

CUSC Workgroup Consultation Response Proforma**CMP350: 'Changes to the BSUoS Covid Support Scheme'**

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses to cusc.team@nationalgrideso.com by **5pm on 27 July 2020**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

If you have any queries on the content of this consultation please contact Paul Mullen at paul.j.mullen@nationalgrideso.com or cusc.team@nationalgrideso.com.

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CMP350

For reference the applicable CUSC Charging objectives are:

Relevant Objective
(a) That compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity;
(b) That compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard licence condition C26 requirements of a connect and manage connection);
(c) That, so far as is consistent with sub-paragraphs (a) and (b), the use of system charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses;
(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency. These are defined within the National Grid Electricity Transmission plc Licence under Standard Condition C10, paragraph 1 *; and
(e) To promote efficiency in the implementation and administration of the CUSC arrangements

Please express your views regarding the Workgroup Consultation in the right-hand side of the table below, including your rationale.

CMP350 - Standard Workgroup Consultation questions		
1	<p>Do you believe that the CMP350 Original Proposal better facilitates the Applicable CUSC Charging Objectives?</p>	<p>No. The proposal would set this summer’s BSUoS price so low as to be under where the BSUoS would have likely been, irrespective of covid. While we agree that BSUoS needs reviewing, to cap it so low this year and allow the ESO to carry the cost for the market before loading it back on consumers next year is unwarranted. This is therefore not the correct solution.</p> <p>In particular, it will distort competition by creating windfall gains and losses (so failing objective (a)), not only in moving the BSUoS costs between years, but also from the impact of the £100m cap. There is a real risk that the cap is hit and if that occurs the prices in the wholesale market will have to very quickly adjust, with only 2 days notice. The costs associated with managing this risk, notably for smaller parties such as ourselves who do not have the resources to persistently monitor BSUoS, must not be ignored and are discriminatory.</p> <p>For the longer term, this mod following so quickly after CMP345, has also added to regulatory uncertainty. We think it is a shame Ofgem chose to accept this follow on mod as urgent when the proposer could have raised this proposal under CMP345. To keep seeking to make changes to this one parameter because someone does not like the outcome of the prior decision undermines investor confidence at a time when there are already many changes in the market.</p> <p>FGG also do not believe that the BSUoS costs are now particularly related to covid. The demand level has increased to near “normal” and parties have had time to adjust their positions. While not everyone has been able to adjust all of their positions, we do believe that the market is moving in that direction. We recognise suppliers have signed longer, fixed price contracts, but that was a commercial decision for them and balance of risk they were prepared to take. It is not a CUSC defect if prices outturn differently from some market participants’ expectations.</p> <p>The market knew that demand was getting lower in summer and that BSUoS has been costly and volatile. BSUoS being capped at £15/MWh feels like a proportionate response, but £5/MWh does not. This would add to market distortions and force some</p>

		<p>customers to pay more next year than they gain this year. Suppliers that are financially stressed are able to get support through the networks, delayed CfD costs, etc. We do not think that further additional support as proposed by this mod is appropriate after CMP345.</p> <p>FGG note that, given the BSUoS methodology, this modification is also negative to objective (b) as it reduces cost reflectivity and creates a temporal distortion, which seems likely to be to the detriment of some customers, notably the domestic sector.</p> <p>On objective (c), it is not clear, as covid is not a change to the business of system balancing, but to the nature of the system the ESO must balance. However, high BSUoS (as a result of low demand) was already a market trend, so we would see this proposed change as if anything not taking account of developments but rather trying to avoid the developments.</p> <p>Unlike the current regime, which we did not support either, a move to a lower cap price will make hitting the £100m cap likely to happen quite quickly and therefore the costs of the mod will be high. Without robust evidence that the benefits outweigh the costs, this is negative against objective (e) as well.</p>
2	Do you support the proposed implementation approach for CMP350?	<p>No.</p> <p>In particular the market needs more notice of the cap being lifted so they can manage their positions in an economic and efficient manner. The two days must be working days to allow parties to manage their positions in what is not very a liquid market.</p>
3	Do you have any other comments?	No.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No.
Specific Workgroup Consultation Questions		
5	CMP350 Original proposes introducing a formal limit of £100m to the amount of Covid BSUoS Support Scheme costs which can be deferred. Do you agree that a formal limit of £100m should be introduced?	<p>We understand why the ESO feels there should be some limit and that in its decision letter on CMP345 Ofgem considered £100m as a cap on the cost that the ESO should be asked to carry. We would accept this cap only if it were extremely unlikely that it would be reached i.e. if the existing £15/MWh cap on individual half hour BSUoS prices were retained. Otherwise we think it could give rise to undue market uncertainty as we have highlighted above.</p>

6	<p>The ESO has included some initial thoughts on how the process would work when the £100m Cap is being approached and when it is reached. Do you agree with this approach? Please provide the rationale for your response</p>	<p>No. FGG believe that more than 48 hours notice is needed to allow parties a chance to manage their positions. We would note the GB market is not the most liquid market and if there was a very expensive day, for example, even the larger parties may find the cliff edge end to scheme difficult to manage.</p>
7	<p>CMP345 introduced a £15/MWh cap for BSUoS. The CMP350 Original proposes to revise this cap to £5/MWh due to the increased frequency of BSUoS costs above £5/MWh. Do you think it is appropriate to revise the cap for BSUoS to below £15/MWh and if so to what value? Please provide the rationale for your response including any supporting analysis</p>	<p>FGG did not support the £15/MWh cap as we believe that creates a distortion, we note that the proposer of the WACM had tried to capture the “abnormal costs of covid”, not just to try and cap BSUoS costs now and push the costs onto consumers in the future. We still remain in favour of having no further changes to BSUoS until a robust, longer term solution is agreed following the work of the BSUoS Task Force.</p> <p>If a lower cap was to be applied it should only be applied where demand is demonstrably impacted by covid, for example in periods where it is <15GW and not just as a blanket number for each period.</p>
8	<p>The Covid BSUoS support scheme introduced by CMP345 expires on 31 August 2020. The CMP350 Original proposes extending the expiry date to 30 September 2020 and a Workgroup Member has proposed extending this further to 25 October 2020. Do you think it is appropriate to extend the Covid BSUoS support scheme introduced by CMP345 and if so, to what date? Please provide the rationale for your response</p>	<p>If the price cap is £5/MWh then we believe that the £100m limit will be hit quite quickly so we do not believe any extension is sensible. By the time we get to September covid will also have been known about for c6 months, so cannot be seen as an unknown and the winter season forward prices should have captured market expectations under the existing regulatory position.</p> <p>The October extension seems entirely unnecessary as demand will be rising naturally as days shorten and average temperatures drop and it introduces unwarranted distortion into traded winter season prices which until this mod was raised have been traded absent this change.</p>