

CUSC Workgroup Consultation Response Proforma**CMP345: 'Defer the additional Covid 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 by **5pm on 3 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 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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CMP345

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.

CMP345 - Standard Workgroup Consultation questions		
1	Do you believe that the CMP345 Original Proposal better facilitates the Applicable CUSC Charging Objectives?	<p>No.</p> <p>In relation to CUSC objectivea:</p> <p>A) <u>Negative</u>. There has not been any evidence provided, nor any convincing arguments, that this mod would improve competition. It is therefore reasonable to conclude that the mod is either negative, or at best neutral against this objective.</p> <p>B) <u>Negative</u>. By definition this mod will reduce cost reflectivity in charging.</p> <p>C) <u>Negative</u>. The mod is negative against this objective – it imposes a cost and obligation on the ESO that is completely unrelated to their normal business. The ESO is not enabled via licence conditions or other to give loans to parties that may or may not need it.</p> <p>D) No comment (<u>neutral</u>)</p> <p>E) <u>Negative</u>. Any deviation from the current approach to charging and collecting BSUoS which involves a temporary deferral of cash flow or payments will be inefficient and costly.</p> <p>The workgroup has not conducted any cost benefit analysis and had made only assertions about winners and losers without quantifying the net gain/loss, never mind the potentially damaging redistributive impacts of this mod.</p>
2	Do you support the proposed implementation approach for CMP345?	No.
3	Do you have any other comments?	<p>We fail to understand how suppliers' contractual agreements with customers is a CUSC defect. How a company manages risk in relation to their costs and cost recovery is not the business of the CUSC, except insofar as TNUoS and BSUoS charging methodologies are transparent and fair. It is for individual operators to develop strategies to mitigate risks – or indeed leverage opportunities – that arise from these charging methodologies.</p> <p>It is NOT appropriate to apply a short-term change to the methodology. This will punish any parties that have</p>

		<p>developed strategies aligned to system peaks and troughs and BSUoS volatility.</p> <p>Recognising that suppliers have been asked to shoulder the burden of leniency for bad debt customers during Covid, Ofgem has endorsed a plan designed by Network owners to provide targeted loans to needy suppliers. We think this is the right approach on two levels: first, that the support is targeted to needy suppliers, and second that it is asset rich parties that will be funding the scheme. Further, Ofgem's proposal does not create so many distortions to the market – costs and benefits are not being shifted from one party to another, as CMP345 proposes.</p> <p>We are also concerned about the precedent being set by this mod. Parties have long been concerned about whether the Government or regulator would intervene and limit the ability of prices to reflect a “too tight” system. This is the reasoning for P305 and the capacity market – to address the “missing money” problem. But implementation of this mod would signal that the regulator is in fact ready to intervene when costs of balancing the system become too high, in this case because the system is “too loose”. The problems are of course related, and are broadly speaking due to high levels of wind and solar on the system. This mod will undo every effort over the past decade or more to encourage investment, telling investors that the regulator will step in to redefine the rules because suppliers are struggling to pass costs through.</p>
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No, but we have commented on the FGG alternative and would prefer that to the original if Ofgem is to agree to any changes.
Specific Workgroup Consultation Questions		
5	Do you believe it is necessary to define Covid related costs for the purposes of BSUoS charging as a result of this Modification proposal? Please provide rationale to support your response.	<p>Yes.</p> <p>Only the nuclear turn down deal and ODFM should be covered by this mod (though we are fully against the mod in its entirety).</p> <p>The nuclear turndown and ODFM are the only transactions that are unambiguously unexpected and solely because of Covid-related low demand.</p> <p>It could be argued that ODFM is not just covid related and that some similar product is likely to go on existing</p>

		<p>in future, noting there was a demand turn up product previously. We can see no justification for including BM actions that are creating footroom as this is normal activity for the ESO. We certainly expected to see the low demand over summer increasing the actions that the ESO has to take, with increasing BSUoS costs. The BSUoS Task Force was set up to address the issues around BSUoS both increasing and becoming more volatile, evidencing the expectation that the ESO's balancing were changing.</p> <p>We reiterate that the deferral of the cost recovery should not be implemented but if it is it should be within this charging year.</p>
6	Do you agree with the Original Proposal (and each of the potential alternatives) as to what constitutes Covid related costs? Please provide rationale to support your response.	See above.
7	Do you think any deferral of Covid costs should be i) within the 2020/2021 Charging Year only, ii) deferred to the 2021/2022 Charging Year or iii) deferred to 2022/2023 Charging Year or iv) deferred equally across the 2021/2022 and 2022/2023 Charging Years? Please provide rationale to support your response.	<p>Costs should not be deferred to beyond this charging year.</p> <p>The workgroup has not done any analysis whatsoever to estimate the positive and negative impacts of the distortions that will arise as a result of cost deferral.</p> <p>These distortions will be minimised by the option of providing a loan to those parties that need it (either from the ESO as per their alternative proposal to defer BSUoS payments) or by the Network owners, as per the loans that they are offering to suppliers to cover network charging costs. In fact, one could argue that with that targeted option available (as announced by Ofgem) to parties struggling as a result of covid related market dynamics, that additional interventions should not be implemented.</p> <p>We note that the suppliers have also been supported by the LCCC having a loan and not passing on increasing CfD costs. Codes like the BSC have also reduced some of the burdens on them, and thus costs, to recognise the challenges many businesses are facing. At some point the suppliers are going to have to find a way to charge their customers and going on deferring multiple costs is just storing up an issue for a later point in time. If some suppliers are going to fail we believe that this best allowed to happen sooner not later to minimise the</p>

		impact of the mutualisation costs to their competitors and other market participants.
8	Do you consider it appropriate to smear the entire deferred Covid costs equally across the whole of a Charging Year e.g. 2021/2022 or target the deferred Covid costs to the equivalent Settlement Periods in 2020/21 in which Covid costs arose? If the charge was to be applied equally across a Charging Year should that be on a per Settlement period only basis or on a per MWh basis? Please provide rationale to support your response.	<p>Targeting settlement periods next summer or the summer after makes no sense at all. There is a significant risk that this will just add to the costs next year, which we would expect to be at a similar level. We are surprised that anyone would suggest knowingly adding to the risks of high BSUoS next summer.</p> <p>As we have said above, the most sensible approach is to apply a fixed charge per MWh charged between now and the end of the charging year for a limited definition of covid-related costs.</p>
9	Do you consider it appropriate to codify a capped figure for the Covid costs to be deferred? If so, based on the information available, what value do you believe it should be? Please provide rationale to support your response.	<p>A cap covering the costs of the nuclear deal and a sensible estimate of ODFM costs should be applied.</p> <p>No financial support should be given for any costs that arise after the end of August when demand should start to pick up. We certainly do not support having any clauses that could allow the deferred costs to be collected for the rest of the year. That could amount to c£1bn and create an unmanageable burden for the ESO and a huge price shock for customers when it is recouped. We would recommend that the proposer removes that part of the proposal as we believe it creates an unmanageable risk on all parties.</p>
10	Do you agree that the period to be covered for deferral of Covid costs should be limited to those incurred up to 31 August 2020?	<p>It is difficult to extend sympathy for financial support for any "special" costs that arise after the end of August.</p> <p>It is more appropriate to reinstate the BSUoS Task Force and focus on the longer-term solutions. The work of this group should be accelerated.</p>
11	Do you think the impact of the Covid pandemic on BSUoS is sufficient to justify a different approach to charging BSUoS in advance of the second BSUoS Taskforce completing its work? Bearing in mind the short timescale for implementation do you agree with the approach in	<p>The BSUoS Task Force should be reinstated and urged to finish their work as quickly as possible.</p> <p>Any solution that is proposed should be aligned with their recommendations, and the mod proposal is not.</p> <p>The ESO alternative proposal to offer a targeted loan to needy parties is a sensible solution in advance of an enduring BSUoS solution. However, as noted above, there seems to be an increasing amount of help being</p>

	<p>the option outlined above? Please provide a rationale with your response.</p>	<p>given to suppliers and it will reach a point where the arrangements will be sustaining companies that will fail and that will not be the benefit of customers.</p> <p>So no, the impact of the pandemic is not sufficient reason to justify this mod. There are schemes in place (the CfD payment loan and the Network Cost recovery loans) that should provide sufficient support to the market to weather tough market conditions. We note that when the Capacity Market was suspended there was no step in to help companies now missing income and some did fail.</p> <p>This mod is anticompetitive in that it undermines the competitive position of parties that are better able, through commercial strategy or technologies, to manage these market conditions. They should not be penalised.</p>
12	<p>Do you agree with the financing options set out above? Is there another way? Please provide rationale to support your response.</p>	<p>The ESO is not a finance company, a bank or an arm of the government. The ESO do they have the asset base to leverage for easy funding. Put, simply it is not their role to support other companies financially which is what this mod is asking them to do.</p> <p>The ESO have proposed a reasonable compromise – to offer targeted loans to parties that need it. This still is not their role, but it is at least not distortive, and they have determined that it is an approach their shareholders can live with. It would be a shorter length of time, and a smaller value than as in the original proposal, and so is a reasonable approach to the problem (that shouldn't be addressed via the CUSC anyway).</p>
13	<p>Do you agree with the impacts we have set out in this Workgroup Consultation? Have we missed any impacted parties? Please provide details to support your response.</p>	<p>The proposer and the workgroup have made many assertions but have provided no facts or meaningful analysis of the impacts on the many different types of parties in the market who have adopted many different strategies and business models.</p> <p>It is therefore impossible to assess if the overall benefit is positive or negative, let alone what the indirect costs of implementation would be to competition and which parties would win or lose as a result of this mod.</p> <p>It is possible that the assertions are correct, but some more robust analysis needs to be undertaken before this much money is randomly moved between years and between parties.</p>

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