issued monthly to parties to reduce the effort required from the ESO. In addition, the ESO noted that an absolute cap on financial support from the ESO and recovery within the financial year would be required by the ESO, which this proposal did not provide. The proposer of this solution didn't think a cap would be necessary as the level of deferred payments is likely to be much more modest than under the original proposal.

Some Suppliers had the same concerns about this not giving them time to feed the higher prices into consumer prices.

Daily rolling average calculation for BSUoS

What: Rolling average calculation for BSUoS that fixes BSUoS charges for the day ahead and smooths any actual cost differentials over the remainder of the charging year.

How: Balancing Costs incurred in a charging year should be charged to system users within the same charging year. The proposed solution is to create **DRAB – Daily Rolling Adjusted BSUoS**. The same £/MWh charge would be applied to all MWh in all settlement periods in a day. The charge would be adjusted on a daily basis, taking account of:

1. An updated forecast of total BSUoS costs for the remainder of the charging year;
2. Forecast demand from the transmission system for the remainder of the charging year; and
3. Any over or under recovery of BSUoS charges during the charging year up to that day.

There would be no exceptional credit requirements. Credit for BSUoS charges due would remain as now, with the possible advantage compared with the status quo that credit requirements would be more stable over time reflecting the reduced volatility of BSUoS charges invoiced to market participants

Impacts: BSUoS on a half hourly basis is highly volatile and difficult to predict. The first BSUoS Task Force concluded that it was not practical to charge it cost reflectively and BSUoS should be treated as cost recovery. There are benefits to all market participants of making it less volatile and more predictable as evidenced by Ofgem creating the second BSUoS Task Force. Therefore, some Workgroup members believed that this option would provide:

- Greater certainty for wholesale and supplier pricing;
- Smoothed pass through of unusual events giving rise to exceptional balancing charges;
- Minimised risk to the ESO of carrying unpaid BSUoS costs between years;
- Negligible unpaid BSUoS costs at the end of a charging year;
- Minimal opportunity for short term gaming; and
- Avoidance of a vicious circle where low [overnight] demand leads to high BSUoS charges and leads to a perverse incentive for demand to reduce.

However, some Workgroup members raised concerns that this strayed too far into the areas that the 2nd BSUoS taskforce is looking into and said it alters how BSUoS is calculated. Some also felt it to be complex and ESO thought it may not be implementable in the tight timescales e.g. the changes to ESO Billing Systems. Others felt that this was a sensible improvement that did address the concerns over the current high and volatile BSUoS charges. It was noted that Ofgem had paused the BSUoS Task Force, so this may provide an interim solution on the way to a more permanent resolution of the many BSUoS issues.

Some Workgroup members noted that it would not fully reflect the cost recovery aspects of the Original.

Post Workgroup Consultation

Workgroup Consultation Summary

The Workgroup held their Workgroup Consultation between 1 June 2020 and 3 June 2020 and received 45 responses, with 3 of these being confidential and only to be shared with the Authority and one late response. The full non-confidential responses and a summary of the non-confidential responses can be found in Annexes 6 and 7. The Workgroup met twice times to discuss the responses received and noted the following trends within the industry's responses:

- In General
  - Split in views between whether or not the Original or any of the other potential solutions put forward by the Workgroup should be implemented.
  - Widely recognised that CMP345 creates winners and losers.
- On Deferral
  - Concerns that cost recovery will be from different parties if costs are deferred beyond this 2020/21 charging year e.g. detrimental impact on the efficiency of the wholesale power market by removing certain costs from one period and recovering them on a different basis in another.

    - There was some support for recovery in the winter contract period (01 October 2020 – 31 March 2021).
    - However, the supporters of cost recovery in future Charging Years stressed that this would better allow generators and suppliers to recover their costs.
    - Strong support that, if costs are deferred beyond 2020/21, that these are recovered over a whole year rather than particular Settlement Periods.
- On Extended Payment Options
    - Some feel that Extended payment options are more in line with Ofgem's direction of travel (as expressed in Ofgem's 2nd June 2020 letter[11] on some network charges); however, some feel they don't address the issue of cost recovery identified in the CMP345 defect.
- On Implementation
    - Some concerns over retrospectively applying to 1 May 2020 e.g. those paid embedded benefits have banked these towards future projects.
- On the period of support
    - Mix of views with some arguing that up to 31 August 2020 was sufficient, whilst some supported extending to end September 2020 (to align with the domestic price cap period) or beyond (e.g. November 2020 when UK Government's furlough scheme is currently due to end).
- On Wider Concerns
    - Many respondents suggested that the 2nd BSUoS Taskforce may be a more appropriate forum to debate the issues that CMP345 has identified and urged that this is reinstated as soon as possible.
    - Some respondents noticed there are cumulative impacts of the Covid related reliefs available to industry at this time.

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

Workgroup Alternatives

Following review of the Workgroup Consultation responses, the Workgroup assessed the Original and the potential solutions they had previously identified. Further potential solutions were brought forward by the Workgroup in line with the themes previously identified.

However, on the back of some industry feedback in the Workgroup Consultation, a Workgroup Member put forward a proposal to limit the Covid costs to those associated with the Covid related nuclear contract(s) and the use of ODFM. Recovery of these costs would be within the same charging year from October 2020 – January 2021 on a £/MWh basis. This charge would be added to the usual BSUoS bills over this period. Two variants to this change were proposed – one with daily reporting of these costs and one with weekly reporting of the costs.

In total, 14 alternative solutions were put forward and debated by the Workgroup and these are set out in summary below:

Solution	Summary
Original	Defer up to £500m of Covid BSUOS costs to 2021/22
Alternative 1	Extended Payment Terms (6 months)
Alternative 2a	Daily rolling average calculation for BSUoS - Implemented 2 days after Ofgem decision
Alternative 2b	Daily rolling average calculation for BSUoS - Backdated to 1 May 2020
Alternative 3a	Apply a £15/MWh BSUoS price cap - Implemented 2 days after Ofgem decision
Alternative 3b	Apply a £15/MWh BSUoS price cap - Backdated to 1 May 2020
Alternative 4a	Deferral of costs on Optional Downward Flexibility Management (ODFM) and nuclear Contract(s) to October 2020 – January/February 2021 with daily reporting
Alternative 4b	Deferral of costs on Optional Downward Flexibility Management (ODFM) and nuclear Contract(s) to October 2020 – January/February 2021 with weekly reporting
Alternative 5	Cost Deferral of £250m to 2022/23
Alternative 6	Cost Deferral of £250m to 2021/22 - recovered as a fixed daily amount
Alternative 7	Cost Deferral of £250m equally spread across 2021/22 and 2022/23 Charging Year
Alternative 8	Extended Payment Terms (5 months) for 30% BSUoS Charges
Alternative 9	Within Year Cost Deferral of £250m
Alternative 10	Cost Deferral of £250m to 2021/22 - recovered per MWh
Alternative 11	Cost Deferral of up to £500m to 2022/23

The Workgroup reviewed all of these proposed solutions and identified the key characteristics of each these. This Workgroup review of the proposed alternative solutions can be found in Annex 10 of this report.

Following, this review, 8 Workgroup Alternative CUSC Modifications (WACM) were voted on and taken forward by the Workgroup.

Solution	Summary	Result of Alternative Vote 4 June 2020
Alternative 1	Extended Payment Terms (6 months)	WACM1
Alternative 2a	Daily rolling average calculation for BSUoS - Implemented 2 days after Ofgem decision	Not taken forward
Alternative 2b	Daily rolling average calculation for BSUoS - Backdated to 1 May 2020	Not taken forward
Alternative 3a	Apply a £15/MWh BSUoS price cap - Implemented 2 days after Ofgem decision	WACM2
Alternative 3b	Apply a £15/MWh BSUoS price cap - Backdated to 1 May 2020	Not taken forward
Alternative 4a	Deferral of costs on Optional Downward Flexibility Management (ODFM) and nuclear Contract(s) to October 2020 – January/February 2021 with daily reporting	WACM3
Alternative 4b	Deferral of costs on Optional Downward Flexibility Management (ODFM) and nuclear Contract(s) to October 2020 – January/February 2021 with weekly reporting	WACM4
Alternative 5	Cost Deferral of £250m to 2022/23	WACM5 - *saved by Chair*
Alternative 6	Cost Deferral of £250m to 2021/22 - recovered as a fixed daily amount	Not taken forward
Alternative 7	Cost Deferral of £250m equally spread across 2021/22 and 2022/23 Charging Year	Not taken forward

Alternative 8	Extended Payment Terms (5 months) for 30% BSUoS Charges	WACM6
Alternative 9	Within Year Cost Deferral of £250m	WACM7 - *saved by Chair*
Alternative 10	Cost Deferral of £250m to 2021/22 - recovered per MWh	Not taken forward
Alternative 11	Cost Deferral of up to £500m to 2022/23	WACM8 - *saved by Chair*

WACM5, WACM7 and WACM8 did not receive majority support from the Workgroup. However, the Chair decided that they did better meet the relevant applicable objectives and should be progressed in order to present a range of different options to Ofgem.

Workgroup conclusions

The Workgroup concluded by majority that none of the proposed solutions better facilitated the CUSC Objectives than the Baseline.

This Workgroup Vote can be found in the impact section of this report.

Legal text

The legal text for the Original and the 8 WACMs is set out in Annex 8 of this report.

What is the impact of this change?

Who will it impact?

Given the urgency of this Modification proposal, the Workgroup did not carry out a quantitative analysis on the positive/negative impacts on different parties, but the Workgroup acknowledged that this could have an indirect impact on all parties.

The Workgroup did however discuss a number of potential impacts on different types of parties both prior to and post the Workgroup Consultation.

<u>Generators</u>

This modification will impact parties who pay BSUoS or receive an embedded benefit.

CMP345 will impact Generators as without it they may not be able to recover the extra costs where they have forward trading ahead of cost forecasts. It was noted by some Workgroup Members that this may not be the case for all Generators e.g. CMP345 risks creating windfall profits for those who have factored the extra BSUoS costs into prices and will now have their costs deferred/reduced.

A workgroup member believed that the extra BSUoS this summer comprised a windfall gain to embedded generators, exacerbating a distortion that is due to be removed next year. However, a Workgroup Member, believed that evidence within the Workgroup Consultation supported the contrary view.

Some Workgroup members also believed this may result in adverse security of electricity supply implications. The Proposer argued that if generators go out of business there is less competition in the market but also the services they provide e.g. inertia, voltage and footroom, would be lost leading to security of supply concerns – this view on security of supply concerns and generators going out of business was not shared by other Workgroup Members.

Embedded generators may see lower embedded benefits, depending on their operating strategy. This could have a material impact on their income, depending on their sales strategy, as the wholesale power prices are now very low. Were the modification implementation to be retrospective, these companies could also have banked and spent their benefits, so they may struggle to hand back the money they would now owe. However, this viewpoint was not supported by all Workgroup members who noted that the bulk of the forecasted BSUoS in 2020/21 (~£1,500M) would still be paid as would have been expected by embedded generators pre Covid. It was also noted that there would be an impact by deferring costs to the following charging year if CMP333 is approved by the Authority with effect from 1 April 2021, as such approval would remove embedded benefits that would have otherwise accrued from 1 April 2021.

Suppliers

CMP345 will also impact Suppliers, as they as they may currently be unable to recover the additional costs via retail tariffs (due to a combination of fixed term supply contracts and constraints of the price cap).

The additional costs may also exacerbate the already heightened risk of supplier failures. However, some Workgroup Members suggested that CMP345 will allow Suppliers more time to alter customer tariffs to reduce their exposure to the increasing costs of BSUoS. The alternative options with actions that reduce costs for short periods or delay payments may help them plan for increasing costs over a different period but may not give them enough time to recover the costs from end user tariffs.

Some Workgroup Members expressed a view that deferring costs or extending payment terms does not stop companies failing – it may just alter the time when they fail. If a number of deferred costs are all recovered at a similar time, there may be a larger number of defaults and this could create a waterfall effect due to the mutualisation arrangements across the market. Some parties may believe that if businesses are going to fail (and market exit is an attribute of a competitive market) then the sooner they do so the less the debts that could be spread to other market participants.

Consumers

For consumers there is a mixed impact.

The Proposer believes that CMP345 will have a positive impact on some consumers, mainly domestic customers, as it ensures that the BSUoS effects of Covid are recovered in future which avoids undue volatility that impacts on competition and security of supply. However, it was noted by some Workgroup members that there is a Supplier of Last Resort process in place to help mitigate this.

If it is assumed in the future that the demand increases, some of the costs allocated to customers today will be smeared over more volume lowering the unit costs. However, those on fixed price contracts covering a number of years may not be impacted at all.

Customers who are currently not consuming will, under the deferral options, face costs that are related to periods when they were shutdown. As industry and commerce seeks to recover, the higher costs may create issues for them such as their relative competitive position, notably if they are competing in global markets. Furthermore, those currently not consuming or consuming less power i.e. some I&C consumers are likely to see higher prices in future as the costs of any financing arrangement will be passed through to consumers. This cost will be different depending on the timeframe over which support is provided, how the cost is recovered in future periods or years and the level of finance being provided.

The ESO argued that Extended Payment options would be more beneficial to consumers as the administration costs of this option will be lower. The ESO also argued that consumers would pay less if any support is recovered over a shorter timeframe and/or that the total amount of support is lower.

ESO

CMP345 introduces additional risk to the ESO in terms of financing any of the solutions to CMP345. CMP345 would require it to raise finance to support the modification, which has several implications on the ESO depending on which option is chosen as covered in the "Summary of Financial Impacts on ESO" below.

Summary of Financial Impacts on ESO

The accounting treatment depends on how and when the BSUoS costs are recovered. The four options are:

Defer the recovery to Settlement Final billing 2021/2022. This effectively changes tariffs for 2021/2022 charging year. The ESO could not accrue revenue associated with Covid costs in Financial Year (FY) 20/21 because the tariffs for next year relate to services provided in FY21/22. The ESO would report a £500m loss in FY20/21, which would reverse into a reported profit in FY21/22. (as a £500M profit).

Defer the recovery to Settlement Final billing 2022/2023 . This effectively changes tariffs for 2022/2023 charging year. The ESO could not accrue revenue associated with Covid costs from 2020/21 in Financial Year (FY) 2020/21 because the tariffs for 2022/23 relate to services provided in FY22/23. The ESO would report a £500m loss in FY20/21, which would reverse into a reported profit in FY22/23 (as a £500M profit).

Defer within year - . This would involve adjustments to current year charges with no full year profit reporting impact or profit/loss impact for the ESO.

Extending payment terms - All transactions treated as FY20/21 revenue and costs, as invoices continue to be raised within normal billing period, albeit some with extended payment terms. This would result in no profit reporting impact. This would result in a no ESO profit/loss impact.

VAT Treatment - In the deferral options, the VAT treatment will need to be discussed and agreed with HMRC, but ESO thought a resolution could be found. The ESO will reclaim input VAT for costs incurred but output VAT would not be paid over in the correct timescales as costs may not be charged out until future years. The extended payment terms option should see VAT accounted for in the correct timescales, but VAT cash out flow is suffered by ESO until paid at a later date by Suppliers and Generators.

Cashflow – All options have a significant impact on the ESO cash flow and would require the ESO to source additional external credit facilities.

Bad Debt –The ESO currently has no formal mechanism through its licence or CUSC for recovery of BSUoS bad debt The ESO is working with Ofgem to agree such a mutualisation mechanism for recovery of RIIO1 bad debt and to put in place a formal mechanism for RIIO2. ESO would need to seek written assurance from Ofgem that any bad debt incurred, after following appropriate credit procedures, under any of these proposals would be fully recoverable, and within the next financial year 2021/22.

ESO Financing Costs – The Workgroup asked ESO what interest it would expect to be charged for its financing costs associated with the management of the Covid Account. The ESO is still in discussions over its actual interest rate and will engage with Ofgem on the total cost to it. Under the Extended Payment Terms – ESO option, the ESO's starting point for interest is the Prescribed Rate as set out in CUSC 6.6.6[12]. This is 8.1% as this is aligned with an interest figure already available through the CUSC and would ensure that there isn't a competitive advantage for users choosing to opt into this scheme for the purpose of utilising the ESO's access to potentially lower credit than their own, rather than those who are facing difficulty due to Covid. The ESO also said that this would align with the rates of interest in the network support schemes, as set out in Ofgem's letter dated 2nd June 2020[13], thereby not creating an incentive for users to choose one scheme over another.

The ESO said it would remain cost neutral, make no profit from this, and would return any excess above the costs of implementing the support to consumers through reducing 2021/22 BSUoS charges. Some Workgroup Members were concerned that this was a penal rate for late payments and therefore would be too high for someone who has opted to take a payment holiday.

ESO Investor Concerns – To enable the ESO to facilitate any of the options set out under CMP345 the ESO will need to raise additional funds. To do this, the ESO has a set of requirements which, if met, the ESO believes will allow it to raise the finances, without this the ESO believes they are not in a financial position to support the scheme:

- There needs to be a cap to the total level of funding that the ESO is providing as a result of this modification;
- The total level of finance must be below £300m and must be recovered within year. The within year recovery minimises the ESO's VAT and accounting concerns;
- The ESO would remain Net Present Value (NPV) neutral, with any costs associated with implementing this modification including interest on additional external funding,

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[12] CUSC 6.6.6 states:

"Subject to Section 4, if any CUSC Party fails to pay on the due date any amount properly due under the CUSC or any Bilateral Agreement such CUSC Party shall pay to the CUSC Party to whom such amount is due interest on such overdue amount from and including the date of such failure to (but excluding) the date of actual payment (as well after as before judgement) at the Prescribed Rate. Interest shall accrue from day to day."

"Prescribed Rate" is set out in CUSC Section 11 and is "the rate of interest set for the relevant period as the statutory interest rate for the purposes of the Late Payment of Commercial Debts (interest) Act 1998";

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

bank facility arrangement and ongoing fees, IT system changes to implement revised processes and internal management of the new processes being covered. These costs would be agreed with Ofgem. Should there be any over or under-recovery, this would be passed back or charged to users through future BSUoS charges; and
- Bad debt recovery must be confirmed in writing by Ofgem that, where ESO follows the CUSC debt collection liquidation process, the ESO will be able to fully recover outstanding bad debt associated with the Covid related support within the year 2021/22.

The Proposer noted for the Original that he is suggesting that any ESO financing cost would be based on the cost of capital / cost of the (up to £500m) loan as approved by the Authority as being reasonable, efficient and proportionate.

The Workgroup sought to set out how the interest would be charged and recovered for each potential solution that the Workgroup identified prior to the issue of the Workgroup Consultation.

Option	Financing Cost	Financing Recovery
Original	Interest costs incurred by the ESO (and agreed by the Authority)	Recovered equally across settlement periods in 2021/22
Within Year Cost Deferral	Interest costs incurred by the ESO (and agreed by the Authority)	Recovered equally across settlement periods October 2020 – January 2021
Cost Deferral to 2022/2023	Interest costs incurred by the ESO (and agreed by the Authority)	Recovered equally across settlement periods in 2022/23
Extended Payment Terms (6 months) - Other	Interest costs incurred by the ESO (and agreed by the Authority)	Recovered from each supplier as interest on extended credit terms.
Extended Payment Terms (5 months) - ESO	Interest charged at 8.1% as per CUSC 6.6.6	Any excess interest above the costs of implementing the support to consumers, returned through reducing 2021/22 BSUoS charges.
BSUoS price cap	Not Specified	Not Specified
Daily rolling average calculation for BSUoS	Interest costs incurred by the ESO (and agreed by the Authority)	Recovered within 2020/21

Other Wider Considerations

The Workgroup noted a number of wider areas that parties may need to consider when assessing the merits of the proposed solutions:

- Other industry support being offered because of the Covid pandemic:

- On 2 June 2020, Ofgem published an open letter outlining what support they expect to be available from network companies for certain energy suppliers[14] and shippers who are facing cash flow challenges as a result of Covid, in relation to electricity network charges[15], and some equivalent gas charges. The Workgroup considered whether or not they should assess the Extended Payment options for the CMP345 alternatives against the criteria that Ofgem have proposed in their open letter. The ESO, who proposed one of the Extended Payment options, believed that their WACM6 was broadly in line with Ofgem's proposed criteria. Other workgroup members noted that the availability of the support envisaged by Ofgem was subject to conditions[16][17] which are not set out in the Extended Payment Options. The Workgroup also noted that this letter was received during the Workgroup Consultation and on balance did not think it was appropriate given the timescales to assess all of the CMP345 alternative options against Ofgem's proposed criteria, which it was noted weren't expressed (in the letter) in relation to BSUoS
- On 4 June 2020, BEIS published their commitment to mitigate the impact on electricity suppliers of the increased costs of the Contracts for Difference (CfD) scheme, as a result of measures introduced to reduce the spread of Covid. The UK Government CfD scheme will protect suppliers from 80% of the increase in suppliers' obligations (up to the maximum loan amount of £100m) in the second quarter of 2020.

- The work of the 2nd BSUoS Taskforce;
- Future government[18] policy on Covid including whether there would be a second or third Covid wave. Impacts here are difficult to quantify so wouldn't be factored into the scope of CMP345;
- Holistic support available to business, such as emergency loans, government support etc.;
- Embedded Benefit impacts under CMP333. Were the Authority to approve this modification then options that defer repayment of Covid costs unto future years would permanently remove the embedded benefit from those parties that benefit this year; and
- General impact on Investor Confidence – where changes made by Authority that are sudden, potentially retrospective, and involving largescale transfer of costs and benefits between industry parties can undermine the faith of the market to allow prices in the market to rise if parties make a claim they cannot pass costs through. This could influence investors' view on, for example, of the Authority's willingness to allow prices to rise to Volume of Lost Load (VoLL) or the willingness of the Authority to allow

[14] e.g. support should "Only be available to companies where neither they themselves, nor any member of their corporate group have an investment grade credit rating and therefore have fewer options for securing financing"

[15] Further clarification is required from Ofgem as to which types of charges are included here

[16] These conditions include, for example: "to "require electricity suppliers and gas shippers to self-certify that their companies will not pay dividends or executive bonuses until deferred charges plus interest are repaid."

[17] The conditions also include restrictions on the network companies to offer terms, for example with respect to "a network's ability to comply with its financial covenants and credit metrics" capped amounts on monthly invoices, a limitation of the amount per supplier and a cap for each network company group.

[18] Noting that there are different arrangements in England, Wales and Scotland.

industry participants to undertake actions that would undermine their competitors' position. Providing certainty to investors that sudden and unexpected costs associated with wider societal events, such as a pandemic, will be allowed to be recovered in a timely manner provides certainty to investors.

Workgroup Vote

The Workgroup met on 5 June 2020 to carry out their workgroup vote. 17 Workgroup Members voted, and the full Workgroup vote can be found in Annex 11. The tables below provide:

- a summary of how many Workgroup members believed the Original and each of the WACMs were better than the Baseline; and
- a summary of the Workgroup members view on the best option to implement this change.

The applicable CUSC (charging) objectives are:

CUSC charging objectives

(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 Grid Code arrangements

Assessment of the Original and WACM1 to WACM8 vs Baseline

The Workgroup concluded by majority that none of the proposed solutions better facilitated the CUSC Objectives than the Baseline.

Proposed Solution	Of the 17 votes, how many said that this option was better than the Baseline
Original	7
WACM1	3
WACM2	8
WACM3	2
WACM4	3
WACM5	7
WACM6	4
WACM7	2
WACM8	7

Best Option

Workgroup Member	Company	BEST Option?	Which objective(s) does the change better facilitate? (if baseline not applicable)
Garth Graham	SSE Generation	Original	(a) and (c)
Jenny Doherty	National Grid ESO	WACM6	(a), (c), (e)
Grace March	Sembcorp	Baseline	n/a
Bill Reed	RWE	Baseline	n/a
Paul Jones	Uniper	WACM2	(a)
Paul Mott	EDF	WACM5	(a), (b) and (c)
George Moran	Centrica	WACM5	(a), (b) and (c)
Joshua Logan	Drax	WACM5	(a)
Simon Lord	Engie	WACM2	(a)
Jennifer Byrne	GOTO Energy	Baseline	n/a
Graz Macdonald	Viridis	Baseline	n/a
Joe Dunn	Scottish Power	Original	(a) and (c)
Kate Dooley	ESBI	Original	(a) and (c)
Lisa Waters	Waters Wye	Baseline	n/a
Matthew Cullen	E.ON	Original	(a) and (c)
James Kerr	Citizens Advice	Baseline	n/a
John Harmer	Infinis	Baseline	n/a

Code Administrator Consultation Summary

The Code Administrator Consultation was issued on the 9 June 2020 and closed at 3pm on 12 June 2020 (3pm). 30 responses were received with 3 of these being confidential and only to be shared with the Authority. A summary of the 27 non-confidential responses can be found in Annex 12 and the full responses can be found in Annex 13.

- On whether or not the Original or any of the WACMs better facilitate the CUSC Objectives than the Baseline:
  - There was a mix of views between whether or not the Original or any of the other potential solutions put forward by the Workgroup should be implemented with a number of respondents supporting the Baseline.
- On Deferral:
  - Those who supported deferral to a future Charging Year surmised that this will allow recovery of the additional cost, where this has not been factored into fixed consumer contracts or forward power sold by generators in the wholesale market. Others considered that cost deferral to a future Charging Year was not cost reflective - this was particularly noted by embedded generators who will be losing the BSUoS embedded benefits for the 2021/22 year if CMP333 is implemented on 1 April 2021.
- On Extended Payment Options:
  - Some support the extended payment options as they are targeted at the participants active in the market at the specific time where balancing activities were necessary. However, some respondents felt that these options don't address the issue of cost recovery identified in the CMP345 defect.
- On Implementation:
  - Many respondents were concerned over retrospectively applying to 1 May 2020 as this could distort competition but there was some support for retrospective implementation.
- On Wider Issues:
  - Some respondents believed that this issue should not be addressed via a CUSC Modification;
  - Some respondents suggested that the BSUoS taskforce is best placed to develop and deliver an enduring solution and recommended it restarts as soon as possible; and
  - Some respondents noted the current Covid related support available to industry at this time.

Panel Views

The CUSC Panel met on the 15 June 2020 to carry out their recommendation vote.

They assessed whether a change should be made to the CUSC by assessing the proposed change and any alternatives against the code objectives. The full vote can be found below.

Applicable CUSC Charging Objectives

(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; Facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such 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).

CMP345 Vote

Vote 1: ***Does the Original, WACM1, WACM2, WACM3, WACM4, WACM5, WACM6, WACM7 or WACM8 facilitate the objectives better than the Baseline?***

Panel Member: Andy Pace

	Better facilitates ACO (a)?	Better facilitates ACO (b)?	Better facilitates ACO (c)?	Better facilitates ACO (d)?	Better facilitates ACO (e)?	Overall (Y/N)
Original	No	No	Neutral	Neutral	No	No
WACM1	Yes	Neutral	Yes	Neutral	No	Yes
WACM2	No	No	Neutral	Neutral	No	No
WACM3	No	No	Neutral	Neutral	No	No

WACM4	No	No	Neutral	Neutral	No	No
WACM5	No	No	Neutral	Neutral	No	No
WACM6	Yes	Neutral	Yes	Neutral	No	Yes
WACM7	No	No	Neutral	Neutral	No	No
WACM8	No	No	Neutral	Neutral	No	No

Voting Statement

We recognise that Covid-19 has resulted in a significant impact on balancing costs. Covid-19 has also had an impact on other market related charges, including significantly lower wholesale prices. The level of BSUoS experienced during Covid-19 reflects the increased costs associated with balancing the system during this period and can therefore be considered as cost reflective. The original proposal and WACMs 2, 3, 4, 5, 7 and 8, all propose to move the costs associated with Covid to an alternative period in some form or another. This effectively reduces the cost reflectiveness of the BSUoS price signal and therefore does not better meet charging objective (b).

The movement of costs under the original proposal and WACMs 2, 3, 4, 5, 7 and 8 effectively shifts the additional BSUoS for most consumers (i.e. those not on pass through contracts) from electricity Suppliers to consumers at a later date. Consumers lock in their electricity prices to fix the volatility of the different pricing elements. It therefore is not conducive to competition to take one pricing element and allow the costs to pass through to consumers while pricing elements such as lower wholesale prices are not passed through to consumers. We therefore believe that these WACMs do not better meet charging objective (a).

We believe that the introduction of allowing Suppliers to defer payments under WACMs 2 and 6 allows any cashflow issues that may arise from Covid to be addressed and therefore these WACMs better meet charging objectives (a) and (c).

Finally, we do not believe that any of the proposed changes improve efficiency in the implementation of the CUSC arrangements and therefore do not better meet charging objective (e).

Overall, we believe that the baseline arrangements are the best solution given that a range of support for Suppliers has already been provided over the Covid period. We do not believe that this additional cost should be incurred by consumers who have fixed their electricity charges across this period.

Panel Member: Cem Suleyman

	Better facilitates ACO (a)?	Better facilitates ACO (b)?	Better facilitates ACO (c)?	Better facilitates ACO (d)?	Better facilitates ACO (e)?	Overall (Y/N)
Original	Neutral	Neutral	Neutral	Neutral	No	No
WACM1	Neutral	Neutral	Neutral	Neutral	No	No

WACM2	Neutral	Neutral	Neutral	Neutral	Neutral	No
WACM3	Neutral	Neutral	Neutral	Neutral	Neutral	No
WACM4	Neutral	Neutral	Neutral	Neutral	Neutral	No
WACM5	Neutral	Neutral	Neutral	Neutral	Neutral	No
WACM6	Neutral	Neutral	Neutral	Neutral	Neutral	No
WACM7	Neutral	Neutral	Neutral	Neutral	Neutral	No
WACM8	Neutral	Neutral	Neutral	Neutral	No	No

Voting Statement

The CMP345 defect is essentially that the additional BSUoS costs associated with Covid-19 are unforecastable and cannot be recouped effectively by generators and suppliers. I don't challenge that the defect is valid. The purpose of CMP345 is to better allow generators and suppliers to recoup these costs effectively. Options will therefore need to meaningfully facilitate the ability to do this to be considered for approval. This objective is best covered by Applicable CUSC Objective (ACO) a. Having considered the industry responses, I have concluded that WACMs 1, 2, 3, 4, 6 and 7 do not meaningfully address the defect either because they do not allow costs to recouped effectively and/or the BSUoS costs in scope are not significant. Therefore, none of these options can better facilitate ACO a, although they don't materially make things worse either.

The Original, WACM 5 and WACM 8 are the only options which meaningfully address the defect. That being said, it is difficult to conclude that any of these options will better facilitate ACO a. Implementing any of these options at such short notice (and in some cases retrospectively) will create a number of winners and losers throughout the industry which may or may not better facilitate ACO a. More fundamentally, I am not convinced that the most appropriate way to tackle this defect is by way of a Code Modification approved by the industry regulator. It appears entirely conceivable that there are better ways to target support to those industry parties in need of financial assistance through no fault of their own.

For the reasons above, I have concluded that none of the CMP345 options will better facilitate ACO a. It is difficult to assess to what degree these options may be detrimental against this ACO, so I have concluded that all options are neutral against ACO a.

The other ACOs are of less significance when assessing the merits of CMP345 compared to ACO a. However, for completeness:

ACO b - Cost reflectively is not an especially relevant consideration when assessing changes to BSUoS as it is fundamentally an issue of cost recovery. Therefore, all CMP345 options are neutral against this objective.

ACOs c and d - It doesn't appear to me that either of these ACOs are relevant to CMP345. As such all CMP345 options are neutral against ACOs c and d.

ACO e - several concerns have been raised with regards to the administrative difficulty of implementing the various options, most clearly from the ESO. It is difficult to accept all the objections raised owing to the lack of transparency provided by stakeholders (which is at least partly a natural consequence of an Urgent Modification), but I am convinced that options which require the ESO to disentangle Covid-19 related and non Covid-19 related costs are highly unlikely to achieve their aim. As such options which require the identification of Covid related costs will be unlikely to better facilitate ACO e (Original, WACM1 and WACM8). The other options are neutral with regards to ACO e.

In conclusion then I do not consider that any of the CMP345 options better facilitate the ACOs overall. The raising of CMP345 though does again highlight the deficiencies of the current BSUoS method. I sympathise with the problems associated with BSUoS unpredictability; these problems have been known for some time regardless of the impact of Covid-19. This was why I raised CMP250 in 2015. If the Authority had approved this modification when it had the opportunity the industry would be in a far better position at this time. Measures to reform BSUoS currently being considered by the, as of now, suspended BSUoS Taskforce must be progressed as soon as possible. The industry regulator has for too long prevaricated on this issue. Treating this issue with the urgency it deserves would be welcomed by most of the industry.

Panel Member: Garth Graham

	Better facilitates ACO (a)?	Better facilitates ACO (b)?	Better facilitates ACO (c)?	Better facilitates ACO (d)?	Better facilitates ACO (e)?	Overall (Y/N)
Original	Yes	Neutral	Yes	Neutral	Neutral	Yes
WACM1	No	Neutral	No	Neutral	Neutral	No
WACM2	Yes	Neutral	Yes	Neutral	Neutral	Yes
WACM3	No	Neutral	No	Neutral	Neutral	No
WACM4	No	Neutral	No	Neutral	Neutral	No
WACM5	Yes	Neutral	Yes	Neutral	Neutral	Yes
WACM6	No	Neutral	No	Neutral	Neutral	No
WACM7	No	Neutral	No	Neutral	Neutral	No
WACM8	Yes	Neutral	Yes	Neutral	Neutral	Yes

Voting Statement

Having reviewed the 27 responses to the Code Administrator Consultation, along with the consultation document and associated Annexes I have concluded that four of the nine proposals (**Original / WACM2 / WACM5 / WACM8**) are overall better than the baseline whilst five of the nine (**WACM1 / WACM3 / WACM4 / WACM6 / WACM7**) are not better overall.

In terms of the four proposals that are better overall, this is in terms of Applicable Objectives (a) and (c) (the four proposals are neutral in terms of other Applicable Objective (b), (d) and (e)).

In respect of Applicable Objective (a) this is because, in my view, it ensures that those market participants that actually pay BSUoS are not impacted adversely by the Covid related costs incurred by the ESO to manage the transmission system during the ongoing situation. In so doing this will facilitate 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.

I observe, in passing, that many of the respondents to the Code Administrator Consultation do not themselves pay BSUoS, so do not face this risk/cost that CMP345 seeks to address. Indeed, it could be said that it is the actions of those same (non BSUoS paying) parties that incrementally result in the cost of BSUoS for those who do pay it paying more. This is because the actions of those who avoid paying BSUoS reduces the volume over which the costs of balancing of the system are levied (leading to a higher unit charge).

Turning to Applicable Objective (c) I believe that these four proposals (that are overall better) are also better at ensuring that the BSUoS methodology properly takes account of the developments in transmission licensees' transmission businesses arising from the unprecedented Covid event.

In terms of the five proposals that are not better overall, this is in terms of Applicable Objectives (a) and (c) (the five proposals are neutral in terms of other Applicable Objective (b), (d) and (e)).

In respect of Applicable Objective (a) this is because, in my view, they fail to ensure that those market participants that actually pay BSUoS (which, as noted above, many of the respondents to the Code Administrator Consultation do not themselves pay) are not impacted adversely by the Covid related costs incurred by the ESO to manage the transmission system during the ongoing situation. In so doing this will not facilitate 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.

Turning to Applicable Objective (c) I believe that these five proposals (that are overall not better) are also not better at ensuring that the BSUoS methodology properly takes account of the developments in transmission licensees' transmission businesses arising from the unprecedented Covid event.

In coming to my view, I have also considered the points made about the Covid related costs, within the CMP345 documentation submitted to the Panel, such as:

'The modification seeks to recover costs from consumers without parties accepting any risk in fluctuating BSUoS costs'. I would observe that as I understand it with CMP345 that BSUoS paying would continue to pay and have to factor in all the existing and future non Covid related risk for the circa £1,500M of BSUoS forecasted in 2020/21. '*…that much of the impact of Covid-19 could have been factored in since at least March 2020 with market participants able to take a global view on the impact of the pandemic on other economies and power systems*'. In my view this is not a reasonable argument as it was not known (i) how the UK, Scottish and Welsh Governments would react to a pandemic pre as well as during (and post) March 2020, (ii) how the pandemic would progress, nor (iii) how the ESO would react to the consequent of the unprecedented demand drop (taking GB electricity demand back to levels last seen in the 1960s). '*…that the original modification may result in windfalls for some parties at the expense of consumers*'. It seems to me that the reality is that the Modification will prevent windfalls from the Covid related costs (forecasted in May at up to £500M) for parties who don't themselves pay BSUoS but, for example, who also receive income via the new ODFM service that forms part of the up to £500M of Covid related costs within BSUoS in 2020/21.

Panel Member: Grace March

	Better facilitates ACO (a)?	Better facilitates ACO (b)?	Better facilitates ACO (c)?	Better facilitates ACO (d)?	Better facilitates ACO (e)?	Overall (Y/N)
Original	No	No	No	Neutral	No	No
WACM1	No	Yes	No	Neutral	Neutral	No
WACM2	Neutral	No	Neutral	Neutral	No	No
WACM3	No	No	No	Neutral	Neutral	No
WACM4	No	No	No	Neutral	Neutral	No
WACM5	No	No	No	Neutral	No	No
WACM6	No	Yes	Neutral	Neutral	Neutral	No
WACM7	No	No	Neutral	Neutral	No	No
WACM8	No	No	No	Neutral	No	No
Voting Statement						

The original will create a distortion between suppliers of I&C demand vs Residential demand, as deferred costs will be recovered from these types of users differently once demand profiles are back to "normal". Similarly, some generators' hedging strategies will be better prepared for sudden changes, so any proposed based around deferring costs to a later date will be negative against ACO (a). The current BSUoS methodology is based on the assumption that it is most cost-reflective to recover BSUoS costs from users active at the time, so any deferral is negative against ACO (b). Extended payment terms WACMs preserve this cost-reflectivity. The ESO has an obligation to keep suitable credit status and a number of the proposed solutions require the ESO to take a loss at the end of the year, therefore are negative against ACO (c). A cap reduces the financial exposure faced by the ESO but could limit the effectiveness of the Modification should Covid costs turn out to be significantly higher than predicted. Given the uncertainty around when BSUoS costs will return to "normal" levels, some proposed solutions may require additional follow-up modifications (to adjust cap amount, sunset clauses etc.) which will be negative against ACO (e).

Separating Covid related costs from BSUoS appears to be practically extremely challenging for the ESO, creating an administrative burden and so eventually extra costs on to consumers. A fixed proportion, however, creates the risk of deferring/delaying the wrong amount, thus making the solution imprecise, with the possibility of increasing the distortions deferral will create. Longer deferral periods, or longer payment periods, will increase the overall cost of the scheme, which will all need to be recovered from end consumers, either through higher prices or through higher BSUoS costs.

A cap on the £ figure that can be delayed creates an incentive to use the opportunity early, and so damages competition. It also means Users who do not ‘need’ the support may be encouraged to use it, meaning consumers will bear the cost of this Modification without the assumed benefit. No cap leaves the ESO financially exposed, should additional costs continue to rise.

It is worth noting that Ofgem, in their letter on extending payment terms on network charges on June 2nd, want to limit the support to suppliers who are not able to access other forms of credit. Setting the interest rate at a cost-reflective level on the WACM1 would encourage, but not guarantee this. It is also worth noting that Ofgem do not seem to consider generators at risk and proposed solutions would be available to all Users.

Panel Member: Jon Wisdom

	Better facilitates ACO (a)?	Better facilitates ACO (b)?	Better facilitates ACO (c)?	Better facilitates ACO (d)?	Better facilitates ACO (e)?	Overall (Y/N)
Original	No	No	No	Neutral	No	No
WACM1	Neutral	Neutral	No	Neutral	Neutral	No
WACM2	No	No	No	Neutral	No	No
WACM3	Neutral	Neutral	No	Neutral	Neutral	No
WACM4	Neutral	Neutral	No	Neutral	Neutral	No

WACM5	No	No	No	Neutral	No	No
WACM6	Yes	Neutral	Yes	Neutral	Neutral	Yes
WACM7	Neutral	Neutral	Yes	Neutral	Neutral	Yes
WACM8	No	No	No	Neutral	No	No

Voting Statement

Any option, where costs are deferred outside of the current charging year, has a negative impact on competition as it smears costs across all BSUoS liable users, whether they were operating during the prior periods of high costs or not, and therefore is negative against objective (a). This is true of the original, WACM2, WACM5 and WACM8. In addition, we consider that WACM7 would have a similar affect albeit within the same charging year, so the effect is minimised. WACM6 is positive against objective (a) if support for BSUoS payers is considered to be necessary as it allows those who need help during the Covid-19 period to receive it, without distorting the market, potentially enabling market parties who are struggling with short term cashflow to continue operating and provide competitive alternatives.

Again, for objective (b) any option which defers payments to the following charging year does not correctly reflect the costs incurred as this both relates to a different time period, when some users may not have been operating, and, with CMP281 being approved and CMP333 due to go to The Authority later this year, the charging methodology will be different outside of the current charging year meaning parties may not incur costs they would otherwise have been liable for. The original, WACM2, WACM5 and WACM8 are therefore negative against this objective. The other alternates are neutral against objective (b).

Under objective (c) it is essential that the ESO's ability to both finance and implement this modification are considered, as if an option which the ESO cannot implement / finance is approved, the ESO would be in breach of its licence. Based on this the original, WACM1, WACM2, WACM3, WACM4, WACM5, and WACM8 are negative against objective (c). WACM6 and WACM7 are positive against this objective if it is decided that providing assistance to BSUoS payers is warranted.

As the Original, WACM2, WACM5, WACM8 mean moving costs outside of the current year these are negative when considered against objective (e).

All options are neutral against objective (d).

Panel Member: Joseph Dunn

	Better facilitates ACO (a)?	Better facilitates ACO (b)?	Better facilitates ACO (c)?	Better facilitates ACO (d)?	Better facilitates ACO (e)?	Overall (Y/N)
Original	Yes	Neutral	Yes	Neutral	Neutral	Yes

WACM1	No	Neutral	Neutral	Neutral	Neutral	No
WACM2	Yes	Neutral	Yes	Neutral	Neutral	Yes
WACM3	No	Neutral	Neutral	Neutral	Neutral	No
WACM4	No	Neutral	Neutral	Neutral	Neutral	No
WACM5	Yes	Neutral	Yes	Neutral	Neutral	Yes
WACM6	No	Neutral	Neutral	Neutral	Neutral	No
WACM7	No	Neutral	Neutral	Neutral	Neutral	No
WACM8	Yes	Neutral	Yes	Neutral	Neutral	Yes

Voting Statement

The original and WACMs 2, 5 and 8 better facilitate CUSC objective (a) as each will improve the opportunity for BSUoS paying market participants to recover costs to mitigate the P&L impact (on suppliers and generators) of unforeseen COVID-related costs are not adversely impacted by the costs incurred by the ESO to manage the transmission system during the Covid event. As a result, this will facilitate 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.

On the contrary, WACMs 1, 3, 4, 6 and 7 deal with cash flow. WACMs 1 and 6 (payment holidays) are akin to short terms loans and WACMs 3, 4 and 7 merely defer costs within year. None of WACMs 1, 3, 4 and 6 appropriately address the cost recovery issue which is at the core of the defect and therefore do not better facilitate CUSC objective (a)

The original and WACMs 2, 5 and 8 better facilitate CUSC objective (c) as each will, to a greater or lesser extent, ensure that the BSUoS methodology takes account of the developments in transmission licensees' transmission businesses arising from the unprecedented Covid event.

With regards to the extent of the how the original and WACMs 2, 5 and 8 better meet CUSC objectives and in comparison, to each other:

WACMs 1, 3, 4, 6 and 7 are Neutral to CUSC objective (c).

All of the original and alternatives are Neutral to CUSC objectives (b), (d) and (e)

Panel Member: Mark Duffield

	Better facilitates ACO (a)?	Better facilitates ACO (b)?	Better facilitates ACO (c)?	Better facilitates ACO (d)?	Better facilitates ACO (e)?	Overall (Y/N)
Original	No	No	No	No	No	No
WACM1	Yes	No	No	No	Yes	Yes

WACM2	No	No	No	No	No	No
WACM3	No	No	No	No	No	No
WACM4	No	No	No	No	No	No
WACM5	No	No	No	No	No	No
WACM6	Yes	No	No	No	Yes	Yes
WACM7	No	No	No	No	No	No
WACM8	No	No	No	No	No	No

Voting Statement

It is clear from the Working Group discussions and responses to the Working Group consultation that the impacts upon market participants of the additional COVID-19 costs are many and varied. Some parties have been able to hedge or mitigate while others have not. Some may welcome a deferral of costs while others may not (especially when considering the additional costs of financing such deferrals). There is also a question of the distributive impact of any deferral and whether a different constituency of market participants will pick up the deferred costs from those that would have originally paid them.

Overall then I believe that an approach that does not attempt to differentiate between actors regarding who may defer costs, or indeed one that redistributes these costs to a potentially different constituency of market participant is unlikely to better facilitate the applicable objectives. This means I do not believe the original, WACM2, WACM3, WACM4, WACM5, WACM7 and WACM8 better facilitate the applicable objectives.

Turning to WACM1 and WACM6. Each of these proposes a form of payment holiday that would allow those parties that need to defer a proportion of their costs to a later date within the same charging year. This appears to allow a more proportionate option for those that need additional support while allowing parties that do not need support, or indeed those that seek to secure it from other sources to decline this particular form of support under the CUSC.

Selecting the best option between WACM1 and WACM6 is a fine judgement. WACM6 places constraints on the support to provide funding certainty for the ESO. However, this in itself sets an arbitrary limit to the support available. On balance I feel that there should not be a limit to support as such a limit may force parties to apply, just in case support "runs out" at a later date. I recognise this may need to be revisited at a later date should applications for support under the scheme prove problematic for ESO to finance.

I would like to place on record my thanks to the Working Group and those supporting it for progressing this amendment in such short timescales and for delivering a clear and concise modification report.

Panel Member: Paul Mott

	Better facilitates ACO (a)?	Better facilitates ACO (b)?	Better facilitates ACO (c)?	Better facilitates ACO (d)?	Better facilitates ACO (e)?	Overall (Y/N)
Original	Yes	Neutral	Yes	Neutral	Neutral	Yes
WACM1	No	Neutral	Neutral	Neutral	Neutral	No
WACM2	Yes	Neutral	Neutral	Neutral	Neutral	Yes
WACM3	No	Neutral	Neutral	Neutral	Neutral	No
WACM4	No	Neutral	Neutral	Neutral	Neutral	No
WACM5	Yes	Neutral	Yes	Neutral	Neutral	Yes
WACM6	No	Neutral	Neutral	Neutral	Neutral	No
WACM7	No	Neutral	Neutral	Neutral	Neutral	No
WACM8	Yes	Neutral	Yes	Neutral	Neutral	Yes

Voting Statement

I comment here on the non-neutral effects : The original is positive against (a), competition. It should mitigate against the exceptional losses to CUSC parties that would arise under baseline. The deferral of costs to the next year will allow Parties to reflect most of the deferred exceptional costs into future tariff offers and other business operations, facilitating effective competition in the generation, supply and purchase of electricity. It would, if passed, stabilise costs to customers on BSUoS pass-through which are still operating as usual during the crisis and are being hit with costs they couldn't possibly have planned for - as some of them have pointed out in their responses to the workgroup consultation. This will, as a result, lower the long-term costs to consumers. Embedded generators may lose a "windfall" if CMP333 is passed with effect from 1/4/21.

The original better facilitates CUSC charging applicable objective (c) as it takes account of the impact of the Covid-19 event on the ESO.

The defect in the mod is high cost in 2020, and by not deferring out of 2020/21, the defect is not better met by WACM1 in relation to (A). Parties will not be easily able, if at all, to reflect these exceptional costs into future tariff offerings and other business operations, so this will not facilitate effective competition in the generation, supply and purchase of electricity. The embedded benefit windfall, an exacerbation because of COVID of an identified distortion that is to be abolished, is maintained as BSUOS is kept within 2020/21; this is anti-competitive and distortionary. Some of the suppliers that use deferred payment may, if they would have failed in summer, if WACM1 is passed, still fail with all the disruption that that brings, just slightly later on.

WACM2 relies on an arbitrary and very high £15/MWh cap on BSUoS that will only have effect over a very small proportion of the time. There has been no analysis to show what the effects of this might be, and therefore what distortionary, or inadvertently-redistributive, effects could occur from its operation at times of very low demand, high

wind and high BSUoS, relative to any benefits that it might provide. The amount that will be carried over is very hard to forecast as it depends whether there are lots of prices just below £15/MWh, or some that considerably exceed £15/MWh. Due to uncertainty around how much is carried forward, parties will not be easily able, if at all, to reflect these exceptional costs into future tariff offerings and other business operations, so this will not do much to facilitate effective competition in the generation, supply and purchase of electricity. The WACM is far less effective against defect than the original as to (a), competition (yet, does slightly better facilitate (a).
The embedded benefit windfall, an exacerbation because of COVID of an identified distortion that is to be abolished, is maintained as most of the exceptional BSUOS costs are kept within 2020/21; this is anti-competitive and distortionary. Some Suppliers may still fail this summer under WACM2.

Some contracts are categorised in WACM3 and almost-identical WACM4 to give benefit only in relation to covid effects, even though they clearly also help to manage system balancing needs regardless of covid effects, whilst arbitrarily entirely excluding Super-SEL contracts, actions for the creation of "footroom" and some other sorts of action that clearly in part (or whole) contribute to covid mitigation costs, and hence to exceptional BSUoS. Deferred costs still all fall within 2020/21, which is too soon, under WACM3, so parties will not be easily able, if at all, to reflect these exceptional costs into future tariff offerings and other business operations, so WACM3 will not facilitate effective competition in the generation, supply and purchase of electricity. The embedded benefit windfall, an exacerbation because of COVID of an identified distortion that is to be abolished, is maintained under WACM3, as the exceptional BSUOS is almost all kept within 2020/21; this is anti-competitive and distortionary. Some Suppliers may still fail.

WACM 5 is the best. It will mitigate against the exceptional losses likely to be incurred by Parties as a result of the virus, and avoids the need for the ESO to separately identify Covid-19 related actions, making it easier to implement. A fixed level of support set at £250m represents some degree of risk-sharing between the ESO and CUSC parties. Deferment of costs to 2022/23 rather than 2021/22 is a better solution than CMP345 original, as it allows CUSC Parties to reflect the costs in future contracts and operations by going well beyond most contracting windows.

WACM5 would, if passed, also stabilise costs to customers operating throughout the covid crisis which are on "BSUoS pass-through", which are being hit with costs they couldn't have planned for. This will, as a result, lower the long-term costs to consumers. Embedded generators do lose a "windfall" bonus; BSUoS-related embedded benefits are an identified distortion that will probably be abolished as a TCR outcome from 1/4/21, if CMP333 is passed with effect from then.

The defect is the high cost in 2020, and by not deferring out of 2020/21, the defect is not met by WACM6. Parties will not be easily able, if at all, to reflect these exceptional costs into future tariff offerings and other business operations, so this will not facilitate effective competition in the generation, supply and purchase of electricity. The embedded benefit windfall, an exacerbation because of COVID of an identified distortion that is to be abolished, is maintained as BSUOS remains; with a view to CUSC charging objective (a), this is anti-competitive, as it is distortionary. Suppliers that use deferred payment will, if they would have failed in summer, still fail with all the disruption that that brings, just slightly later on, exacerbated by the interest payment, that wrongly benefits all parties in 2021/22 as a BSUoS discount then – a curious distortion. Some with internal costs of capital just below 8.1%, will not able to use the mod; there is some unintended distortion there.

Customers on BSUoS-pass-through are still adversely affected by the exceptional costs, even if deferred – which depends arbitrarily on their most recent choice of Supplier, and on whether it "passes-through" the delay.

The defect is high cost in 2020 – and by not deferring out of 2020/21, the defect is not met under WACM7. Parties will not be easily able, if at all, to reflect these exceptional costs into future tariff offerings and other business operations, so this will not facilitate effective competition in the generation, supply and purchase of electricity. The embedded benefit windfall is maintained as BSUOS is kept within 2020/21; this is anti-competitive/distortionary.

It is problematic that WACM7 makes explicit that there would be no requirement to provide additional security on the Covid-related costs recovered through higher charges between October 2020 and January 2021 – because, the proposer feels, the extra securities that would have to be posted would counter-act the benefits of the mod. This means that users are not required to provide additional security cover, leaving a risk to other parties because the ESO says it would also "need to be able to recover any bad debt" (in financial year 2021/22) for the mod to be workable . In other words, the ESO as proposer does envisage bad debt as a result. This circumvents the usual careful protection against bad debt on BSUoS; normally the ESO is careful about this due to the (deliberate) lack of mutualisation, but here this risk is clearly being actively anticipated by the ESO as a result of the features of WACM7, and ESO intends that this risk be transferred to CUSC parties - which may have to price this risk into their business operations, contracts and tariffs, to the ultimate detriment of end consumers.

WACM 8 will mitigate against the exceptional losses likely to be incurred by Parties as a result of the virus; our comments are generally as per the original, on which it is based, but deferment of costs to 2022/23 is a better solution as it allows Parties to reflect the costs in future contracts and operations by going well beyond most contracting windows; it thereby reduces the chance of risk premia that arise from baseline, in future.

Deferring costs to a future period this far therefore very effectively allows parties to reflect these exceptional costs into future tariff offerings and other business operations. Such protection, for this exceptional risk of very high impact and very low probability, will reduce the level of risk that will need to be factored into future tariffs and generation operations, and will facilitate effective competition in the generation, supply and purchase of electricity. It would, if passed, stabilise costs to customers on BSUoS pass-through which are still operating as usual during the crisis and are being hit with costs they couldn't possibly have planned for. This will, as a result, lower the long-term costs to consumers. Embedded generators would lose a "windfall" – but this is not a bonus that they could ever have foreseen, and BSUoS-related embedded benefits are an identified distortion that is to be abolished.

Panel Member: Paul Jones

	Better facilitates ACO (a)?	Better facilitates ACO (b)?	Better facilitates ACO (c)?	Better facilitates ACO (d)?	Better facilitates ACO (e)?	Overall (Y/N)
Original	No	Neutral	Neutral	Neutral	No	No
WACM1	Yes	Neutral	Neutral	Neutral	No	Yes
WACM2	Yes	Neutral	Neutral	Neutral	No	Yes
WACM3	No	Neutral	Neutral	Neutral	No	No
WACM4	No	Neutral	Neutral	Neutral	No	No
WACM5	No	Neutral	Neutral	Neutral	No	No
WACM6	Yes	Neutral	Neutral	Neutral	No	Yes
WACM7	No	Neutral	Neutral	Neutral	No	No
WACM8	No	Neutral	Neutral	Neutral	No	No

Voting Statement

If parties are unable to recover unforeseen COVID costs, then this may work against competition if this directly results in the failure of suppliers and generators. Conversely, moving costs into another period, either within year or to a following year, move costs from one set of users to others resulting in cross subsidy which works against competition. Therefore, some degree of mitigation may be necessary, but not fully socialising all potential COVID costs. Options should seek to identify periods with unusually high cost during unusually low demand periods, to ensure only the additional costs caused by COVID are removed for deferral. The BSUOS cap option does this through a price proxy which shows a strong correlation to periods of low demand and high cost. Payment holidays address the cashflow implications, but not the possible inability to recover costs, but are an improvement on the baseline. Retrospectively applied solutions undermine actions already taken in shorter term trading and in providing balancing actions. They also undermine market confidence in the regulatory regime, increasing investor perceptions of market risk. Deferred payment options increase default risks for BSUoS as struggling parties are likely to prioritise other non-deferred costs for payment. Identifying specific COVID actions and removing them increases uncertainty about effect on prices going forwards making it more difficult to manage risk, which the BSUoS price cap option avoids. Options which just identify a cost level which is removed from all periods and do not seek to remove specific COVID cost effects are arbitrary in nature and work against competition.

Vote 2 – ***Which option is the best?***

Panel Member	BEST Option?
Andy Pace	Baseline
Cem Suleyman	Baseline
Garth Graham	WACM8
Grace March	Baseline
Jon Wisdom	WACM6
Joseph Dunn	WACM8
Mark Duffield	WACM1
Paul Mott	WACM5
Paul Jones	WACM2

Panel conclusion

The CUSC Panel recommended by majority that none of the proposed solutions better facilitated the CUSC Objectives than the Baseline. The table below shows how many votes were in favour of the proposed solutions being better than the Baseline.

Proposed Solution	Of the 9 votes, how many said that this option was better than the Baseline
Original	3
WACM1	3
WACM2	4
WACM3	0
WACM4	0
WACM5	3
WACM6	4
WACM7	1
WACM8	3

When will this change take place?

Implementation date:

The proposed implementation date for the Original is 23 June 2020.

The Proposer has requested that implementation is backdated such that it covers the Covid costs from 1 May 2020 to the Implementation Date.

ESO noted that as long as this is approved by Ofgem by 23 June 2020, this can be backdated to cover the Covid costs that applied from 1 June 2020.

However, a separate credit note reconciliation process would be needed for Covid costs from 1 May 2020 to 31 May 2020.

Acronym table and reference material

Acronym	Meaning
BEIS	Department for Business, Energy and Industrial Strategy
BSUoS	Balancing Services Use of System
ESO	Electricity System Operator
FY	Financial Year
I&C	Industrial and Commercial
II	Interim Initial
NGET	National Grid Electricity Transmission plc
NPV	Net Present Value
ODFM	Optional Downward Flexibility Management
RF	Reconciliation Final
SF	Settlement Final
SEL	Stable Export Limit
VoLL	Volume of Lost Load
WACM	Workgroup Alternative CUSC Modification

Reference material:

1. ESO revised BSUoS forecasts – 15 May 2020
2. ESO Covid seminar on 25 March 2020
3. Ofgem's open letter on managing the impact of COVID-19 on the energy market dated 2 June 2020
4. Changes to the Electricity Supplier Obligation Regulations in response to COVID-19: government response dated 5 June 2020

Annexes

Annex	Information
Annex 1	CMP345 Proposal Form
Annex 2	Terms of Reference
Annex 3	Urgency Letters
Annex 4	Proposer's Presentation on Original and addressing Terms of Reference
Annex 5	Business Rules for Original Proposal
Annex 6	Workgroup Consultation Responses Summary Table

Annex 7	Workgroup Consultation Responses
Annex 8	Legal Text
Annex 9	Workgroup Alternative CUSC Modifications – WACM1 to WACM8
Annex 10	Workgroup Review of Proposed Alternative Solutions
Annex 11	Workgroup Vote
Annex 12	Code Administrator Consultation Summary
Annex 13	Code Administrator Consultation Responses