CUSC Code Administrator Consultation Response Proforma

CMP350 'Changes to support 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 **4 August 2020**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Panel.

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

Respondent details	Please enter your details
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For reference the applicable CUSC objectives are:

a. *That compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity;*

b. *That compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard licence condition C26 requirements of a connect and manage connection);*

c. *That, so far as is consistent with sub-paragraphs (a) and (b), the use of system charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses;*

d. *Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency. These are defined within the National Grid Electricity Transmission plc Licence under Standard Condition C10, paragraph 1 *; and*

e. *Promoting efficiency in the implementation and administration of the use of system charging methodology.*

**Objective (d) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).*

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

Standard Code Administrator Consultation questions		
1	Do you believe that the CMP350 Original solution, WACM1, WACM2,WACM3, WACM4, WACM5, WACM6 or WACM7 better facilitates the Applicable CUSC Objectives?	No, we do not believe the CMP350 Original or any of the WACM's better facilitate the Applicable CUSC Charging Objectives. In theory, a price-cap can provide some protection against exceptionally high priced BSUoS settlement periods. However, the proposer is trying to address an average increase in BSUoS costs, and capping the BSUoS rate is not an efficient way to tackle the issue. Fundamentally, a BSUoS Price Cap creates adverse distributional impacts which have a negative effect on competition. That effect is exacerbated by: • Lowering the cap value • Increasing the length of time a cap is in place • Increasing the amount of money deferred Moreover, neither £5/MWh nor £6.60/MWh represent unprecedented levels of BSUoS and COVID is not the sole driver of costs above this level. We are also now at the stage where levels of demand are returning to more normal levels. Therefore extending the scheme will lead to normal levels of balancing costs being deferred. As such, we believe the original proposal and all alternatives would have a detrimental impact on the cost reflectivity of BSUoS. **Applicable Objective (a) – Negative** Whilst decreasing the current BSUoS price cap, or increasing the length of time a cap is in place (as per the original and all WACMs), might greatly benefit some market participants, it will be detrimental to others. The impact that CMP350 will have on individual parties depends on their generation and demand profile. The cap would have a distortive effect as it would only defer amounts in certain periods, with most amounts being deferred through the overnight periods and weekends where BSUoS is typically at its highest. This is illustrated by the analysis done by Sembcorp in Annex 6 showing that a £5/MWh

		cap (per the Original and WACM4) would impact settlement periods overnight 3 times more than during the day. Whilst this may not necessarily be accurate for other cap values (as per WACM1, WACM2, WACM3, WACM5, WACM6 and WACM7), the analysis showed that BSUoS is generally significantly higher overnight. Therefore a cap will always be more frequently reached in the overnight periods compared to the day, consequently creating a competitive distortion between different market participants. When the deferred money is smeared back over 2021/22 settlement periods, there is a cross-subsidisation between those parties who had greater chargeable volumes in the periods where the cap was applied (mainly overnight) and those parties that had little or no chargeable volume in those capped periods. Redistribution of BSUoS costs in this way introduces an unjustified market distortion as it would arbitrarily and artificially benefit some market participants over others, which in turn would have a detrimental impact on competition. This will result in a negative outcome; the benefit a few market participants will get in the current charging year will be outweighed by increased costs on all other parties in the 2021/22 charging year. This is particularly detrimental where fixed contracts / trades have already been agreed for 2021/22. To summarise, any option which decreases the cap value or extends the scheme duration (as per the original and all WACMs) will be negative against competition. That said, some options will not be as detrimental as others. WACM3 which maintains the current £15/MWh cap but extends it by only a month would be the least detrimental. **Applicable Objective (b) – Negative** CMP350 seeks to address an average increase in BSUoS costs due to COVID by decreasing the current cap or increasing the scheme duration. Notwithstanding the competition issues, reducing the cap and extending the scheme is not cost-reflective. Some options seek to cap BSUoS at either £5/MWh or £6.60/MWh (Original, WACM1, WACM4 and WACM5). However, £5/MWh and £6.60/MWh BSUoS is considered relatively normal. This is

		supported by the ESO's analysis which shows that in 2019, roughly 17% and 10% of settlement periods respectively would have been above the caps. Similarly, analysis by Sembcorp, who plotted the distribution of BSUoS in 2019 using an Interquartile range "rule of thumb", showed that prices below £6.90/MWh were considered normal and not outliers. Therefore, setting the cap at £5/MWh or £6.60/MWh will lead to normal levels of balancing costs being deferred which is clearly not cost-reflective. Moreover, at the £5/MWh level, analysis by Uniper (Annex 6) shows that a £5/MWh BSUoS cap between April and September 2018 would have deferred £90 million of BSUoS costs in pre-COVID conditions. Whilst the equivalent figure would be larger for 2020, this analysis suggests that a cap of £5/MWh is unjustified and will result in a considerable amount of normally forecastable BSUoS costs being deferred. Indeed, the majority of which will already have been priced into contracts and trades. Moreover, deferring these BSUoS costs will increase 2021/22 BSUoS where some parties are likely to have already agreed fixed contracts and trades. Extending the COVID BSUoS support scheme (as per the original and all WACM's) at this stage will reduce BSUoS cost-reflectivity. Reduced demand has been the main driver of increased BSUoS costs and this was initiated by full lockdown in late March. We are now at the stage where levels of demand are returning to normal as lockdown measures continue to be relaxed. This is supported by the chart in the consultation which shows that demand is only approximately 5% less than "normal" at this time. Extending the scheme will inevitably lead to normal balancing costs being deferred which could have been reasonably foreseen by market participants and are not a defect that needs to be addressed. Overall, we believe all the options would reduce BSUoS cost reflectivity. That said, some options will not be as detrimental as others. WACM3 which maintains the current £15/MWh cap and extends the scheme by only a month would be the least detrimental option.

2	Do you support the proposed implementation approach?	Should Ofgem approve either the original or any of the alternatives, the implementation approach seems reasonable.
3	Do you have any other comments?	No.