

**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](mailto: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](mailto:paul.j.mullen@nationalgrideso.com) or [cusc.team@nationalgrideso.com](mailto: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   |
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| (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 |  |   |
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| 1  | Do you believe that the CMP345 Original Proposal better facilitates the Applicable CUSC Charging Objectives? | <p>On balance no. We have some sympathy with the defect, but we have a number of concerns with the proposed solution. Firstly, we are concerned that it may result in significant transfer of cost from one set of parties to another as it will move costs from overnight and weekend periods onto all periods in the next charging year. Additionally, the basis on which charges will be allocated for removal is not clear for participants. It will take some judgement from National Grid as to whether costs were incurred due to the incremental effect of the COVID-19 pandemic on demand and not to include costs caused by low demand for other reasons, such as warm weather. This process will be quite opaque for parties, which will cause difficulties for managing ongoing BSUoS risk for the remainder of the 2020/21 charging year. We also have reservations about implementing the modification retrospectively. Whilst we understand the reasons as to why this has been requested in this instance, retrospective modifications, particularly those which can significantly affect the financial positions of parties, can have a detrimental effect on market confidence in the regulatory regime.</p> <p>We believe that this will undermine competition and make administration of the arrangements less efficient.</p> |
| 2  | Do you support the proposed implementation approach for CMP345?  | Yes, but only partially. As we outline in our answer to question 1, we are concerned about the potential for a retrospective change.  |
| 3  | Do you have any other comments?  | No thank you.   |
| 4  | Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?             | Yes. We believe that there is the potential for a compromise solution which overcomes some of the issues we are concerned about in respect of the original solution. This alternative approach would protect parties from the more extreme BSUoS prices in 2020/21 should they occur, but not all high prices. This would be put into place by setting a BSUoS price cap, above which half hourly prices will not be able to rise. We believe, based on an analysis of prices from the previous charging year (2019/20), that this cap should be set at a level of £15/MWh. Should the cap take effect, any   |

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|  |   | <p>under-recovery in costs for the affected periods should be accumulated and smeared over all settlement periods in the 2021/22 charging year. Although, this still moves costs between weekends/overnight to other periods in the following year, we believe that this is less of a concern, given that this should target just the extreme cost periods. It should also be more manageable for National Grid ESO, as we would anticipate this removing less cost than the original proposal.</p> <p>We note the ESO's concerns in the consultation document over implementation of this option and possible manual interventions in the BSUoS data processing. We would be open to an option which calculates BSUoS and creates invoices normally, and then provides separate credit notes in respect of periods which were actually capped out. This seems no more problematic than some of the other options which require manual intervention in the invoicing arrangements.</p> |
| <b>Specific Workgroup Consultation Questions</b> |   |  |
| 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. | It is necessary for some solutions. We would be concerned if the definition was too wide, thereby resulting in excessive levels of costs being deferred into next year.  |
| 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.               | This definition is partially suitable, but the ESO would have to tag the relevant costs to ensure that only those incurred as a result of the additional demand reduction caused by the COVID-19 pandemic were removed. Anything which would have been needed to meet the "normal" non pandemic levels of demand in affected periods should not be counted. In the original modification we note that Super SEL costs are included. Super SEL is not a new service and recently the ESO only added one new provider, so we would be reluctant for the entire service to be identified as necessary to deal with the COVID-19 pandemic demand levels. However, if the ESO can identify specific Super SEL actions it has taken to deal with the additional low levels of demand caused exclusively by COVID-19 then it would be right to include these.   |

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| 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.  | It would make it more difficult for parties to manage the risk around BSUoS for the remainder of 2020/21 if costs were simply deferred to be recovered over the remainder of 2020/21. Of course, if costs were simply deferred on the basis of a payment holiday, with liabilities remaining unaffected, then this would not be a concern. On balance it would seem appropriate to defer for only one year to 2021/22 to ensure the affects can be resolved as soon as possible and to prevent future prices being affected for too long an ongoing period. |
| 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. | Smearing costs across all periods in the following year causes us some concern as it will potentially move costs between different classes of user, possibly retrospectively. However, we accept that targeting the costs at particular periods could be problematic, as it could create unpredictable effects in the shape of BSUoS for next year. On balance, we believe that it would be less risky to smear the costs over all periods, particularly if alternatives are adopted which limit the amount of costs to be deferred.                        |
| 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.  | We can understand the rationale for a cap as it would prevent National Grid ESO from being exposed to an unlimited cashflow going into next year. We believe that our alternative approach would limit the exposure anyway by only filtering out unusually high prices.   |
| 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?  | Yes. The rationale for the modification was concern about costs in the period May to August inclusive. We therefore believe that the modification should be time limited until the end of August.   |
| 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  | Whilst there may be merits in the approach suggested, we believe that the approach would need a more considered assessment than can be provided with the truncated timescales of the urgent modification process.   |

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|    | work? Bearing in mind the short timescale for implementation do you agree with the approach in the option outlined above? Please provide a rationale with your response. |   |
| 12 | Do you agree with the financing options set out above? Is there another way? Please provide rationale to support your response.  | It would appear appropriate for interest incurred by the ESO to be recovered through the smeared costs in the following year.   |
| 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.      | <p>We do not agree that the current situation is likely to result in security of supply impacts in the absence of CMP345. It could result in some parties going out of business, but at low demand levels and the likelihood that generation assets will be sold on to other parties to operate, there is unlikely to be a security of supply risk. There could be a cost and potential customer disruption issue if one of more suppliers go out of business and have to go through the Supplier of Last Resort process though.</p> <p>We do not believe that there should be a significant impact on suppliers with respect to their price cap customers, as we understand that BSUoS movements will be reflected in a future cap. There will be cashflow impacts in the interim. However, we accept that there could be an impact on suppliers with a large percentage of fixed price contracts.</p> |