

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	Do you believe that the CMP350 Original Proposal better facilitates the Applicable CUSC Charging Objectives?	<p>No</p> <p>The Modification will distort competition between different types of users as it goes beyond additional balancing costs due to Covid and affects normal BSUoS rates. Whilst the proposer is probably correct that there will be a greater frequency of higher Settlement periods (above £5/MWh), the modification seeks to limit all of them and so removes the higher periods that would be expected, as well as the unexpected instances. This will create a distortion between those users who are able to adjust their BSUoS position (such as suppliers who pass through BSUoS or generators who work in near-term markets) and those that fixed their position before May. Those users will potentially see a windfall gain, as the few higher periods they would expect to see under normal conditions will not come to pass.</p> <p>The £5/MWh cap will also come into effect more during overnight periods, as the day/night differential in demand is still present, despite overall demand reductions. This means parties that use the network overnight will be shielded to a greater extent and then less exposed to the deferred cost next year, as it will spread across all Settlement Periods.</p> <p>Whilst the current BSUoS charging methodology is not perfect, it is attempting to create a cost-reflective charge. Placing a limit that is well within the range of normal BSUoS is diluting this cost-reflectivity.</p> <p>There is likely to be a significant amount of manual work required by the ESO in order to implement this modification, as £5/MWh will be reached much more frequently than the current £15/MWh. This increased frequency could hinder the ESO's ability to fulfil their licensed obligations by increasing the risk of human error or poor information provision due to the slight delay built into the BSUoS process. The ESO could be exposed to reputational damage and damage to their relationship with industry. This risk is directly related to the low cap proposed and the speed at which this modification is proposed to be implemented.</p> <p>Whilst the overall limit of amount to be deferred of £100m is reasonable, it is not clear the ESO will be</p>

		confident in being predict when that figure will be reached. That creates either a market risk for industry due to increased uncertainty (which may negate some of the benefits bought about by the £5/MWh cap) or exposes the ESO to considerable financial risk, which they are not necessarily in the position to bear.
2	Do you support the proposed implementation approach for CMP350?	Given the immediate nature of high BSUoS costs due to Covid, it is understandable that the proposer wishes the modification to be implemented as soon as possible. The extreme BSUoS spikes have, however, been addressed by CMP345 and the higher costs out into September and October are less unforeseen compared to those earlier this summer. If the modification is not implemented immediately, the case for intervention is weakened. Essentially, the modification needs to be “now or never”. We agree that implementation should not be retrospective.
3	Do you have any other comments?	The materiality of the increased BSUoS costs has been partly addressed by CMP345 and this Modification is attempting to force an unrealistic target. Parties are not exposed to every Settlement Period rate equally, so an average is not representative of wider industry.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	N/A
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?	A limit on deferred costs protects the ESO from being financially over-exposed and limits the distortive effect of costs being socialised on a different basis to the original charge. The ESO have made it clear that the low cap of £5/MWh means £100m is a relatively small amount and we have concerns about the practicality. If the ESO are unable to predict when the limit is reached and BSUoS returns to the normal methodology, it will create uncertainty in the markets, potentially leading parties to put in a higher risk premia than would otherwise be the case. Ofgem’s decision on CMP345 suggested that they considered a limit to be unnecessary due to the forecast small amount that would be deferred (less than 5% of total BSUoS charges from 25 June to 31 August) from a £15/MWh cap. Given the much lower cap of £5/MWh and the extension of the scheme to the end of September, it is difficult to say whether £100m will be enough.

6	<p>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>	<p>BSUoS is notoriously hard to forecast – that was one the main conclusions of the first Balancing Services Task Force, so it is almost impossible to develop a process that gives all parties the certainty they would like.</p> <p>Having said that, the process discussed in the Workgroup seems to be the most practical solution.</p>
7	<p>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>	<p>I believe £5/MWh is far too low, as it is well within the range of “normal” BSUoS: in 2019, under normal conditions, 17% of Settlement Periods were over £5/MWh and there were multiple BSUoS spikes above £10/MWh, which suggests £5/MWh is an unrealistically low limit for an absolute cap. Whilst the current cap of £15/MWh does not address the defect of more frequent higher BSUoS prices, it does serve to mitigate against the greatest unexpected costs without distorting “normal” BSUoS.</p> <p>Given the nature of BSUoS (half hourly, volatile, very difficult to forecast, complicated and increasing balancing costs), it is clear that some market participants will have been expecting more periods over £5/MWh than last year. These parties would receive a windfall if a low cap were to be introduced.</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>The first forecast of significantly higher balancing services costs was in early May from the ESO. Most parties would assume that higher costs would carry on (at least to some extent) while the Covid-19 demand destruction continues. If parties’ position were fully locked in for September, before the forecast in May, that was a commercial decision. The extra costs in September and October are foreseeable and parties will have been able to take reasonable measures to protect themselves.</p> <p>As it is, demand is within 5% of expected conditions and so the trigger for “exceptional” BSUoS costs is reducing. Given that the £5/MWh cap affects “normal” BSUoS, extending the Scheme beyond the end of August is an unnecessary and unjustified intervention.</p>