

**CUSC Code Administrator Consultation Response Proforma****CMP345 'Defer the additional Covid -19 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](mailto:cusc.team@nationalgrideso.com) by **3pm on 12 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 Panel.

If you have any queries on the content of this consultation, please contact Paul Mullen [paul.j.mullen@nationalgrideso.com](mailto:paul.j.mullen@nationalgrideso.com) or [cusc.team@nationalgrideso.com](mailto:cusc.team@nationalgrideso.com).

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**For reference the applicable CUSC objectives are:**

- 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;*
- 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);*
- 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;*
- 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*
- Promoting efficiency in the implementation and administration of the CUSC arrangements.*

*\*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).*

Please express your views in the right-hand side of the table below, including your rationale.

Standard Code Administrator Consultation questions		
1	Do you believe that the CMP345 Original solution, WACM1, WACM2, WACM3, WACM4, WACM5, WACM6, WACM7 or WACM8 better facilitates the Applicable CUSC Objectives?	<p>The <b>Original, WACM5</b> and <b>WACM8</b> better facilitate the applicable objectives and we consider <b>WACM5</b> is the best of these options.</p> <p>Options which simply offer extended payment terms (<b>WACM1</b> and <b>WACM6</b>) do not address the defect set out in the modification proposal and do not better meet the objectives.</p> <p>The remaining options only partially address the defect, since they either do not defer enough cost and/or do not defer costs for long enough to provide a sufficient level of protection. They do better facilitate the objectives but to a significantly lower degree than the <b>Original, WACM5</b> and <b>WACM8</b>.</p> <p>Our full assessment is set out below:</p> <p><b>Applicable Objective (a):</b></p> <ul style="list-style-type: none"> <li>• <b>Deferral</b> options (<b>Original, WACM2, WACM3, WACM4, WACM5, WACM7, WACM8</b>) are <b>positive</b> against this objective because they will mitigate, to varying degrees, against the exceptional losses likely to be incurred by Parties as a result of Covid-19. Deferring costs to a future period will allow Parties to reflect these exceptional costs into future tariff offerings. Such protection, for exceptional risks, that are high impact and low probability, such as Covid-19, will reduce the level of risk that will need to be factored into future tariffs and facilitate effective competition in the generation and supply of electricity. In our view this will, as a result, lower the long-term costs to consumers.</li> <li>• <b>Deferral</b> options which defer to 2022/23 (<b>WACM5, WACM8</b>) are the strongest options as they provide a more complete solution to allow Parties to reflect the costs in future contracts (and so reduces further increases to risk premia) as contracts go beyond 2021/22.</li> <li>• <b>Deferral</b> options which significantly reduce the scope of Covid-related costs (<b>WACM2, WACM3, WACM4</b>), and/or which only offer a within year</li> </ul>

		<p>deferral (<b>WACM3, WACM4, WACM7</b>) significantly reduce the protection being offered as they reduce the amount of the exceptional costs that Parties will be able to recover in future contracts. A high proportion of contracts that cover this summer will run until at least the end of the regulatory year. Within year deferrals do not change the position for those contracts and do not address the issue raised in the modification. They are better than the baseline but to a significantly lower degree than the <b>Original, WACM5 and WACM8</b>.</p> <ul style="list-style-type: none"> <li>• <b>Extended payment term options (WACM1, WACM6)</b> are <b>negative</b> against this objective. Options which simply extend payment terms do address the issue raised. This means they do not remove the need to factor high impact low probability events into risk premiums and will therefore adversely affect competition and cost consumers more in the long run. There will also be additional risk premiums that will be necessary to cover the risk of default associated with the extended payment terms, particularly because the proposals do not require any additional credit. The risk of accumulated bad debt does not sit not with the ESO, who are simply providing a financing facility, but with market participants and consumers who are acting as guarantors to any extended payment terms. This will have a detrimental impact on risk premia and consumer costs.</li> </ul> <p><b>Applicable Objective (b):</b></p> <ul style="list-style-type: none"> <li>• <b>Deferral options (Original, WACM2, WACM3, WACM4, WACM5, WACM7, WACM8)</b> are <b>positive</b> against this objective. The exceptionally high BSUoS prices would provide a signal to reduce demand or increase embedded generation, potentially further increasing the costs of balancing the system. By removing costs from high BSUoS periods and recovering them in a smeared fashion in a future period, deferral options move this signal to a period where reducing demand (or increasing embedded generation) will not drive further cost. Therefore, cost reflectivity is improved by reducing the impact of the inappropriate signalling present in the current baseline charging approach.</li> </ul>
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2	Do you support the proposed implementation approach?	We do not believe it is appropriate to backdate to 1 May 2020. We suggest the earliest implementation date should be 1 June 2020.

3	Do you have any other comments?	<p>We are concerned that options have been included that do not address the defect identified or attempt to address the defect identified. Further options have been included that address the defect only to a very limited degree. The proposal sought to remedy the issue of Parties being unable to recover the increase in BSUoS costs caused by Covid-19 restrictions. Deferring those costs by a sufficient length of time would allow Parties to pass-through the additional costs into future tariff offerings, allowing cost recovery.</p> <p>Many of the WACMs either focus on extended payment terms and so do not address the defect at all, or only partially address it by significantly limiting the extent to which parties will be able to pass-through the Covid-19 related increase in costs.</p> <p>Other options were discussed, but not progressed, by the Workgroup that more fully address the defect. We would suggest Ofgem should be seeking to find the best solution to the defect identified using all the Workgroup considerations. For example, the approach to assessing how much cost should be deferred proposed in WACM5 could be used with a different year (for when the cost is deferred to).</p>
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