

**CUSC Code Administrator Consultation Response Proforma****CMP345 'Defer the additional Covid -19 BSUoS costs'**

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](mailto:cusc.team@nationalgrideso.com) by **3pm on 12 June 2020**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Panel.

If you have any queries on the content of this consultation, please contact Paul Mullen [paul.j.mullen@nationalgrideso.com](mailto:paul.j.mullen@nationalgrideso.com) or [cusc.team@nationalgrideso.com](mailto:cusc.team@nationalgrideso.com).

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**For reference the applicable CUSC objectives are:**

- 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. *Promoting efficiency in the implementation and administration of the CUSC arrangements.*

*\*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).*

**Please express your views in the right-hand side of the table below, including your rationale.**

Standard Code Administrator Consultation questions		
1	Do you believe that the CMP345 Original solution, WACM1, WACM2, WACM3, WACM4, WACM5, WACM6, WACM7 or WACM8 better facilitates the Applicable CUSC Objectives?	<p>We do not believe that CMP345 original solution or alternative solutions better facilitate the applicable CUSC charging objectives.</p> <p>Objective A – we do not consider that the proposed ad-hoc and/or retroactive change to charging arrangements will facilitate effective competition in the generation and supply of electricity. The proposed changes to the existing rules will create arbitrary winners and losers, and we do not consider that a change that creates arbitrary winners and losers is likely to promote effective competition. We believe that the proposed modifications, and the precedent that may be set, is likely to have a negative impact on effective competition</p> <p>Objective E – we do not consider that the proposed ad-hoc and/or retroactive change promotes efficiency in the implementation and administration of CUSC arrangements.</p>
2	Do you support the proposed implementation approach?	We do not support the proposed implementation approach.
3	Do you have any other comments?	<p>We do not believe that the proposals to defer BSUOS costs are likely to further the applicable objectives because:</p> <ol style="list-style-type: none"> <li>1. Some parties will have anticipated the increase in BSUOS costs and increased their charges to reflect the anticipated increase. It is not clear, and analysis has not been provided on the extent to which parties anticipated the forecast £500 million additional balancing costs.</li> <li>2. We understand from National Grid Electricity System Operator that it considers that its current forecast for BSUOS costs is pessimistically high – i.e. at the top end of potential outturn costs for the summer. Analysis has not been provided on the extent to which balancing costs will be higher in the</li> </ol>

	<p>period 1 May to 31 August in the absence of COVID.</p> <ol style="list-style-type: none"><li>3. At least since the most recent forecasts were published all parties will have been trading in the wholesale market at prices which reflect the higher forecast BSUOS charges. A change to the rules now could adversely affect those parties trading at the current forecast level. In addition, having to wait until the 22 or 23 of June to understand whether BSUOS will be £8/MWh or £4/MWh creates significant uncertainty which is likely to have an adverse impact on competition.</li><li>4. It is not clear how BSUOS costs will evolve after August 2020, so we see little merit in deferring the £500 million to a later period, in the anticipation that costs in a later charging period will be lower or less volatile. Evidence shows that for (at least) the last five years both the level and volatility of BSUOS costs has been increasing significantly.</li><li>5. We consider that allowing retroactive changes to charging arrangements taking the above circumstances and in the specific context, including but not limited to the increasing volatility experienced to date and the likelihood of continued volatility is likely to have an adverse impact on competition in the short term, due to the modification creating arbitrary winners and losers, and in the longer term if it sets a precedent that retroactive and sudden/unforecastable changes to the rules are an acceptable way of proceeding.</li></ol> <p>We consider that the increasing level and volatility of BSUOS is a concern for the industry. As both the level of BSUOS and volatility has been increasing steadily for the last five years, we do not consider this to be a new issue.</p> <p>Unless the current approach is changed, we expect the level and volatility of BSUOS to continue to increase. We therefore believe that the BSUOS taskforce is best placed to develop and deliver an enduring solution to what evidence suggest will be an enduring, as opposed to a one-off problem.</p>
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