






Alternative Request Proposal Form		At what stage is this document in the process?
<h1>CMP345 WACM4:</h1> <p>Deferral of costs of ODFM and nuclear Contract(s) to Oct 20 – Jan 21 with weekly reporting on costs</p>		<div>01 Proposed Alternative</div> <div>02 Proposed Workgroup Alternative</div>
<p>Purpose of Alternative: To remove the costs of the nuclear contract(s) and ODFM actions from BSUoS from implementation of the modification and to the rebill the money from Oct 20 to Jan 21 as a fixed £/MWh charge.</p>		
<p>Date submitted to Code Administrator: 3 June 2020</p> <p>You are: A Workgroup Member</p> <p>Workgroup vote outcome: Formal alternative</p>		

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1 Alternative proposed solution for workgroup review

The costs associated with the nuclear contract(s) and the use of ODFM are defined as “covid costs”. These are the two types of contracts that are genuinely new to the management of the system. The Super SEL contracts and creation of “footroom” were already used by the ESO and FGG believe were widely expected to be used this coming summer.

The “covid costs” would be removed from BSUoS and placed in a “covid account” by the ESO. The ESO would manage this account, reporting daily on its value. The costs of managing the account would be added to it.

From 1 October 2020 to 31 January 2021 the covid costs would start to be paid back. The ESO would divide the “total covid costs” (including financing costs) by their forecast demand over this period to give a £/MWh charge, the “Covid BSUoS Levy”, that would be added to the usual BSUoS bills over this period.

If by 15 December it were to become clear that the process described will lead to an under/over recovery, the ESO will recalculate the Covid BSUoS Levy and if the charge changes by >£1/MWh the recovery period will be extended from January to February 2021. If the adjusted amount, when applied to January are <£1/MWh then the Covid BSUoS Levy for January would increase to ensure collection over that month and no others.

If the covid costs are recovered earlier than the end of January 2021 the Covid BSUoS Levy will end sooner.

While the recovery is ongoing the ESO would report weekly on the amount of covid costs paid and the amount remaining to be paid, allowing parties to judge how long the Covid BSUoS Levy will last. The weekly reporting (rather than daily in v1) is to address the ESO’s confidentiality concerns over the EdF contract. We note many other contract have the name, price and volume (such as ODFM) and as EdF was the monopoly seller and NGESO the monopsony buyer there is merit in this (and other ancillary services contracts) being transparent.

The credit arrangements for BSUoS will remain the same, which in effect reduces credit in the short term, but adds to credit requirements from October.

2 Difference between this proposal and Original

The differences are:

- The definition of covid costs is narrower, only including the nuclear turn down contract(s) and the ODFM costs;
- The pay back period is this financial year;
- Implementation is not retrospective;
- The pay back is over Oct 20 – Jan 21, but with a mechanism to deal with the over/under recovery that may happen in this period; and
- The credit requirements will alter with the liabilities.

Benefits over the Original:

- The “covid costs” are clearly related to the impact of covid and not just to the increasing BSUoS costs that have been seen over recent summers;
- The value deferred will be lower and therefore any distortions lower;
- The repayment will take place in the same charging year;
- The repayment will be focussed on winter, when demand is higher and the unit cost of BSUoS generally lower;
- The charge will be fixed over a relatively short period and will be known in advance;
- The change in the charging base between deferral and repayment will be more limited, though it will have changed;
- The suppliers with price capped customers will have seen their price capped customers move to a higher tariff before repayment;
- The borrowing period is less, so the cost to the ESO and ultimately customers is lower; and
- The solution aims to reduce and smooth BSUoS not to address the relationship between suppliers and their customers, which are not an objective of the CUSC.

3 Justification for alternative proposal against CUSC Objectives

Impact of the modification on the Applicable CUSC Objectives (Standard):

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 compared to the original, but we still believe any change is negative. This alternate is more likely to have a less distortionary impact than the original as the time between under recovery and recovery is more limited.
b. That compliance with the use of system charging methodology results in charges which	This alternate is more cost reflective than the original as the

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);	charges are kept in the same financial year.
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;	Neutral. This is not about the developments on the transmission network, but about payment of the costs of managing the system.
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	Neutral.
e. Promoting efficiency in the implementation and administration of the CUSC arrangements.	More positive than the original, but still negative. The costs to the ESO, and thus customers, of managing this alternative will be a lot lower than the original.
*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).	

The FGG has raised this change as it is better than the original and we believe Ofgem should be able to consider this option before implementing any change to the way BSUoS is billed. However, we continue to believe that there is a need to bring back the BSUoS Task Force and see their recommendation before making a change to BSUoS.

The Ofgem announcement on payment deferral on DUoS charges, changes to the BSC and the loan to the LCCC have all offered support to suppliers where they need it. FGG feels that these policies are less likely to distort the market than removing some costs from some parties and getting others to pay at a later point in time. The scale of the distortions has not been considered by the group, which they should be.

4 Impacts and Other Considerations

Consumer Impacts

The FGG alternative would impact all customers as they pay BSUoS, but is less distortionary by limiting the time between costs being incurred and the bills arising.

The suppliers will see lower bill until October and then higher bills to January 2021 than they would otherwise have seen. However, if the issue is that the suppliers need to change their bills to end users then this is buying time, but not providing a solution.

The impact on generators will depend on where in the market they operate, their hedging strategies, etc. For embedded generators, some may win and others lose against the baseline, but it will depend on if they are running in any given half hour when BSUoS is reduced and later increased. As noted above we do not believe that the impacts have been properly assessed and we have certainly had no time to undertake any analysis.

The ESO will be impacted in having to raising funding to cover this change and make additional calculations to bill parties the new BSUoS values.

FGG assumes that there are impacts on both the ESO's processes and systems, but are not familiar enough with them to comment in detail.

5 Implementation

The change could be implemented on the day that the modification is signed off, or [5] days later if the ESO needs time to adjust any systems. We do not mind if it is implemented from 1 June, when parties knew about a potential change, but it should not be retrospective.

6 Legal Text

For the working group/ESO to draft.