

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 |
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| (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

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| 1 | <p>Do you believe that the CMP350 Original Proposal better facilitates the Applicable CUSC Charging Objectives?</p> | <p>No.</p> <p>It is extremely disappointing that OfGem chose to accept this as urgent, so swiftly after CMP345, particularly when the proposer could have raised this proposal under CMP345. Smaller market participants are struggling with the current regulatory burden & action like this simply serves to drive smaller participants from the regulatory process.</p> <p>This decision sets a dangerous precedent in that any unsatisfied participant can raise repeated proposals until their position is satisfied, & it reduces the motivation for full participation. Furthermore, in the long term, this regulatory process failure simply increases the perception of regulatory risk and undermines the confidence of investors in the sector.</p> <p>The proposal would potentially set the BSUoS price lower than would be expected absent of Covid-19. To simply cap BSUoS and allow the ESO to carry the cost for the market cannot support the CUSC objectives.</p> <p>In particular, it will distort competition (objective (a)):</p> <ul style="list-style-type: none"> (i) it will move BSUoS between years & hence from users who contribute to its occurrence to users that did not effectively creating a £100mm subsidy to this year's consumers; (ii) the £100m cap, if hit, will create a market discontinuity that will require market participants to adapt rapidly with as little as 2 days' notice; (iii) introducing a cap of £15/MWh is a proportionate response to control extreme BSUoS impacts, a cap of £5/MWh does not seem proportionate and will affect market participant behaviour; <p>It is questionable whether current BSUoS costs are primarily being driven by Covid. The demand level has increased to near "normal" and parties have had time to adjust their positions.</p> |
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| | | <p>The market knew that demand was getting lower in summer and that BSUoS has been more costly and volatile than expected. However, the suppliers are able to get support through the networks, delayed CfD costs, etc. Where BSUoS is capped at £15/MWh feels like a proportionate response, £5/MWh does not.</p> <p>This is also counter to cost reflectivity (objective (b)) as it reduces cost reflectivity and creates a temporal distortion, transferring costs from customer to customer and with next year's consumers subsidising this year's.</p> <p>Unlike the current regime, which we did not support either, a move to a lower price will make hitting the £100m cap likely to happen quite quickly and therefore the costs of the mod will be high. Without robust evidence that the benefits outweigh the costs, this is negative against objective (e) as well.</p> |
| 2 | Do you support the proposed implementation approach for CMP350? | <p>No.</p> <p>In particular, the reduction in the cap to £5/MWh is so extreme the market should have more notice of the cap introduction, and subsequently of it being lifted so they can manage their positions in an economic and efficient manner.</p> |
| 3 | Do you have any other comments? | <p>We cannot reiterate enough how shocked we are at this mod being introduced so quickly after CMP345 and how damaging its ratification by OfGEM was by allowing it to be considered as urgent. It points to a complete failure in the process particularly as these are being reviewed in the absence of the BSUoS task force.</p> |
| 4 | Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider? | No. |
| 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? | <p>There should be some limit. However, £100m seems disproportionately high and results in a significant subsidy for consumers this year at the cost of consumers next year when we know many will be economically challenged as the economy seeks to recover. It also seems to be a significant additional debt for the ESO to carry.</p> |
| 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 | <p>No. 48 hours' notice is inadequate to allow parties a chance to manage their positions as they approach the discontinuity/cliff edge.</p> |

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| | agree with this approach? Please provide the rationale for your response | |
| 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 | Any cap introduces a distortion and undermines competition. We did not support the £15/MWh but it did appear to try to protect stakeholders from the extremes that Covid might bring or the “abnormal costs of covid”. This appears to just try and cap BSUoS costs and push the problem down the road. We still remain in favour of having no further changes to BSUoS until a robust, longer term solution is agreed following the work of the BSUoS Task Force. |
| 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 | <p>If the price cap is £5/MWh then we believe that the £100m limit will be hit quite quickly so we do not believe any extension is sensible. By the time we get to September covid will also have been known about for c6 months, so cannot be seen as an unknown.</p> <p>The October extension seems entirely unnecessary as at £5/MWh the £100m is likely to be hit very early in its life.</p> |