

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	<p>Do you believe that the CMP350 Original Proposal better facilitates the Applicable CUSC Charging Objectives?</p>	<p>No. CMP350 Original Proposal does not better facilitate the Charging Objective (e), as this modification will be a heavier administrative burden than CMP345, should the £100 million limit proposed be reached. As noted in the workgroup consultation, in order to reduce the ESO’s financial exposure additional monitoring and reporting would be required throughout the period – and in addition to ensure that stakeholders had sufficient warning of when the £100 million cap would be reached and the Covid Support Scheme would end.</p> <p>We understand the need for regulatory flexibility to support electricity suppliers at this time and we are conscious of the financial pressures that have been placed on electricity suppliers. However, the format of a CUSC modification means that the consultation looks at this issue in isolation. A wider examination of Covid-19 related costs, with the scope to take a market-wide perspective could be useful to identify how costs and impacts can be spread fairly.</p> <p>CMP350 does not better the facilitate CUSC Charging Objectives to promote competition in the generation and sale of electricity. The return of high and volatile BSUoS charges caused by the £100 million limit being reached would create additional instability in the market at a time when there is already a great deal of uncertainty. It could also see certain generators penalised – for instance, smaller generators and suppliers may not have the resources to keep informed and up-to-date every day on the rate at which the £100 million cap is being reached, and therefore would be at risk of being caught unawares when the Covid Support Scheme ended upon the limit being reached. In particular, since smaller electricity suppliers and generators are more likely to be renewable energy-based businesses, there would be a risk of causing a market imbalance broadly in favour of larger, non-renewable participants. The arrangements proposed would advantage larger suppliers and generators.</p>

		<p>The modification also risks undermining fair competition in the generation of electricity by reducing the BSUoS payments to embedded generation – though we recognise that higher BSUoS costs benefit embedded generation under the current arrangements, this is a very short timescale to make a significant policy change that would have financial impacts on embedded generators, the vast majority of which are small businesses. Although BSUoS may outturn higher than forecast at the start of 2020, the impact of lower outturn demand will dramatically reduce the value of the ROC Recycle payment for those businesses still supported by ROC income. Most embedded generators will not had sufficient time to become aware of this proposal, nor the resources to respond in a short time-frame.</p>
2	Do you support the proposed implementation approach for CMP350?	<p>No – see above comments regarding the additional administrative burden; risk of skewing the market in favour of larger participants; and unsuitability of an urgent CUSC modification for making a policy change that affects smaller market participants as well as larger stakeholders.</p>
3	Do you have any other comments?	<p>Should there be savings from a revised BSUoS Covid Support Scheme introduced under CMP350 then there could be some savings passed on to consumers this year, if suppliers chose to pass on the savings.</p> <p>However, it is unlikely that supply companies would have time to pass this cost reduction through their tariffs, so it is fairly likely that this would head to the bottom line of supply companies.</p> <p>In this case this would lead to higher costs for customers next year when the debt would need to be repaid. Given the economic uncertainty the country is facing, and the ongoing nature of the pandemic, it is not clear that customers will be in a better financial position to pay higher bills next year than they are now.</p> <p>It is therefore unclear to us why this in consumer interests. Should the economic situation worsen or demand suppression continue for the long-term, then the tens of millions that would be expected to be deferred into 2021-22 could add to the financial burden on consumers next year.</p>

		Furthermore this proposed change being brought in so swiftly after CMP345 appears to undermine investor confidence in a stable, predictable regulatory regime.
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?	While we don't support the modification CMP350, we do believe that should the modification be passed a formal limit would be necessary to prevent the ESO from having to finance a higher amount of debt.
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	Click or tap here to enter text.
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	<p>No, although we recognise this is an extremely difficult time for all participants in the market. We appreciate that the scale of the challenges faced by electricity suppliers are enormous and varied, and that pressures have been intense due to customers being unable to pay their bills, and the lower electricity price.</p> <p>However, demand levels are returning to near-normal for this time of year. As noted by some workgroup members, the proposed £5/MWh cap is a very low estimate of what might be seen in a summer period and BSUoS may have been expected to breach this cap frequently this summer even without the Covid effect.</p> <p>Volatility in BSUoS costs is a structural issue (which deserves attention) and this could be more appropriately dealt with in a longer and more wide-ranging</p>

		consultation, in which all stakeholders would have reasonable opportunity to respond.
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>Extending the scheme further prolongs the uncertainty over whether the cap may be reached during October if it has not been reached during September, and the most likely outlook is for life and business to be progressing along a pathway back to normality, leading to less Covid effect within electricity demand.</p>