

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, we do not believe the CMP350 Original Proposal better facilitates the Applicable CUSC Charging Objectives.</p> <p>In principle, a price-cap can provide protection against exceptionally high priced BSUoS settlement periods. However, the proposer is trying to address an average increase in BSUoS costs, and capping the BSUoS rate in the proposed way is not an efficient way to tackle the issue. Fundamentally, a BSUoS Price Cap creates adverse distributional impacts which have a negative effect on competition. That effect is exacerbated the lower the cap value is set.</p> <p>Additionally, £5/MWh is not an unprecedented level of BSUoS and COVID is not the sole driver of costs above this level. As such, we believe the original proposal has a detrimental impact on the cost reflectivity of BSUoS.</p> <p>Applicable Objective (a) – Negative</p> <p>Whilst decreasing the current BSUoS price cap might greatly benefit some market participants it will be detrimental to others. The impact that CMP350 will have on individual parties depends on their generation and demand profile.</p> <p>The cap would have a distortive effect as it would only defer amounts in certain periods, with most amounts being deferred through the overnight periods and weekends where BSUoS is typically at its highest. This is illustrated by the analysis done by Sembcorp in Annex 6 showing that a £5/MWh cap would impact settlement periods overnight 3 times more than during the day.</p> <p>When the deferred money is smeared back over 2021/22 settlement periods, there is a cross-subsidisation between those parties who had greater chargeable volumes in the periods where the cap was applied (mainly overnight) and those parties that had little or no chargeable volume in those capped periods. Redistribution of BSUoS costs in this way introduces an unjustified market distortion as it would benefit some market participants over others, which in turn would have a detrimental impact on competition. Overall, this will result in a negative outcome; the benefit a few market participants will get in the current charging year will be</p>

		<p>outweighed by increased costs on all other parties in the 2021/22 charging year. This is particularly detrimental where fixed contracts / trades have already been agreed for 2021/22.</p> <p>Applicable Objective (b) – Negative</p> <p>The proposer seeks to address an average increase in BSUoS costs due to COVID by decreasing the current cap to £5/MWh. Notwithstanding the competition issues, reducing the cap to this level is not cost-reflective.</p> <p>£5/MWh BSUoS is considered relatively normal. This is supported by the ESO's analysis which shows that in 2019, 17% of settlement periods were above £5/MWh. Setting the cap at £5/MWh will inevitably lead to normal balancing costs being deferred which does not improve cost-reflectivity.</p> <p>This is supported by the analysis done by Uniper in Annex 6 which shows that a £5/MWh BSUoS cap between April and September 2018 would have deferred £90 million of BSUoS costs in pre-COVID conditions. Whilst the equivalent figure would be larger for 2020, this analysis suggests that a cap of £5/MWh is unjustified and will result in a considerable amount of normally forecastable BSUoS costs being deferred. Indeed, the majority of which will already have been priced into contracts and trades. Moreover, deferring these BSUoS costs will increase 2021/22 BSUoS where some parties are likely to have already agreed fixed contracts and trades.</p>
2	Do you support the proposed implementation approach for CMP350?	Should Ofgem approve CMP350 or any alternates, the implementation approach seems sensible.
3	Do you have any other comments?	The workgroup need to consider the financing cost of any deferral. The CMP350 original would most likely result in the maximum £100 million being deferred which is significantly more than what is expected to be deferred under the £15/MWh cap. Financing costs will be far more material at this level, yet these are currently unknown. It is important that these additional costs are transparent so that market participants can forecast 2021/22 BSUoS.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	Not at this stage.

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?	We agree that should the capped level be reduced as per the CMP350 Original, there should be a codified limit on the total amount to be deferred. This would provide some certainty and prevent a more substantial amount being deferred which would exacerbate the competition issues highlighted in our response to question 1.
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	Whilst we welcome the ESO's efforts to signal when the cap is being reached, we believe that the market requires absolute certainty of which settlement period the cap will cease to apply with at least 2 days' notice. This will avoid an unknown "cliff edge", where from one settlement period to the next the cap ceases to apply leading to BSUoS going from £5/MWh to a much greater value in the next settlement period without any notice to market participants. Such a scenario could disrupt and distort the short-term markets.
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	As expressed in our answer to question 1, we are opposed to a BSUoS cap and believe any reduction in the capped value would have a distortive effect on competition. A £15/MWh cap provides protection against exceptionally high BSUoS costs which would have likely been the result of COVID-19 conditions. Whereas, £5/MWh is considered to be broadly normal, as supported by the ESO's analysis which shows that 17% of settlement periods in 2019 were above this 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	No, we do not believe it is appropriate to extend the COVID BSUoS support scheme at this stage. Reduced demand has been the main driver of increased BSUoS costs and this was initiated by full lockdown in late March. We are now at the stage where levels of demand are returning to normal as lockdown measures continue to be relaxed. This is supported by the chart in the consultation which shows that demand is only approximately 5% less than "normal" at this time. Extending the scheme will inevitably lead to normal balancing costs being deferred which could have been reasonably foreseen by market participants and are not a defect that needs to be addressed.