

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.

Respondent details	Please enter your details
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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	Do you believe that the CMP350 Original Proposal better facilitates the Applicable CUSC Charging Objectives?	Yes, we believe that the Original Proposal better reflects the entire unforeseen impact of Covid on BSUoS prices thereby allowing these to be recouped. This in turn means that generators and suppliers can better reflect the true costs of Covid to the end consumer on an equal footing ensuring better competition. The baseline only currently considers extreme prices (>£15/MWh) and not the higher likelihood of higher than expected prices i.e. without Covid we might have expected to see prices above £2.5/MWh 62% of the time whilst what we have actually seen is prices above £2.5/MWh 93% of the time (data taken from Original Proposal analysis)
2	Do you support the proposed implementation approach for CMP350?	Yes, we believe that switching to a more cost reflective cap as soon as possible is the best approach and that extending the cap mechanism to the end of September is also justified based on the normalised BSUoS volumes. We also acknowledge the 'risk' that NGENSO is being asked to take through cost deferral and that an industry cap of £100m is proportionate and sensible.
3	Do you have any other comments?	We have considered an alternative cap of £6.60/MWh which we believe better reflects the improving situation for demand and hence BSUoS prices in recent weeks. We believe that the basic methodology of the Original Proposal is sound but have used a more recent BSUoS distribution to calculate the cap (£6.60/MWh) which returns an average value of £4/MWh. Estimates for the total deferred costs are £67m-£83m based on the same methodology as the Original where estimates for deferred costs are £88m-£108m (with the £100m industry cap keeping this to £88m-£100m).
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No, we have raised a Workgroup Alternative
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?	Yes, we believe that an industry cap is necessary to protect the financeability of NGENSO. £100m was identified by Ofgem as the level to which they were happy to expose NGENSO without further consideration. We see no reason why this level should not be used.

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>We support the Original Proposal's thinking on how the £100m cap process would work (ESO to give 2 days' notice of when the scheme will end based on best endeavours forecasting of when the £100m level will be reached). Without a hard stop date, we believe that this will cause trading companies significant problems in trying to correctly price products (though only for a short period).</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>We do believe that the £15/MWh cap introduced in CMP345 does need revising as it does not correctly capture the additional unforeseen Covid costs associated with higher frequencies of moderate prices i.e. under business as usual, a prudent supplier may have expected to see BSUoS prices above £2.5/MWh 62% of the time whereas in reality we have seen BSUoS prices above £2.5/MWh 93% of the time. Therefore, in order to bring the overall average BSUoS price down to a foreseeable level (£4/MWh as derived in the Original Proposal analysis), capping BSUoS prices above a set level is a prudent solution.</p> <p>Whilst we understand the Original Proposal cap of £5/MWh, this is based on the BSUoS price distribution across Apr-June when demand was very low and BSUoS prices were very high. Over the last few weeks we have seen a recovery of demand post lockdown (from ~20% lower than anticipated to ~5% lower than anticipated). We believe that the current level of demand and hence BSUoS prices gives a better indication of where BSUoS prices will be over Aug and Sept and therefore have used this to derive the cap level which we believe should be £6.60/MWh.</p> <p>We have enclosed a copy of our analysis in deriving this cap.</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,</p>	<p>We believe that the Original Proposal's analysis suggesting an expiry date of 30th Sept is convincing and that BSUoS prices are unlikely to move far away from what could be anticipated over the winter due to the higher demand levels expected. However, the likelihood of a second wave (and hence a second lockdown leading to higher than expected BSUoS) should not be completely ignored. We are open to extensions of the scheme beyond 30th Sept although the further forward any extension goes, the lower the portfolio of customers who are exposed becomes (as more customers renew onto contracts that take Covid impacts into account).</p>

	to what date? Please provide the rationale for your response	
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