

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?	<p>No.</p> <p>This proposal is clearly worse than the baseline against objective a). It is anti-competitive just in the fact that it has been raised in that it is addressing a concern that was just dealt with (with considerable industry time and effort) with CMP345 and is asking for an almost revisit of the same issue larger parties may have time for this flagrant misuse of the self-governance rules, but smaller parties do not.</p> <p>Further, this is harmful against objective a) for the same reason that CMP345 was: namely that it creates winners and losers without any convincing analysis to suggest that the redistribution is fair or justified. It reduces competitiveness by raising the spectre of regulatory reliability, when investors are learning how easy it is for larger players to raise code mods that will undermine their competitors' position.</p> <p>This mod is clearly negative against Objective b), as it completely undermines any relationship between operating costs and charges by virtue of extending the size of the temporal distortion.</p> <p>This mod is also negative against objective c) as it will undermine the relationship between high renewables and low demand that would have been evident in the market already and that parties should have made some effort to incorporate into business plans. These dynamics have been strengthening for years, and BSUoS costs have been drifting up for years. Covid arguably have a blip affect a couple of months ago but this is becoming less and less credible by the day.</p>
2	Do you support the proposed implementation approach for CMP350?	<p>We do not agree that this mod should be accepted, and so do not agree with the implementation.</p> <p>The one point of acceptability is that it does not seek to be retroactive – this is fundamentally important.</p>
3	Do you have any other comments?	<p>Whether the nuclear deal is going to be extended is relevant to the rationale and justification for extending the date of CMP245 and for lowering the cap. If the ESO does not feel that this deal should be extended then,</p>

		along with demand that is almost at pre-Covid levels, it is very difficult to see how one could justify this mod.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	<p>Yes – forthcoming.</p> <p>We shall propose to extend CMP345 to the end of September as being better than the original proposal. We do this solely and reluctantly to hedge against a worse outcome, considering that the baseline is preferred against the objectives.</p>
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>If this mod is going to be accepted (and we hope it is not), then it is critical that there is a cap.</p> <p>This mod will impose significant carrying costs to the ESO and having a cap provides some comfort to ESO shareholders. As to whether this cap is high enough to have a detrimental impact on the cost of carry for the ESO is for them to determine, but it will certainly not lower it relative to the baseline.</p> <p>This mod could have an additional indirect impact on the ESO's cost of carry – as this mod is the second to be raised to address this issue. It could raise flags and increase financing risk to the ESO if it appears that they are subject to financing CUSC mod after CUSC mod. Who knows what mod will be raised to address the same or similar issue in the future?</p>
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	<p>We are happy to concede to the ESO on this matter as they are party that will be most negatively affected by this mod.</p> <p>That said, we note that however this is done, it will be problematic for parties in the market that are hedging positions for the coming weeks. With liquidity already an issue (that Ofgem is looking at in a separate workstream) it doesn't seem sensible to create cliff edges and uncertainty – all of which are completely avoidable by rejecting this mod.</p>
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	<p>No.</p> <p>The reasons we have outlined in question 1 – this mod is not better than the baseline. It is not a defect of the CUSC that parties lock in customers' rates in a certain</p>

	<p>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>way, or that generators hedge or don't hedge in different ways.</p> <p>In addition, we would point out that demand is nearly back to pre-Covid levels. It is getting harder to claim that the low demand periods are related to Covid.</p> <p>Parties that did not incorporate rising BSUoS costs into their commercial strategies should not be wielding the CUSC against competitors or consumers.</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>No.</p> <p>However, in the interest of compromise and as a hedge against an even worse outcome (given we prefer the baseline), we will (grudgingly) raise a mod extending CMP345 to the end of September with the £15/MWh cap remaining.</p>