






| Alternative Request Proposal Form | | At what stage is this document in the process? |
|--|--|---|
| <h1>CMP345 WACM2:</h1> <p>Apply a cap of £15/MWh to the BSUoS price</p> | | <div>01 Proposed Alternative</div> <div>02 Proposed Workgroup Alternative</div> |
| <p>Purpose of Alternative: Apply a cap of £15/MWh to the BSUoS price in each period from the implementation date to the end of August 2020. Any under recovery of revenue from the application of the cap will be recovered through BSUoS charges equally across all settlement periods in the 2021/22 charging year.</p> | | |
| <p>Date submitted to Code Administrator: 03 June 2020</p> | | |
| <p>You are: A Workgroup Member</p> | | |
| <p>Workgroup vote outcome: Formal alternative</p> | | |

| Contents | |  Any questions? |
|----------|--|---|
| 1 | Alternative proposed solution for workgroup review | 2 |
| 2 | Difference between this proposal and Original | 7 |
| 3 | Justification for alternative proposal against CUSC Objectives | 8 |
| 4 | Impacts and Other Considerations | 9 |
| 5 | Implementation | 9 |
| 6 | Legal Text | 9 |
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1 Alternative proposed solution for workgroup review

A cap on the price of BSUoS will be applied for a limited period of time for all periods from the date of implementation to the end of August 2020. The level of the cap would be £15/MWh. Should the BSUoS price for a period go above this level, then the price will be capped and any under recovery associated with this will be rolled over into the costs to be recovered in the following year's BSUoS charges.

The cap would be administered in a manner which minimises the practical implications on the ESO. For instance, this might include allowing the prices to be calculated by systems as normal and then User bills being adjusted through a manual workaround solution.

The deferred costs would be recovered in an equal amount across all settlement periods in the charging year (ie total cost divided by the number of settlement periods). This is for simplicity's sake as the MWh alternative would need an accurate demand forecast for the charging year and a reconciliation process to cope with that forecast inevitably being incorrect.

The level of £15/MWh has been chosen following analysis of costs and prices from the 2019/20 charging year. CMP345 is predicated on the basis that excessive costs and therefore BSUoS prices will be generated by exceptionally low demand levels caused by the COVID-19 pandemic. The aim of this alternative is to filter out unusually high cost periods at times of low very low demand. National Grid ESO (NGESO) indicated in its analysis to the workgroup that this is typically when demand falls below 18GW.

The principle of the alternative is that only exceptional costs or prices should be filtered out and that price levels which parties could have expected to occur should not. Figure 1 below shows price levels over the 2019/20 charging year. It shows that as a general rule prices tended to stay below £15/MWh and only occasionally went above this. We used this as the starting point for setting the cap at this level.

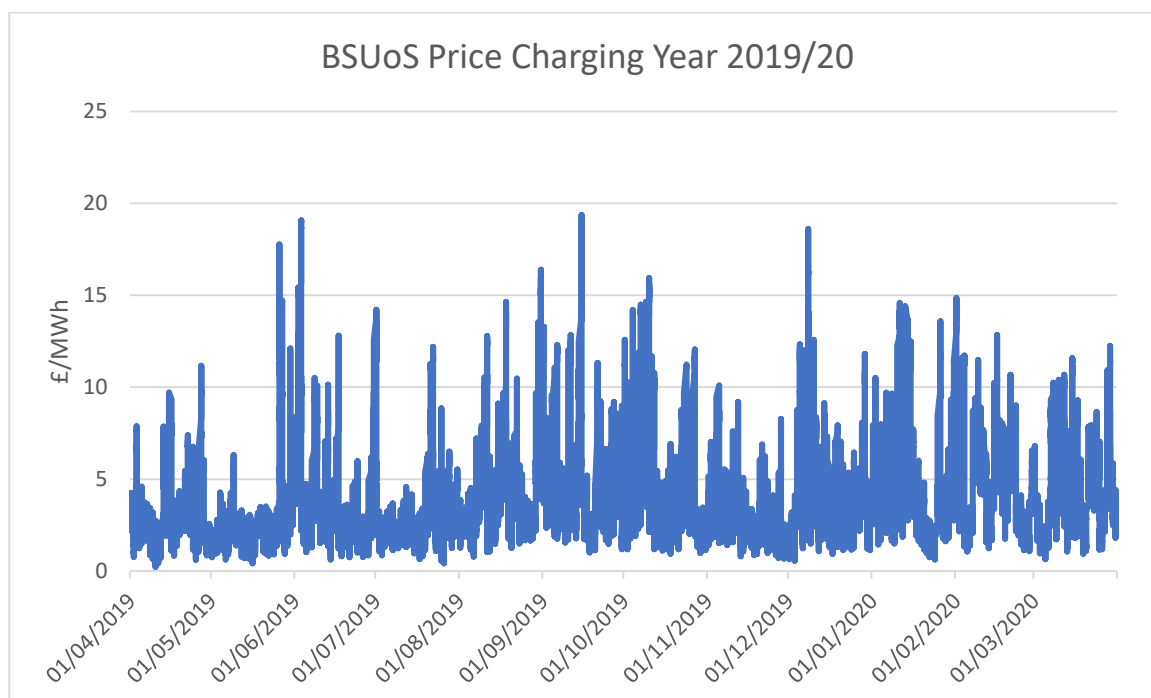


Figure 1 – HH BSUoS prices 2019/20

However, it is not clear whether this simple rule would act as a proxy for high cost periods at times of low demand. Figure 2 below shows a scatter plot of BSUoS costs against demand levels for half hours in charging year 2019/20. It shows that there were a number of periods where there were very high levels of cost, typically above £250k per settlement period, that occurred both at lower demand levels and also higher demand levels.

Figure 3 shows that these did not always result in high BSUoS prices. This plots BSUoS prices against demand for the same period and shows that due to the higher costs being smeared over higher demand this did not result in the same impact on prices. Higher prices tended to occur at lower demand levels.

However, this does not necessarily mean that it is possible to use a price cap as a proxy for high costs during low demand periods. A reasonable relationship needs to be demonstrated. Figure 4 and 5 show the same data as Figures 2 and 3 respectively, but for all periods where demand was lower than 18GW. This shows a similar pattern of between the costs and prices in each half hour.

This close relationship is demonstrated in the scatter in Figure 6 which shows BSUoS costs versus BSUoS prices for low demand periods in 2019/20. In particular, £15/MWh appears to be a close proxy for costs above £250k per settlement period.

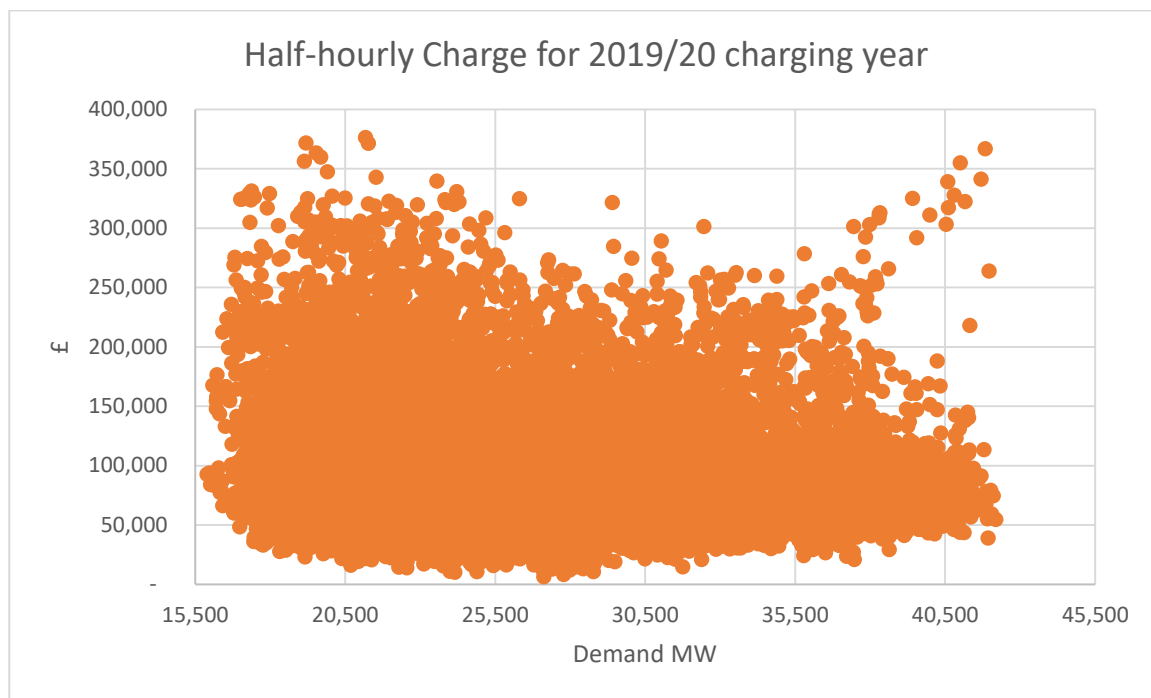


Figure 2 – HH BSUoS Costs versus demand 2019/20

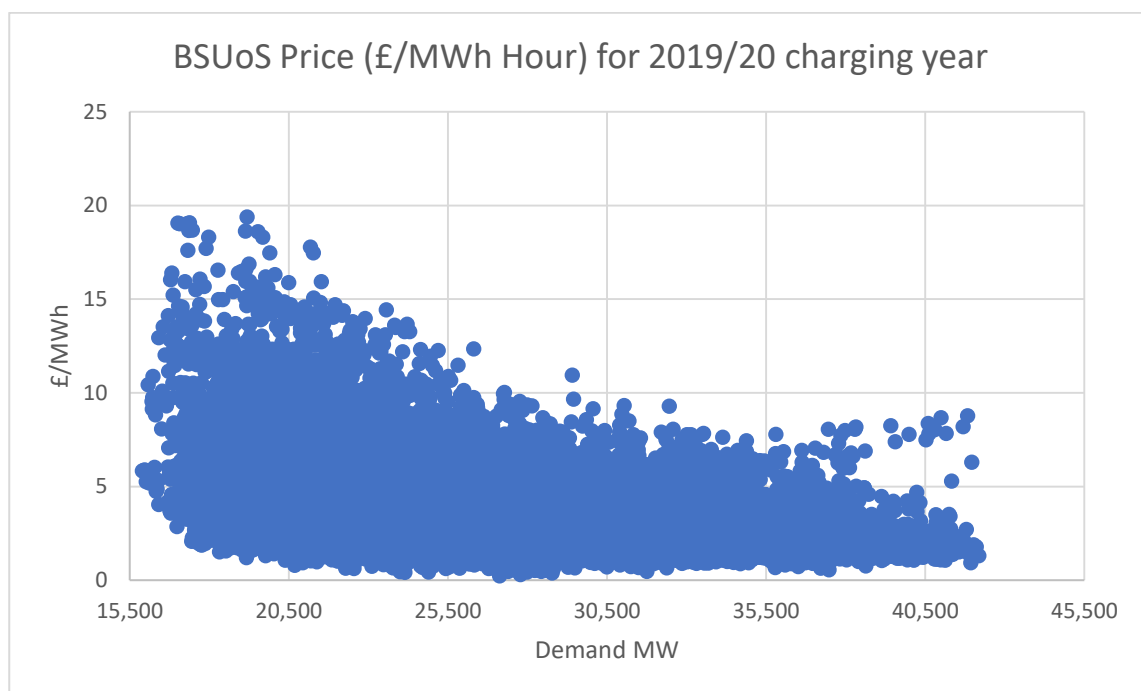


Figure 3 – HH BSUoS prices versus demand 2019/20

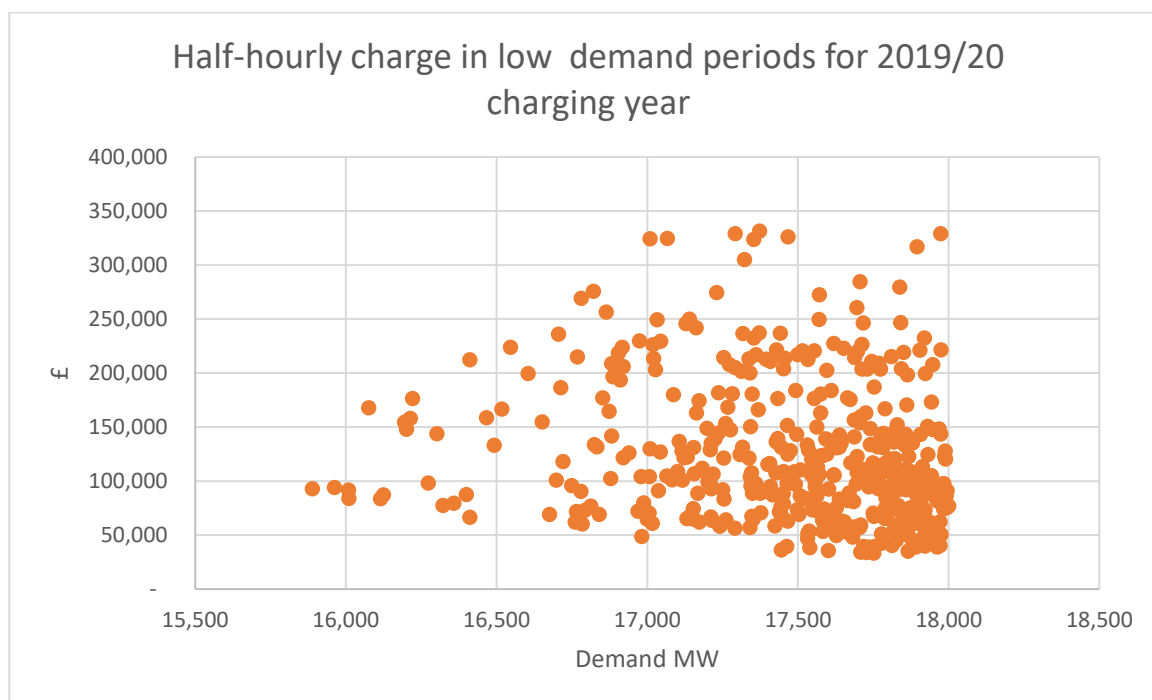


Figure 4 – HH BSUoS Costs versus demand below 18GW 2019/20

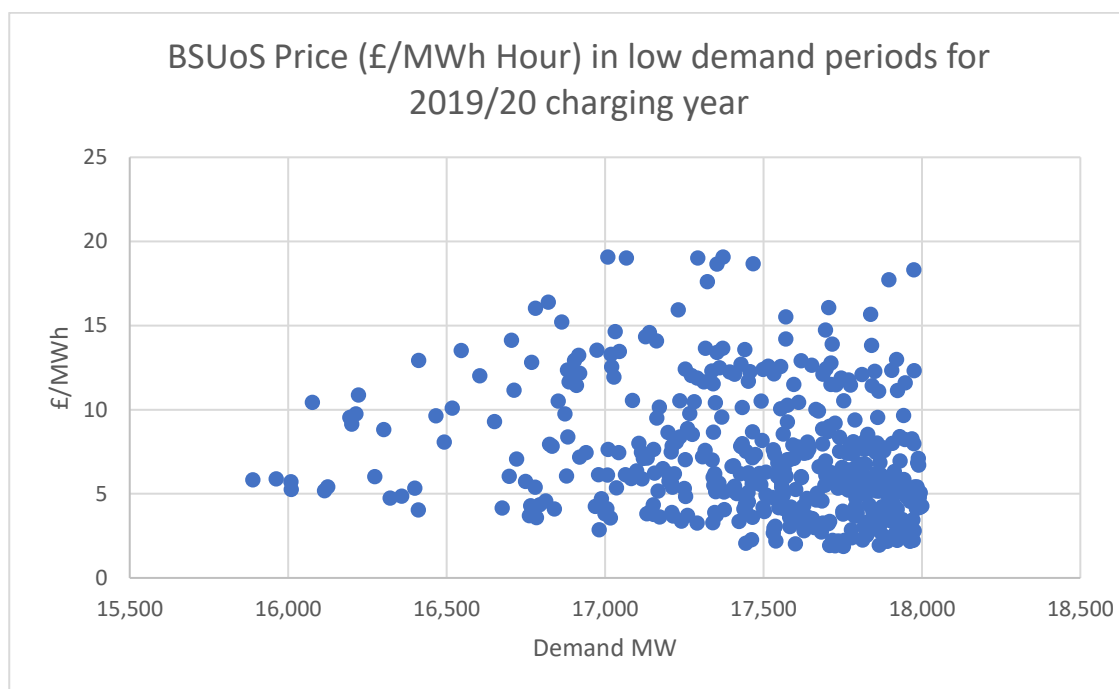


Figure 5 - HH BSUoS prices versus demand below 18GW 2019/20

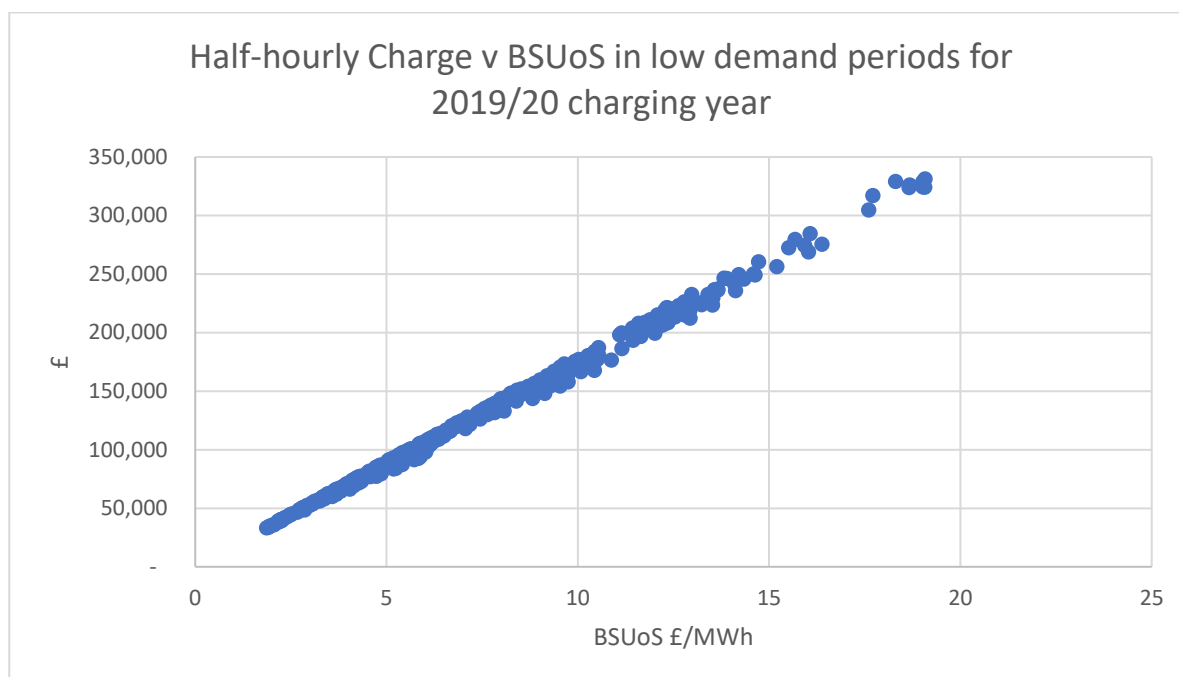


Figure 6 – HH BSUoS Costs versus BSUoS prices for demands below 18GW

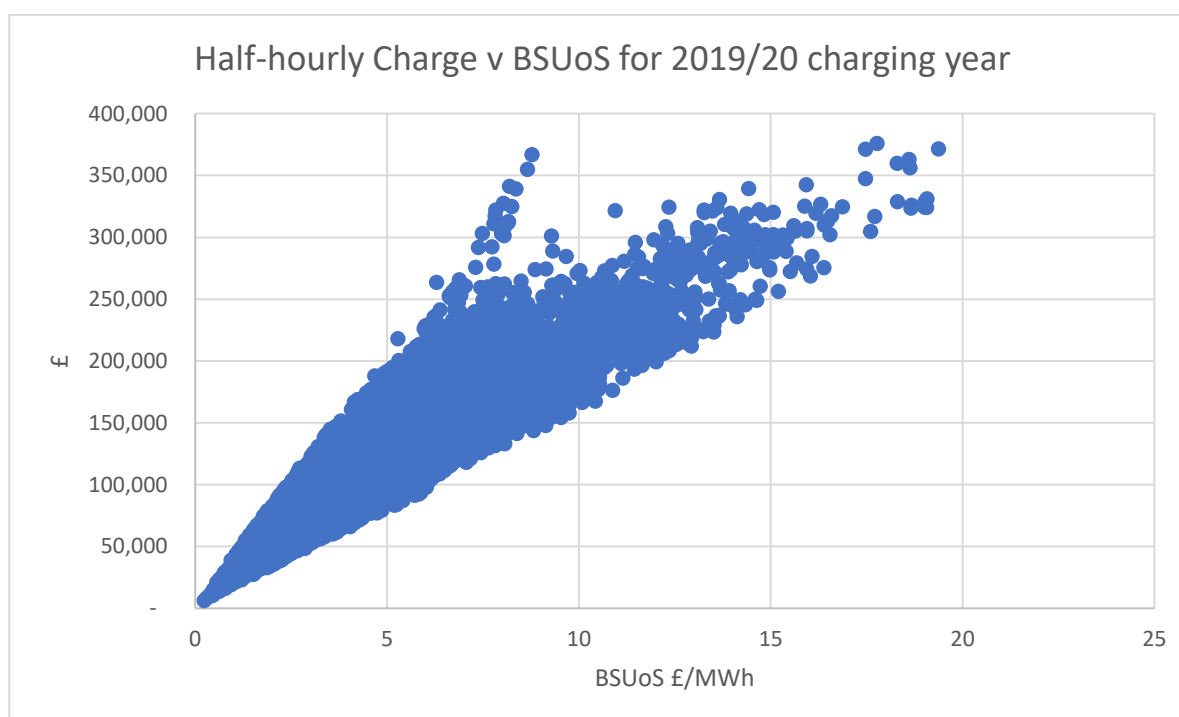


Figure 7 – HH BSUoS Costs versus BSUoS prices for all periods

Figure 7 above shows that this relationship is not so strong for the whole year which reflects the wider variety of demands that BSUoS is spread over. However, it still shows that £15/kW prices are associated with costs of greater than £250k per period, even if similar levels of costs don't result in similar prices in higher demand periods.

Therefore, we believe that if a cap of £15/MWh were to be applied to BSUoS prices, it will tend to apply to very low demand periods with much higher levels of half hourly costs.

2 Difference between this proposal and Original

The proposal does not seek to determine which costs have been incurred specifically to meet the additional low levels of demand caused by COVID-19. It therefore does not require any categorisation of these costs by NGESO or for them to be flagged and removed from BSUoS charging.

It does aim to identify unusually high cost periods during periods of unusually low demand and uses £15/MWh as a proxy for this. Any costs which are capped out by the proposal resulting in an underrecovery will be deferred to the following year. This should be less labour intensive for NGESO and more transparent and understandable to Users, resulting in more efficient dispatch decisions.

This approach would address extreme high prices, but not necessarily a higher number of instances of less extreme high prices. However, it is put forward as a compromise solution whereby the risks, costs and benefits of the proposal are spread out across the industry parties, NGESO and consumers.

The expectation is that it would result in a lower level of cost being deferred than the original, making a cap on the amount to be managed by the NGESO less necessary, particularly if the modification is only to run until the end of August. However, if felt necessary, a cap on NGESO exposure could be incorporated.

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. Removes some of the additional cost exposure and risk from parties affected by the COVID-19 costs, but shares the burden amongst Users and NGESO. |
| 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); | Neutral. |
| 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. |
| 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. | Slightly negative as a workaround is needed. Should be more efficient to implement than the original solution as it needs less intervention. Also should reduce the burden of managing the cashflow on NGESO as a lower level of cost would be expected to be deferred. |

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| *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). | |

4 Impacts and Other Considerations

We assume that National Grid ESO billing processes will be impacted.

All parties will need to manage the implications of this modification going forwards such as verifying BSUoS bills and incorporating the cap in their BSUoS forecasts.

Consumer Impacts

As with the original solution, this option will increase costs for customers next year by moving charges which many would have avoided this year (if they were on fixed tariffs or did not have BSUoS as a pass through cost in other forms of contract). Our option limits the amount of deferred cost, so this impact is likely to be less significant. The modification should help to mitigate the likelihood of supplier defaults which should help to prevent disruption to customers.

5 Implementation

We understand that the Authority is free to choose the implementation date. We are generally unsupportive of retrospective implementation dates, so would recommend that this proposal is implemented 2 Working Days after an Authority decision, to allow parties to reflect the change in day ahead and shorter term trading.

6 Legal Text

To be determined at the workgroup stage if accepted as a Workgroup Alternative CUSC Modification.