

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.

Respondent details	Please enter your details
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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>The intent of the original CMP345 proposal is to defer the recovery of certain BSUoS costs from Generation output and Demand consumption during May to August 2020 to output and consumption during the financial year 2021/22. The deferral is justified on the basis that the specific BSUoS costs to be recovered were unforeseen and cannot therefore be passed through to consumers in either the wholesale market or through consumer tariffs.</p> <p>From the evidence presented by the ESO and summarised in the proposal it is clear that the level of forecast BSUoS costs related to the extraordinary circumstances created by the Covid-19 pandemic are unprecedented and much higher than forecast earlier in the year. However, these are cost forecasts and represent an almost worse case (pessimistic) view of the potential impact of the extraordinary actions that may be taken by the ESO. Following publication of the forecasts we expect that the market will take a view on the impact of these costs on power prices, and that the effects will be to some extent mitigated through efficient trading.</p> <p>The key issue that CMP345 seeks to address is whether the unforeseen costs create issues of cost recovery for market participants. On this point we are unclear whether this is the case in relation to the wholesale market, where the costs are now well known and understood to the extent possible. We are also unclear as to whether suppliers will be able to pass through the costs to consumers through their existing tariffs or through future adjustments to the tariff cap.</p> <p>There are a number of practical issues created through the modification proposal particularly related to the impact on the ESO, the impact on its shareholder National Grid, the ability to raise the finance in the time period, the impact of financing costs and the inter year interaction on ESO profit and loss (particularly the potential for a £500m loss in 2020/21).</p> <p>We do not believe that the original proposal better meets the CUSC objectives. In particular it does not better fulfil Objective a) since it has a detrimental impact on the efficiency of the wholesale power market by removing certain costs from one period and recovering them on a</p>
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		<p>different basis in another.</p> <p>In addition the complexity of the solution mean that it does not better meet Objective (e) since it will create short term BSUoS billing issues particularly with respect to the 1st May implementation date and issues with the ongoing administration of a finance facility by the ESO.</p>
2	Do you support the proposed implementation approach for CMP345?	<p>If CMP345 were to be approved then the approach outlined on the report is the only practical way of implementing the proposal given the time constraints. We note that this will require the accrual of certain costs in a separate account, the financing of these costs and the transfer of the liabilities into a future year for market participants.</p>
3	Do you have any other comments?	<p>CMP345 raises important issues associated with the recovery of unforeseen BSUoS Costs, the parties liable for these costs and the associated administrative arrangements. In our view these issues should be considered and resolved by the BSUoS task force.</p>
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	<p>We do not wish to raise a workgroup alternative.</p> <p>We note that certain options considered by the workgroup relate to “payment holidays”. We do not believe that these options address the defect identified in the modification proposal, which relates to deferral of cost recovery rather than the deferral of payments.</p>
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>The specific unforeseen costs associated with Covid-19 related balancing activities should be identified as part of the modification proposal. These costs should relate to the extraordinary circumstances created by the Covid-19 pandemic which has created unprecedented costs which are much higher than forecast earlier in the year (the unforeseen costs).</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.	<p>We agree that Covid-19 BSUoS related costs should include as a minimum the specific costs associated with the ODFM service , balancing contracts with nuclear power station actions initiated by the ESO in direct response to the circumstances created on the transmission system as a result of demand below 18GW and financing costs.</p>
7	Do you think any deferral of Covid costs should be i) within the 2020/2021 Charging Year only, ii) deferred to the	<p>Given the practical difficulties identified by the ESO in financing the deferral of the Covid-19 costs into a subsequent financial year, the only practical solution if deferral were to be considered is within the 2020/21</p>

	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>financial year.</p> <p>We note the concerns raised by the ESO regarding deferral of cost recovery across financial years. This issue should be considered by the BSUoS taskforce in defining effective and efficient recovery of BSUoS costs.</p>
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.	We understand the rationale for smearing the BSUoS costs across the financial year as envisaged under the original proposal. If approved, we support the proposal to treat the cost recovery as a fixed charge in the financial year and recovered in a manner consistent with the recovery of ESO internal costs. This reflects the fact that deferred Covid-19 BSUoS costs are a sunk cost which should be recovered in a manner that is fair, proportionate and non-distortive.
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.	It is important that there is some market certainty over the level of cost recovery associated with deferred Covid-19 BSUoS costs. The figure of £500m should be the capped level for the Covid-19 BSUoS costs. This reflects the best information on the forecast level of these costs which was available at the time that the modification was raised.
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?	The evidence presented in the modification proposal related to the ESO May BSUoS forecast and the uplifted costs until August 2020. Therefore, if implemented, the original proposal should limit the costs incurred to the end of August 2020.
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>We do not agree that the impact of the Covid-19 pandemic is sufficient to justify a new approach to the recovery of BSUoS costs prior to the BSUoS taskforce completing its work.</p> <p>CMP345 seeks to address unforeseen Covid-19 BSUoS costs which in the view of the proposer create issues of cost recovery for market participants. The specific issue of cost recovery and the treatment of unforeseen costs</p>

	the option outlined above? Please provide a rationale with your response.	should be considered by the BSUoS taskforce.
12	Do you agree with the financing options set out above? Is there another way? Please provide rationale to support your response.	We note the issues raised by the ESO associated with financing the costs of deferral of Covid-19 BSUoS costs. We agree that the costs of financing should be included in any implemented solution. However, we do not support the use of penal interest rates for financing costs. Rather they should be based on the actual financing costs incurred by the ESO.
13	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.	We agree with the qualitative assessment of the potential impacts associated with the modification proposal.