

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
Respondent name:	Olaf Islei
Company name:	Shell Energy Supply UK
Email address:	Olaf.Islei@shell.com
Phone number:	+44 207 546 2775

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>We do not believe that CMP345 better facilitates the applicable CUSC charging objectives.</p> <p>Objective A – we do not consider that the proposed ad-hoc and retroactive change to charging arrangements will facilitate effective competition in the generation and supply of electricity. The proposed change to the existing rules will create arbitrary winners and losers, and we do not consider that a change that creates arbitrary winners and losers is likely to promote effective competition. We believe that the proposed modification, and the precedent it sets, is likely to have a negative impact on effective competition</p> <p>Objective E – we do not consider that the proposed ad-hoc and retroactive change promotes efficiency in the implementation and administration of CUSC arrangements.</p>
2	Do you support the proposed implementation approach for CMP345?	We do not support the proposed implementation approach.
3	Do you have any other comments?	<p>We do not believe that the proposed approach to defer £500 million BSUOS costs is likely to further the applicable objectives because:</p> <ol style="list-style-type: none"> 1. Some parties will have anticipated the increase in BSUOS costs and increased their charges to reflect the anticipated increase. It is not clear, and the mod group does not know, the extent to which parties anticipated the forecast £500 million additional balancing costs. 2. We understand from National Grid Electricity System Operator that it considers that its current forecast for BSUOS costs is pessimistically high – i.e. at the top end of potential outturn costs for the summer. The mod group does not know the extent to which balancing costs will be higher in the period 1 May to 31 August in the absence of COVID. 3. At least since the most recent forecasts were published all parties will have been trading in the wholesale market at prices which reflect the higher forecast BSUOS charges. A change to the

		<p>rules now could adversely affect those parties trading at the current forecast level. In addition, having to wait until the 22 or 23 of June to understand whether BSUOS will be £8/MWh or £4/MWh creates significant uncertainty which is likely to have an adverse impact on competition.</p> <p>4. It is not clear how BSUOS costs will evolve after August 2020, so we see little merit in deferring the £500 million to a later period, in the anticipation that costs in a later charging period will be lower or less volatile. Evidence shows that for (at least) the last five years both the level and volatility of BSUOS costs has been increasing significantly.</p> <p>5. We consider that allowing retroactive changes to charging arrangements taking the above circumstances and in the specific context, including but not limited to the increasing volatility experienced to date and the likelihood of continued volatility is likely to have an adverse impact on competition in the short term, due to the modification creating arbitrary winners and losers, and in the longer term if it sets a precedent that retroactive and sudden/unforecastable changes to the rules are an acceptable way of proceeding.</p>
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	Click or tap here to enter text.
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.	We do not believe that it is possible to properly identify COVID related costs either ex-ante or ex-post in this specific context – because it is not possible to properly identify which balancing costs have been caused by COVID and which balancing costs have not.
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 answer to question 5

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.	We do not agree that these specific costs should be deferred. Evidence shows that (at least) for the last five years both the level and volatility of BSUOS costs has been increasing, and are expected to continue to do so, so we do not see any rationale to defer current BSUOS costs to a later 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.	See answer to question 7.
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.	No. We do not agree with the proposed deferral of BSUOS costs.
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?	No. We do not agree with the proposed deferral of BSUOS costs.
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	<p>No. We do not agree with the proposed deferral of BSUOS costs as this will create arbitrary winners and losers.</p> <p>We do agree that the increasing level and volatility of BSUOS is a concern for the industry. We believe that the BSUOS taskforce is best placed to develop and</p>

	<p>timescale for implementation do you agree with the approach in the option outlined above? Please provide a rationale with your response.</p>	<p>deliver an enduring solution to what evidence suggest will be an enduring, as opposed to a one-off problem.</p> <p>We would be extremely concerned if this modification, developed over a few days with limited industry engagement implemented a solution that did not appropriately consider the different interests at stake due to a lack of time and analysis – as explained in the consultation – no analysis has been undertaken to support the proposal because there isn't enough time.</p> <p>As we anticipate that the problem of high and volatile BSUOS costs is likely to be long term – we expect that a more robust solution for industry is likely to be delivered via a better considered process – with some supporting analysis to back it up.</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>Click or tap here to enter text.</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>In the absence of supporting analysis, it is difficult to say whether the impacts identified by work group are correct.</p>