

# CMP350:

**Mod Title:** Changes to the BSUoS Covid Support Scheme

01	Proposal Form
02	Workgroup Consultation
03	Workgroup Report
04	Code Administrator Consultation
05	Draft CUSC Modification Report
06	Final CUSC Modification Report

**Purpose of Modification:** To change the Covid Support Scheme by reducing the current £15/MWh cap, extending its application to 30<sup>th</sup> September 2020 and introducing a limit of £100m for the amount of deferred Covid Costs.

	<p><b>The Proposer recommends that this modification should be:</b></p> <ul style="list-style-type: none"> <li>be treated as urgent and should proceed as such under a timetable agreed with the Authority</li> </ul> <p>This modification was raised <i>dd month year</i> and will be presented by the Proposer to the Panel on <i>dd month year (Code Administrator to provide date)</i>. The Panel will consider the Proposer's recommendation and determine the appropriate route.</p>
	<p><b>High Impact:</b> Suppliers and Generators</p>
	<p><b>Medium Impact:</b> NGESO</p>
	<p><b>Low Impact</b></p>

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Timetable		 email address
<i>The Code Administrator will update the timetable.</i>		 telephone
<b>The Code Administrator recommends the following timetable:</b> <i>(amend as appropriate)</i>		Proposer: George Moran
Initial consideration by Workgroup	dd month year	 george.moran@centrica.com
Workgroup Consultation issued to the Industry	dd month year	 07557 611983
Modification concluded by Workgroup	dd month year	National Grid ESO Representative: Insert name
Workgroup Report presented to Panel	dd month year	 email address.
Code Administration Consultation Report issued to the Industry	dd month year	 telephone
Draft Final Modification Report presented to Panel	dd month year	
Modification Panel decision	dd month year	
Final Modification Report issued the Authority	dd month year	
Decision implemented in CUSC	dd month year	

## Proposer Details

<b>Details of Proposer:</b> (Organisation Name)	British Gas
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Capacity in which the CUSC Modification Proposal is being proposed: (i.e. CUSC Party, BSC Party or "National Consumer Council")	CUSC Party
<b>Details of Proposer's Representative:</b> Name: Organisation: Telephone Number: Email Address:	George Moran British Gas 07557 611983 <a href="mailto:George.moran@centrica.com">George.moran@centrica.com</a>
<b>Details of Representative's Alternate:</b> Name: Organisation: Telephone Number: Email Address:	Andy Manning British Gas 07789 575553 <a href="mailto:Andy.manning2@centrica.com">Andy.manning2@centrica.com</a>
<b>Attachments (No):</b> <b>If Yes, Title and No. of pages of each Attachment:</b>	

## Impact on Core Industry Documentation.

*Please mark the relevant boxes with an "x" and provide any supporting information*

<b>BSC</b>	<input type="checkbox"/>
<b>Grid Code</b>	<input type="checkbox"/>
<b>STC</b>	<input type="checkbox"/>
<b>Other</b>	<input type="checkbox"/>

(Please specify)

None expected.

## 1 Summary

### Glossary of terms used in this document

Acronym	Description
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BSUoS	Balancing Services Use of System (charges), as set out in Section 14 of the CUSC.
ESO	Electricity System Operator (often referred to as 'NGESO' or more formally in the CUSC as 'The Company')
CMP345	Connection and Use of System Code (CUSC) CMP345: Defer the additional COVID-19 BSUoS costs

## Defect

The current Covid Support Scheme (£15/MWh cap on BSUoS) is set at a level that does not provide sufficient protection to market participants against the exceptional BSUoS costs caused by Covid-19.

The end date of the scheme does not take account of the potential for exceptional BSUoS costs to occur beyond 31st August 2020.

There is also no limit to the overall amount of Covid Costs from 25th June 2020 that can be deferred. Introducing a limit will provide more certainty to market participants and facilitate the continued financeability of the ESO.

## What

The current arrangements are set out in 14.30.11 – 14.30.15 of the CUSC – under the section entitled '**Covid-19 specific changes**'. The changes proposed by this modification are limited to this section of the CUSC.

### **Reducing the £15/MWh cap to £5/MWh:**

We propose the new cap should apply from 1<sup>st</sup> August 2020. Therefore, the current £15/MWh cap used to determine 'Covid Costs' should be time bound to end on 31<sup>st</sup> July 2020, and a new £5/MWh cap added to apply from 1<sup>st</sup> August 2020.

### **Extending the application of the Scheme to 30<sup>th</sup> September 2020:**

The end date of the Covid Support Scheme should be changed to 30<sup>th</sup> September 2020, subject to the limit to the amount of deferred Covid Costs introduced below.

### **Introducing a limit to the amount of deferred Covid Costs:**

Amend the 'Covid-19 specific changes' section of the CUSC to introduce a cap of £100m to the amount of Covid Costs which can be deferred.

All other aspects of the approved CMP345 will remain unchanged and are not within the scope of this Modification.

## Why

### **Reducing the £15/MWh cap to £5/MWh:**

The Covid pandemic has resulted in demand reductions that even prudent market participants could not have foreseen or incorporated into all of their commercial decisions for summer 2020. This demand reduction has led to increased actual and forecast balancing costs that are exceptional in nature.

CMP345 introduced a £15/MWh cap for BSUoS to provide protection against exceptional BSUoS **price levels**. However, the solution introduced by CMP345 fails to consider the impact Covid has had on the exceptional **frequency** of higher BSUoS rates across a much broader range of BSUoS price levels. We believe a cap of £5/MWh provides a necessary and more appropriate level of protection for market participants which addresses both the instances of exceptionally high levels of BSUoS prices as well as the exceptional frequency of high levels of BSUoS prices.

### **Extending the application of the Scheme to 30<sup>th</sup> September 2020:**

The current Covid Support Scheme is scheduled to end on 31<sup>st</sup> August 2020, however there is clearly the potential for the impact of Covid-19 to continue to drive low levels of demand and exceptional BSUoS costs into September when underlying demand levels typically remain low, and as has been recognised by the ESO in its updated June 2020 BSUoS scenarios.

### **Introducing a limit to the amount of deferred Covid Costs:**

The current Covid Support Scheme does not have a limit to the amount of cost that can be deferred. In approving CMP345 Ofgem noted that there was a limit to the amount of liquidity that could be provided by NGENSO, under current arrangements, and stated that it would be efficient and appropriate, should the level of BSUoS costs being deferred approach £100m, to consider further how to mitigate the NGENSO's exposure. We believe introducing a formal limit of £100m to the amount of Covid Costs which can be deferred is therefore an efficient and appropriate mitigation to build into the CUSC.

## **How**

### **Reducing the £15/MWh cap to £5/MWh:**

We propose the new cap should apply from 1<sup>st</sup> August 2020. Therefore, the current £15/MWh cap used to determine 'Covid Costs' in CUSC section 14.30.12 should be time bounded to end on 31<sup>st</sup> July 2020, and a new £5/MWh cap added to this section to apply from 1<sup>st</sup> August 2020 to the end date of the scheme.

### **Extending the application of the Scheme to 30<sup>th</sup> September 2020:**

The end date of the Covid Support Scheme set out in CUSC section 14.30.13 should be changed to 30<sup>th</sup> September 2020, subject to the overall limit on the amount being deferred.

### **Introducing a cap to the amount of deferred Covid Costs:**

Amend the 'Covid-19 specific changes' section of the CUSC to introduce a limit of £100m to the amount of Covid Costs which can be deferred. In effect the scheme will end if the £100m limit has been reached.

## 2 Governance

### Justification for Urgent Procedures

In our view, the unprecedented Covid-19 event has led to exceptional and substantial additional BSUoS costs that could not have been reasonably forecast by the ESO or market participants. It is “a current issue that if not urgently addressed” will have “a significant commercial impact on parties, consumers or other stakeholder(s)”.

Ofgem’s Urgency Criteria	Proposer’s Justification
a) A significant commercial impact on parties, consumers or other stakeholder(s).	The ‘significant commercial impact’ arises for both Suppliers and Generators as they could not have forecasted or expected such exceptional BSUoS prices through summer 2020. Under the status quo arrangements those parties who pay BSUoS will, for the most part, be unable to recover the amount concerned via retail tariff changes (for Suppliers) or via wholesale price increases (for Generators). These parties face a significant commercial impact from this current issue. Whilst CMP345 offers limited protection against more frequent instances of exceptional BSUoS price levels, market participants remain exposed to the impact of the exceptional increase in frequency of BSUoS prices across a much broader price range.
b) A significant impact on the safety and security of the electricity and/or gas systems.	n/a
c) A party to be in breach of any relevant legal requirements	n/a

### Requested Next Steps

This modification should:

- be treated as urgent and should proceed as such under a timetable agreed with the Authority

This proposal should proceed to an Urgent timescale such that the change, if approved, is applied from the 1st August 2020, or as soon as possible thereafter following an Ofgem decision. For clarity, we do not seek retrospective implementation.

### 3 Why Change?

#### Reducing the £15/MWh cap to £5/MWh:

The current CUSC baseline offers insufficient protection to market participants from the exceptional impact of Covid-19. The existing £15/MWh cap provides protection against increased instances of exceptional BSUoS price levels. However, the solution introduced by CMP345 fails to consider the impact Covid-19 has had on the exceptional **frequency** of higher BSUoS rates across a much broader range of BSUoS price levels. This is demonstrated by Figure 1 below:

Figure 1: Frequency of Summer HH BSUoS greater than...

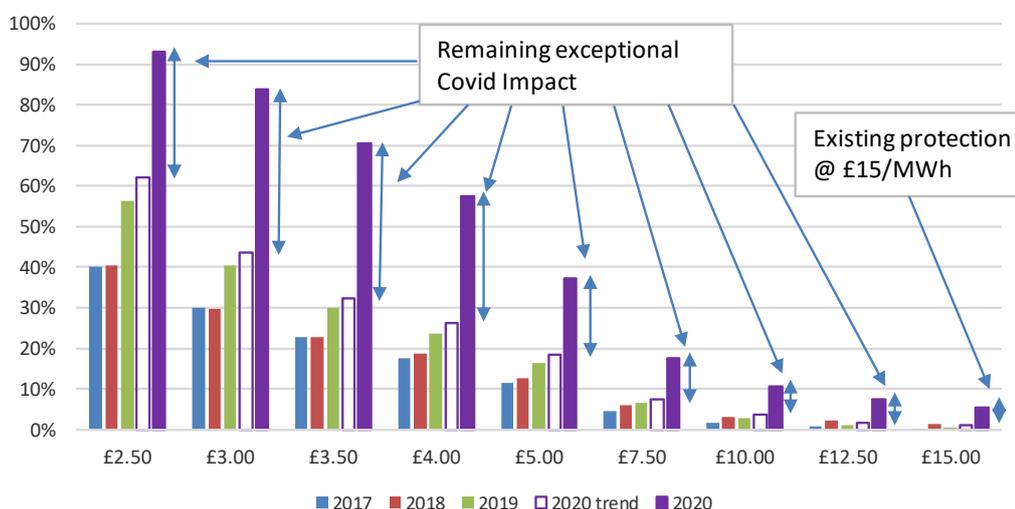


Figure 1 demonstrates that the exceptional impact of Covid-19 is not limited to the increased instances of extreme BSUoS prices above £15/MWh (c. 99<sup>th</sup> percentile of BSUoS rates), but also includes the exceptional increase in the frequency of BSUoS rates across a much broader price range. Using data from the summers (Apr-Sep) of 2017-2019 we have plotted the trend in how frequently BSUoS could be expected to outturn higher than a range of different price levels (the hollow purple column in the chart) and compared this to what has been observed so far in the summer of 2020 (purple column). We consider that the trended frequency distribution represents an objective view of the reasonable expectation of market participants since they take account of the observed increases in both the absolute level of BSUoS and BSUoS volatility over the last few years. The difference between the observed 2020 levels and the trended 2020 levels can therefore be considered to be a reasonable representation of the exceptional impact of Covid-19. This demonstrates that the existing £15/MWh cap does not offer sufficient protection for market participants from the unforeseen impact of Covid-19.

Our proposal is to lower the cap to £5/MWh, to apply from 1 August 2020. In considering what level the cap should be lowered to, we have sought a value which will objectively reflect the increase in overall BSUoS rates for summer 2020 which a prudent market

participant could not have foreseen and taken account of in commercial planning for the summer.

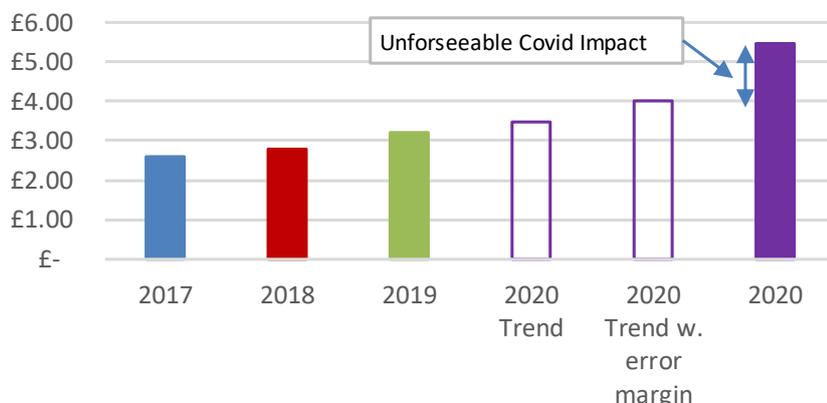
Using a trend of observed BSUoS rates over previous summers to project what a market participant could have anticipated for summer 2020 provides an estimated BSUoS rate of £3.48/MWh for summer 2020. This 'central' view is not too dissimilar, but is higher, than all of the forecasts for summer 2020 provided by National Grid ESO from the end of summer 2019 through to January 2020 (averaged £3.28/MWh, see Table 1). We use this as a sense check for the objectively constructed trend estimate of £3.48/MWh.

We then build in an error margin to reflect the likely actions a prudent market participant would take when seeking to price BSUoS for summer 2020 ahead of time. For this, we have used the average difference between the central forecast and the 'high error band' forecast provided by National Grid ESO for each of those forecasts for summer 2020. This is set out in Table 1 below:

	<b>Central</b>	<b>High error</b>	<b>Difference</b>
Sep-19	£ 3.25	£ 3.69	14%
Oct-19	£ 3.25	£ 3.75	15%
Nov-19	£ 3.25	£ 3.79	17%
Dec-19	£ 3.26	£ 3.70	14%
Jan-20	£ 3.36	£ 3.82	14%
<b>Average</b>	<b>£ 3.28</b>	<b>£ 3.75</b>	<b>15%</b>

The high error margin used by National Grid ESO averages 15% and we apply this error margin to the previously derived central view of £3.48 to produce a high error band view of £4.00/MWh. We believe £4.00/MWh is an objectively justified prudent estimate of the overall level of BSUoS for summer 2020 and an average rate in excess of this represents the increase in overall BSUoS costs which a prudent market participant could not have foreseen and taken account of in commercial planning for the summer.

Figure 2: Summer BSUoS Rates

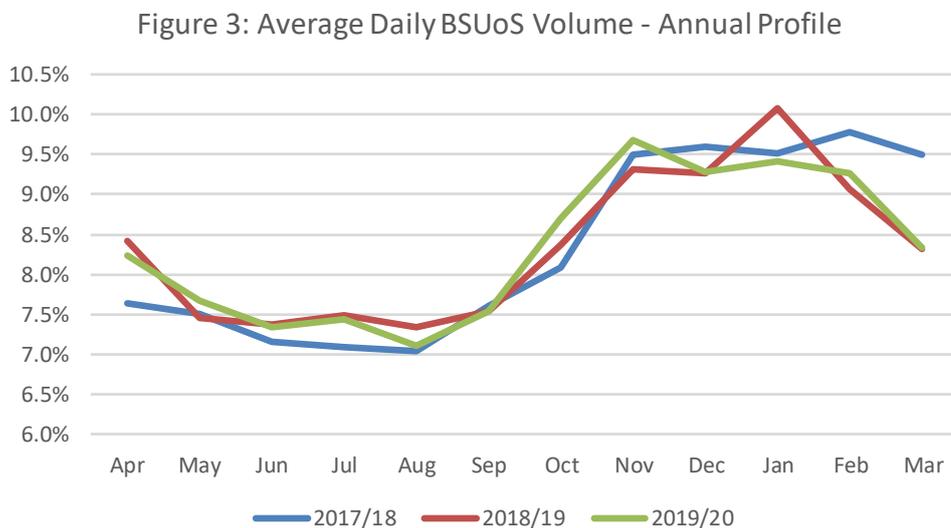


Year	BSUoS (£/MWh)
2017	£ 2.60
2018	£ 2.77
2019	£ 3.22
2020 Trend	£ 3.48
2020 Trend w. error margin	£ 4.00
2020	£ 5.46

To derive the proposed £5/MWh cap, we look at the outturn BSUoS data to date for summer 2020 (Apr-20 to Jun-20), and goal seek a half hourly cap which would have produced an overall average rate of £4.00/MWh. The required half hourly cap to achieve this is £4.97/MWh, which we have rounded to £5.00/MWh. It is important to note that this lower cap would only have fully protected prudent market participants if it was applied from 1 April 2020. Since the proposal is to apply the lower cap from 1 August 2020, it will still result in significant losses for prudent market participants due to the unforeseen impacts of Covid-19.

**Extending the application of the Scheme to 30th September 2020:**

The current Covid Support Scheme is scheduled to end on 31st August 2020, however there is clearly the potential for the impact of Covid-19 to continue to drive low levels of demand and exceptional BSUoS costs into September 2020, when underlying demand levels typically remain low (see Figure 3), and as has been recognised by the ESO in its updated June 2020 BSUoS scenarios.



**Introducing a limit to the amount of deferred Covid Costs:**

The current Covid Support Scheme does not have a limit. In approving CMP345 Ofgem noted that there was a limit to the amount of liquidity that could be provided by NGENSO, under current arrangements, and stated that it would be efficient and appropriate, should the level of BSUoS costs being deferred approach £100m, to consider further how to mitigate the NGENSO’s exposure. We believe introducing a formal limit of £100m to the amount of Covid Costs which can be deferred is therefore an efficient and appropriate mitigation to build into the CUSC.

**4 Code Specific Matters**

**Technical Skillsets**

Knowledge of Section 14 of the CUSC.

## Reference Documents

Section 14 of the CUSC

CMP345 Final Modification Report

CMP345 Ofgem Decision

## 5 Solution

### **Reducing the £15/MWh cap to £5/MWh:**

We propose the new cap should apply from 1<sup>st</sup> August 2020. Therefore, the current £15/MWh cap used to determine 'Covid Costs' in CUSC section 14.30.12 should be time bounded to end on 31<sup>st</sup> July 2020, and a new £5/MWh cap added to this section to apply from 1<sup>st</sup> August 2020 to the end date of the scheme.

### **Extending the application of the Scheme to 30<sup>th</sup> September 2020:**

The end date of the Covid Support Scheme set out in CUSC section 14.30.13 should be changed to 30<sup>th</sup> September 2020, subject to the overall limit on the amount being deferred.

### **Introducing a limit to the amount of deferred Covid Costs:**

Amend the 'Covid-19 specific changes' section of the CUSC to introduce a limit of £100m to the amount of Covid Costs which can be deferred. In effect the scheme will end if the £100m limit has been reached.

## 6 Impacts & Other Considerations

This proposal will impact the CUSC (Section 14) and the processes of calculating and billing BSUoS. There should be little, if any, system impact as the change can use the existing processes introduced by CMP345. The introduction of a cap to the amount of deferred BSUoS costs will add an additional step to that process, but this is not considered to be a material change.

### **Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?**

This proposal does not have any impact on any ongoing Significant Code Review or other significant industry change as it involves the deferral of a (£) quantum of cost.

### **Consumer Impacts**

We believe this proposal will have a positive impact on consumers as it enables the recovery a greater portion of the exceptional costs associated with Covid-19, reducing the adverse impacts on competition of significant losses related to balancing costs that could not have reasonably anticipated.

## 7 Relevant Objectives

### Impact of the modification on the Applicable CUSC Objectives (Charging):

Relevant Objective	Identified impact
(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;	Positive
(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);	None
(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;	Positive
(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	None
(e) Promoting efficiency in the implementation and administration of the CUSC arrangements.	None

\*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).

**Applicable Objective (a):** The proposal will provide some mitigation against the exceptional losses likely to be incurred by Parties as a result of Covid-19. Deferring

costs to a future period will allow Parties to reflect these exceptional costs into future tariff offerings. Such protection, for exceptional events, that are high impact and low probability, such as Covid-19, will reduce the level of risk that will need to be factored into future tariffs and facilitate effective competition in the generation and supply of electricity. In our view this will, as a result, lower the long-term costs to consumers.

**Applicable Objective (c):** The introduction of a limit to the amount of Covid costs that can be deferred will help to ensure the continued financeability of the ESO.

## 8 Implementation

Implementation should be from 1<sup>st</sup> August 2020, or as soon as possible thereafter following an Ofgem decision. For clarity, we do not seek retrospective implementation.

## 9 Legal Text

Our suggested legal text changes are set out below:

14.30.11 *As a result of the Coronavirus-19 (Covid-19) pandemic, The Company will make specific and time-limited changes to the BSUoS methodology in this Section 2 to support those Users identified in 14.29.4. This will consist of deferring the BSUoS costs associated with Covid-19 (“Covid Costs”) from the calculation in 14.30.5 to a later date as described in 14.30.13 and 14.30.14 (the “Covid Support Scheme”).*

14.30.12 *Covid Costs shall be calculated as;*  
*If  $BSUoS_{TOT_j} \leq COVIDCAP_{TOT_j}$ , then  $BSUoS_{COVID_j} = £0$*   
*Or  $BSUoS_{TOT_j} > COVIDCAP_{TOT_j}$ , then  $BSUoS_{COVID_j} = BSUoS_{TOT_j} - COVIDCAP_{TOT_j}$*

*Where;*

*COVIDCAP<sub>TOT<sub>j</sub></sub>* is calculated as;

*From 25<sup>th</sup> June 2020 to 31<sup>st</sup> July 2020:*

*£15/MWh x [current formula]*

*From 1<sup>st</sup> August 2020 to Covid Support Scheme End Date:*

*£5/MWh x [current formula]*

14.30.13 *Between 2 working days from The Authority’s decision on CMP345 and the Covid Support Scheme End Date~~31<sup>st</sup> August 2020~~, the formula in 14.30.5 shall be updated so that Covid Costs ( $BSUoS_{COVIDjd}$ ) for Settlement Period  $j$  in Settlement Day  $d$  are removed as follows;*

$$BSUoS_{TOT_{jd}} = BSUoS_{EXT_{jd}} + BSUoS_{INT_{jd}} - BSUoS_{COVID_{jd}}$$

The Covid Support Scheme End Date shall be the earlier of:

- The 30<sup>th</sup> September 2020; or,
- The day after the cumulative total for BSUoSCOVID<sub>jd</sub> from 25<sup>th</sup> June 2020 exceeds £100m

14.30.14 During the Financial Year 2021/22, the formula in 14.30.5 shall be updated so that Covid Costs (BSUoSCOVID<sub>jd</sub>) for Settlement Period j in Settlement Day d are added as follows;

$$BSUoSTOT_{jd} = BSUoSEXT_{jd} + BSUoSINT_{jd} + BSUoSCOVID_{jd}$$

Where BSUoSCOVID<sub>jd</sub>, is the cumulative total Covid Cost of the Covid Support Scheme (including any administrative or financing cost borne by The Company, as agreed by The Authority) recovered equally from each Settlement Period in the Financial Year.

Outside of the date ranges listed in 14.30.13 and 14.30.14, the formula in 14.30.5 shall be unchanged and in effect.

14.30.15 The Company shall provide weekly updates to notify industry of the total Covid Costs removed under paragraphs 14.30.12 and 14.30.13.

## Text Commentary

Changes to 14.30.12 to time bound the current £15/MWh cap and introduce the new proposed £5/MWh cap from 1<sup>st</sup> August 2020. Changes to 14.30.13 to change the end date of the scheme to the earlier of 30<sup>th</sup> September or the day after the amount of deferred costs exceeds £100m.

## 10 Recommendations

### Proposer's Recommendation to Panel

We ask that the Panel recommend this proposal to the Authority as urgent with a timetable to facilitate the proposed implementation date of 1 August 2020 or as soon as possible thereafter following an Ofgem decision. For clarity, we do not seek retrospective implementation.