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	Do you believe that the CMP350 Original Proposal better facilitates the Applicable CUSC Charging Objectives?	No. Similar to our response to CMP345 on which this is based, we have sympathy with the issue caused by low demands as a result of the Covid 19 pandemic, but there are problems with this proposed response. The cap of £15 which was introduced as the solution for CMP345 was meant to achieve a specific purpose – to address periods of very low demand (below 18GW) where high balancing costs were incurred by the ESO. It was specifically not intended to address a higher incidence of high, but not extreme prices. The level of £15/MWh was demonstrated to be a reasonable proxy for these periods. As there was a reasonably strong correlation between prices higher than £15/MWh and these very low demand periods, this also meant that market participants were in a better position to predict when the cap was likely to take effect. However, this relationship does not hold for lower levels of BSUoS and it will be extremely difficult to assess exactly which periods the cap is likely to impact. We note that the £4/MWh target has been calculated based on taking the three year trend of historic prices to extrapolate to an expectation of this year's prices, albeit with some finessing to add an error margin. We would expect a market participant would look at fundamentals more, such as views on reductions in demand, increasing levels of distributed resources being connected and a reduction in inertia on the system. Nevertheless, even assuming that the end objective is correct, it is questionable whether you should use a capping mechanism in order to get to an average price of £4/MWh over all periods. It is clear that lowering the cap to £5/MWh results not only captures "additional" periods of high BSUoS caused by the pandemic, but also prices which are likely to have occurred anyway. Analysis showing the effects the new cap would have had on previous years prior to the pandemic illustrates this. The figures showing how much cost would have been deferred in previous years, contained in the annexes to the consultation, are one example.

		Additionally, we have looked at the types of demand periods which a lower cap might impact upon. We have included analysis attached to this response showing demand duration curves for two periods assuming different cap levels of £5 and £15 respectively applied. One graph shows the effect on demands experienced so far in the time CMP345 has been applicable (25 June to 14 July 2020 using available published BSUoS information). The other shows how demand periods would have been impacted over the period April to September 2019. Both curves show that a significant number of demands higher than 18GW are affected by the lower level of price cap. Indeed, the £15 cap is not immune from this effect, but the levels are far more modest. Another problem with the approach suggested for CMP350 is that it would affect a supplier's or generator's entire portfolio equally. Parties generally make decisions on their contracting strategy which are designed to ensure that they achieve a balance of risk between being locked into long term prices which could turn out to be uncompetitive and being exposed to short term price fluctuations. This is a constantly evolving process, so there is an expectation that at any point in time a party's portfolio will consist of a combination of long term contractual positions recently entered into, those which are older and need replacing, shorter term positions and exposure to very near term trading. Similarly, suppliers will have a portfolio of contracts and tariffs with customers of different lengths, some with some time to run, some coming to an end soon, others which have more recently been entered into, some which fix BSUoS prices and others which allow some recovery of additional cost. CMP350 would provide "relief" regardless of the party's position, or whether it adopted a prudent contracting strategy. It is also safe to assume that market participants will have recently taken into account both expectations of higher BSUoS prices and the subsequent impact of CMP345. CMP350 if adopted would negate the decisions taken on this basis and quite considerably so given the proposed decrease in the cap. Anyone who rightly factored in higher costs to fixed contractual positions will end up having a benefit or cost depending on which side of those deals they find themselves.

		We believe that these impacts go far further than addressing the defect stated for both CMP345 and CMP350, and will be detrimental to competition in both the retail and wholesale markets.
2	Do you support the proposed implementation approach for CMP350?	No.
3	Do you have any other comments?	No thank you.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No thank you.
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?	The £100m cap becomes necessary due to the wide ranging impact that a lower cap would have. It is highly unlikely to be necessary under the existing cap level. A cap could be sensible, but we agree with the workgroup that it would need to be managed carefully with improved transparency to the market, so that those trading on the basis of the new cap operating can better manage its end. However, it should be remembered that managing the effects of the scheme in itself will be difficult enough without this added complication.
6	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	What is being suggested is as reasonable as the ESO is in a position to provide. It helps but does not eliminate the risk for market participants.
7	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	No, it should not be reduced. The £15 cap was developed by analysing recent historic BSUoS prices costs and demand, to ensure it was a reasonable proxy for very low demand periods with high costs. As we mention in our response to question 1, it is not an appropriate mechanism to deliver an average price of £4/MWh across all periods as a whole using a lower cap level.

8	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	The date adopted for CMP345 was proposed as this was the period over which the defect was stated to exist. We note the proposer for CMP350 has provided a separate rationale for extending this, but we nevertheless do not agree that it should, particularly with a cap of £5/MWh which would just prolong the considerable uncertainty this proposal would introduce. Extending the scheme until the October clock change to us seems excessive and without proper justification.