

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:

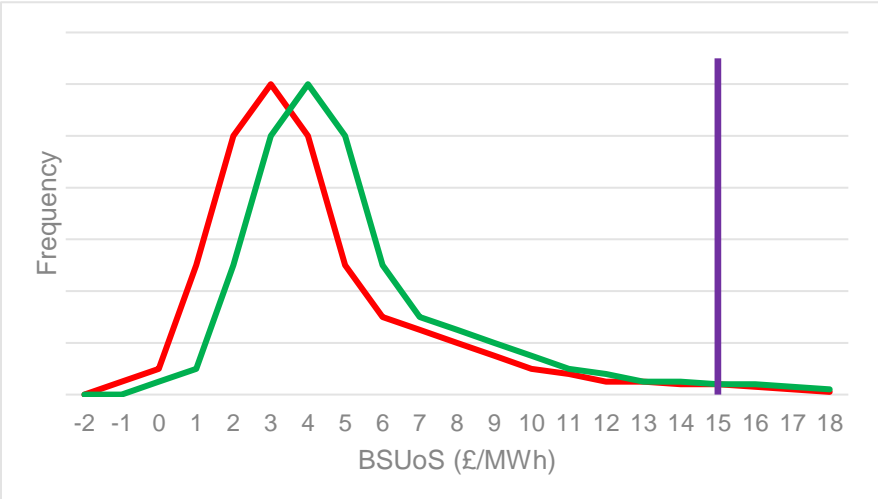
Relevant Objective
(a) That compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity;
(b) That compliance with 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>Overall, we do not believe that CMP350 better facilitates the Applicable CUSC Charging Objectives than the current baseline.</p> <p>In relation to Applicable CUSC Charging Objective A, whilst the Original does have some merits, this is offset by the proposed changes to the £/MWh cap to make the Original negative against Applicable CUSC Charging Objective A overall. We believe that changes to duration of the Covid Support Scheme (to 30th Sept 2020) could provide longer term support to industry to manage exceptionally high BSUoS charges as a result of Covid-19 however this would only be suitable with the existing £15/MWh cap. Our rationale on why the £/MWh cap change is detrimental and so is negative against Applicable CUSC Charging Objective A is listed in Question 7.</p> <p>We believe the Original's proposal to introduce a £100m limit is beneficial in respect to Applicable CUSC Charging Objective C.</p> <p>Against all the other CUSC Charging Objective (B, D and E), we believe this modification is neutral as it either has no impact on those objectives or there is a balance of positive and negative effects which results in a neutral effect overall.</p>
2	Do you support the proposed implementation approach for CMP350?	We support the proposed implementation of one working day after the Authority decision, based on the solution being a change in the £/MWh value and date only rather than a more fundamental change.
3	Do you have any other comments?	<p>We have three main principles against which we are assessing CMP350. These are: we want to provide support against exceptional costs due to Covid-19, we believe any interference in markets should be minimal and it is essential that the ESO is able to finance the modification. These principles are explained in more detail below:</p> <ul style="list-style-type: none"> • We want to provide support against exceptional costs due to Covid-19 - we have been supportive throughout CMP345 and the TNUoS support scheme to help industry through the pandemic. This was based on the impacts of Covid-19 being unforeseen by industry parties. We do not believe that October 2020 can be classed as unforeseen, particularly as this is five months after the impacts of Covid-19 on BSUoS were raised in May 2020. The justification for the £15/MWh was that at this level, BSUoS prices are exceptional rather than business as usual. • Interference in markets should be minimal – we believe that a £5/MWh would result in a significant interference in the market, as these costs are frequently experienced by the market outside of Covid. We also believe that with a £5/MWh cap, the cumulative

		<p>cap of £100m would be breached, leading to removal of ESO support at short notice - disrupting market prices. Under a £15/MWh cap we believe we can provide more meaningful 'market warning' in advance of when the support would cease. We also do not agree that the consumer should pay for every pound of BSUoS increases due to Covid. We believe that the £15/MWh cap is therefore in the best interests of all market participants and consumers.</p> <ul style="list-style-type: none"> • The ability for the ESO to financially support the modification is essential – we support the formal introduction of the cumulative £100m cap. As in CMP345, any support being provided through the ESO which is recovered in the following financial year will result in a financial cost to the ESO in FY20/21. Under a lower price cap, the exposure of the ESO would increase which could have an impact on future financeability. It is essential that under CMP350, there is no risk that the £100m cap could be breached, we believe this is the case if the ESO were required to provide an end date to a £5/MWh support scheme as set out in our response to question 6. <p>There is also increased market uncertainty due to another modification being raised 3 weeks after market support was approved by The Authority (CMP345). This uncertainty could also cause an adverse impact on the credit / risk rating of the ESO which may result in higher financing costs of the ESO which would not be in the interest of market participants or consumers.</p>
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	We are still considering whether we believe there is an appropriate alternative which would still align with the principles set out above
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?	Yes, we believe that a formal limit, at a maximum of £100m, should be introduced to protect the financability of the ESO.
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	Yes we agree with the alternative approach suggested. As noted in response to question 3, we cannot support the original solution, where the ESO provides 2 days formal notice of when the scheme will closed as it could put the ESO at risk of the £100m being breached. This is particularly a concern with a price cap of £5/MWh as the frequency of occurrences above this price mean that during the 6 day lag in charging data, the £100m cap may have already been breached, before the date provided in our "formal notice". To illustrate this, we have included a range of recent 6 day periods below, stating the volume which would have been deferred over a £5/WWh cap, the average of these is £18.9m in a 6 day period:

		<p>22-27th May £42m 5th - 10th June £11m 20th - 25th June £9.8m 27th June - 2nd July £18m 3rd July - 8th July £13.5m</p> <p>We believe that using the existing £15/MWh cap, it is unlikely that that the £100m cumulative cap would be reached. This is a significant reason why only exceptional costs should be considered as Covid costs as the risk of the impact on the market, when the cap is reached, is removed.</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>We do not believe it is appropriate to change the £/MWh cap for a variety of reasons which we will detail below.</p> <p><u>Changing the £/MWh cap is not suitable for the defect</u></p> <p>CMP345 proposed a solution with the specific aim of mitigating the impact of spikes in BSUoS charges as a result of Covid-19. These spikes in charges are easy to identify and remove (as the current £15/MWh cap does) as they are significantly different from historically observed data. It is a separate debate as to whether £15/MWh removes too many or too few spikes in BSUoS.</p> <p>The defect identified by CMP350 is different and so is not related to spikes in BSUoS charges but a more frequent occurrence of above average BSUoS charges. As a result, it is more difficult to identify which charges are as a result of Covid-19 and which charges are not.</p>  <p>The above illustration shows an example. The red line shows a distribution of BSUoS without Covid, under CMP345 a price cap is introduced (purple line) based on extreme prices of a non-Covid distribution. CMP350 looks to address the shift of the BSUoS distribution curves from standard (red) to a 'Covid BSUoS' distribution (the green curve). To address this defect, an adjustment would need to happen across the whole range</p>

of BSUoS prices (such as a percentage or fixed value reduction over all BSUoS prices) to align the red and green curves - lowering the £/MWh cap would not achieve this and would only result in distortions to the BSUoS price signal.

We also do not believe that the consumer should pay for every pound of increased costs due to Covid. There should be a split of risk between industry parties, rather than all being borne by the ESO and paid for by consumers next financial year.

Increased market distortions

As mentioned in our response to CMP345, we are concerned how deferring BSUoS costs from one financial year to another will result in market distortions. These distortions will be amplified if the £/MWh cap is lowered as increased monetary value will be deferred between years; this is especially pertinent if the cap is reduced so dramatically as per the Original proposal. A summary of these distortions is;

1. BSUoS prices of £5/MWh are common outside of Covid as demonstrated by the Work Group's analysis and therefore it is likely market participants will have already accounted for some BSUoS costs above £5/MWh
2. Risk of windfall gains which are likely to result in protecting profit margins at the expense of the consumer
3. Loss of market signals for BSUoS charges that would normally be above £5/MWh, especially for overnight and summer periods
4. BSUoS costs from those parties who should be liable will not be paid by those parties-
5. Distributional issues between those consumers who have reduced demand as a result of Covid-19 and those whose demand has remained unchanged or increased
6. Increased market uncertainty due to a new modification being raised shortly after a similar modification was approved. This could also cause an adverse impact on the credit / risk rating of the ESO which may result in higher ESO financing costs which would not be in the interest of market participants or consumers

It is also important to note that all BSUoS obligations to date have been met by Suppliers and Generators and so there is no evidence available to the ESO that industry parties are at significant risk of defaulting. In addition, the easing of Covid-19 restrictions and evidence of electricity demand returning to normal ranges would suggest that parties are less reliant on the current Covid Support Scheme and therefore lower £/MWh caps, and the associated market distortions introduced above,

		<p>are not needed and would only transfer costs from market parties to consumers. There are also TNUoS and DUoS Support Schemes in place, providing additional support for eligible suppliers.</p> <p>As a result of these distortions, we believe the Original is negative against Applicable CUSC Charging Objective A.</p> <p><u>Additional considerations for cap of £5/MWh:</u></p> <p>It is worth noting that we have established the process to implement CMP345 by issuing a credit note to BSUoS customers for the settlement periods where the cap is breached. To fulfil the requirements from HMRC, we need to provide the invoice reference for the settlement day which the credit note is raised for. Due to the expected significant increase in frequency of settlement periods above £5/MWh there will be a significant increase in time required to manually input this information which may also result in human error.</p> <p>To provide greater market transparency, we have also noted that we can move to daily reporting if £60m of cumulative support was reached. This again would result in increased operational costs and is only possible if the data is received from Elexon.</p> <p>Separately, there are a number of customers (less than 30) that often receive an overall credit for BSUoS. These customers through CMP345, receive an invoice rather than a credit when the £15/MWh cap has been breached. This would be exacerbated under CMP350 if the cap was reduced, and the invoice they would receive at month end would increase.</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>We believe that the existing deadline, introduced through CMP345, still aligns with “unforeseen” market cost increases due to Covid-19.</p> <p>We do however have some sympathy with the Proposer, that extending the support until the end of September, could be beneficial when there is still some demand suppression due to Covid. We think that this is only suitable when combined with a £15/MWh cap, to minimise market interference in September.</p> <p>We do not agree that by 25th October, market participants can say that the impacts of Covid on BSUoS were still unforeseen, 5 months after the ESO BSUoS forecasts were published highlighting potential impact on BSUoS.</p>