CUSC Workgroup Consultation

CMP350 'Changes to support the BSUoS Covid Support Scheme'

Overview: To change the Covid Support Scheme by reducing the current £15/MWh cap, extending its application to 30 September 2020 and introducing a limit of £100m for the amount of deferred Covid Costs.

Modification process & timetable

1. **Proposal form**
   - 15 July 2020
2. **Workgroup Consultation**
   - 24 July 2020 - 27 July 2020
3. **Workgroup Report**
   - 30 July 2020
4. **Code Administrator Consultation**
   - 31 July 2020 - 4 August 2020
5. **Draft Code Modification Report**
   - 5 August 2020
6. **Final Code Modification Report**
   - 6 August 2020
7. **Implementation**
   - 14 August 2020

Have 5 minutes? Read our Executive summary

Have 30 minutes? Read the full Workgroup Consultation document

Have 45 minutes? Read the full Workgroup Consultation document and annexes

Status summary: Workgroup Consultation. The Workgroup are seeking your views on the work completed to date to form the final solution(s) to the issue raised.

This modification is expected to have a: high impact on	Suppliers, Generators, Traders, End Consumers, National Grid ESO
Governance route	This modification will be assessed by a Workgroup and Ofgem will make the decision on whether it should be implemented. On the 21 July 2020, the Authority approved that CMP350 should be progressed as Urgent.
Who can I talk to about the change?	**Proposer:** George Moran, British Gas george.moran@centrica.com Phone: 07557 611983
	 **Code Administrator Chair**: Paul Mullen paul.j.mullen@nationalgrideso.com Phone: 07794 537028
How do I respond?	Send your response proforma to cusc.team@nationalgrideso.com **by 5pm on 27 July 2020.**

Executive Summary

CMP345 WACM2, which was approved by the Authority on 23 June 2020, applies a cap of £15/MWh based on historic extreme prices to the BSUoS price in each settlement period from 25 June 2020 to 31 August 2020 (the "Covid BSUoS Support Scheme"). Any under-recovery of revenue from the application of the cap will be recovered through BSUoS charges equally across all settlement periods in 2021/22.

CMP350 seeks to change the Covid BSUoS Support Scheme to address the higher frequency of high BSUoS prices by:

- Introducing a limit of £100m for the cumulative amount of deferred under the Covid BSUoS Support Scheme;
- Reducing the current £15/MWh cap to £5/MWh; and
- Extending its application from 31 August 2020 to 30 September 2020.

All other aspects of the Covid BSUoS Support Scheme will remain unchanged and are not within the scope of this Modification.

What is the issue?

The Proposer believes that the current Covid BSUoS Support Scheme does not address the impact Covid has had on the exceptional frequency of higher BSUoS rates across a much broader range of BSUoS price levels.

What is the solution and when will it come into effect?

Proposers solution – the Original:

- Introducing a limit of £100m for the amount of deferred Covid Costs;
- Reducing the current £15/MWh cap to £5/MWh; and
- Extending its application from 31 August 2020 to 30 September 2020.

All other aspects of the current Covid BSUoS Support Scheme will remain unchanged and are not within the scope of this Modification.

Other Potential Solutions based on Workgroup discussions to date:

- As per Proposer's Original solution but extending its application to 25 October 2020 (being the clock change day) rather than 30 September 2020; and
- The Proposer's Original Solution includes a provision to set a hard date for the Covid BSUoS Support Scheme to end. ESO have proposed an alternative approach whereby they will provide notice on when they believe reaching the £100m cap is likely to happen rather than setting a hard date.

Implementation date:

The proposed implementation date is 14 August 2020, but this is subject to Ofgem approval on or before 13 August 2020.

What is the impact if this change is made?

This modification will impact Generators, Suppliers, Traders, End Consumers and National Grid ESO.

The Proposer considers that this change will have a positive impact on consumers as it enables the recovery a greater portion of the exceptional costs associated with Covid, reducing the adverse impacts on competition of significant losses related to balancing

costs that could not have reasonably been anticipated. Some Workgroup Members consider this proposal is distortionary as it will affect a significant number of non-Covid BSUoS prices and exacerbate the cost deferral issues associated with the current Covid BSUoS Support Scheme.

Interactions

This proposal will impact the CUSC (Section 14) and the processes of calculating and billing BSUoS. There should be minimal system impact as the change can use the existing processes introduced by the Covid BSUoS Support Scheme.

The introduction of a cap to the amount of deferred BSUoS costs will add an additional step to that process and will require additional monitoring by ESO. However, this is not expected to be difficult to manage.

This proposal does not have any impact on any ongoing Significant Code Review or other significant industry change as it involves the deferral only of a (£) quantum of cost.

Workgroup Consultation Introduction

This document is the CMP350 **Workgroup's Consultation.** This document outlines;

- **What is the issue?**
- **What is the solution?**
    - Proposer's solution
    - Workgroup considerations
    - Potential solutions
    - Draft legal text
- **What is the impact of this change?**
- **When will the change taken place?**
- **How to respond**
- **Acronym table and reference material**

The Workgroup is seeking views on the proposed Original and the alternative solutions. The questions it is seeking answers on are embedded within the document and outlined in the **How to respond** section.

What is the issue?

What is the issue?

The Proposer believes that the solution introduced by the Covid BSUoS Support Scheme fails to consider the impact Covid has had on the exceptional frequency of higher BSUoS rates across a much broader range of BSUoS price levels. The Proposer believes a cap of £5/MWh (rather than the £15/MWh cap currently in the CUSC) provides a necessary and more appropriate level of protection for market participants which addresses both the instances of exceptionally high levels of BSUoS prices as well as the exceptional frequency of high levels of BSUoS prices.

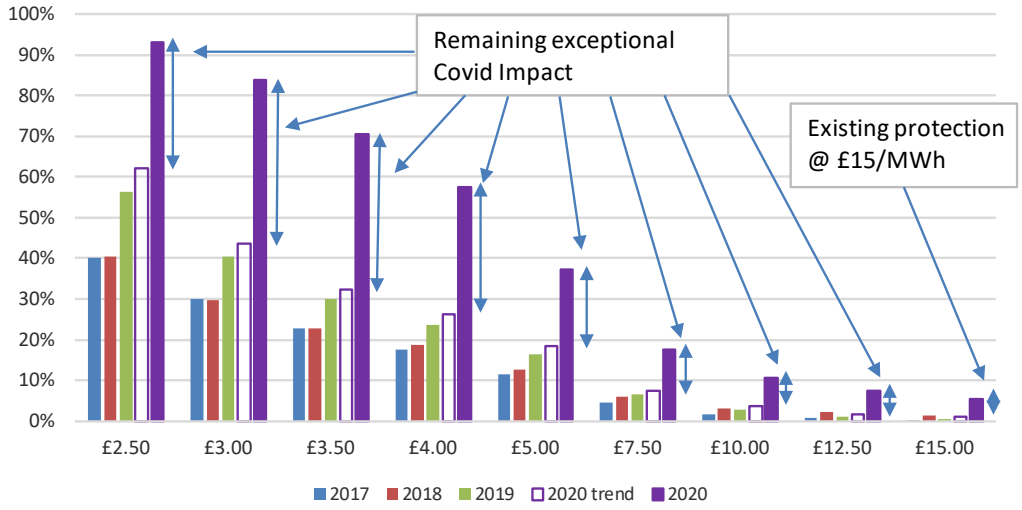
The current Covid BSUoS Support Scheme is scheduled to end on 31 August 2020; however, there is the potential for the impact of Covid to continue to drive low levels of demand and exceptional BSUoS costs into September when underlying demand levels typically remain low. This has been recognised by the ESO in its updated June 2020 BSUoS scenarios.

The current Covid BSUoS Support Scheme does not have a limit to the amount of cost that can be deferred. In approving CMP345 WACM2, Ofgem noted that there was a limit to the amount of liquidity that could be provided by NGESO, under current arrangements, and stated that it would be efficient and appropriate, should the level of BSUoS costs being deferred approach £100m, to consider further how to mitigate the NGESO's exposure

Why is it an issue?

The Proposer believes that the current Covid BSUoS Support Scheme offers insufficient protection to market participants from the impact of Covid. The existing £15/MWh cap provides protection against increased instances of exceptional BSUoS price levels. However, the current Covid BSUoS Support Scheme fails to consider the impact Covid has had on the exceptional frequency of higher BSUoS rates across a much broader range of BSUoS price levels. This is demonstrated by Figure 1 below.

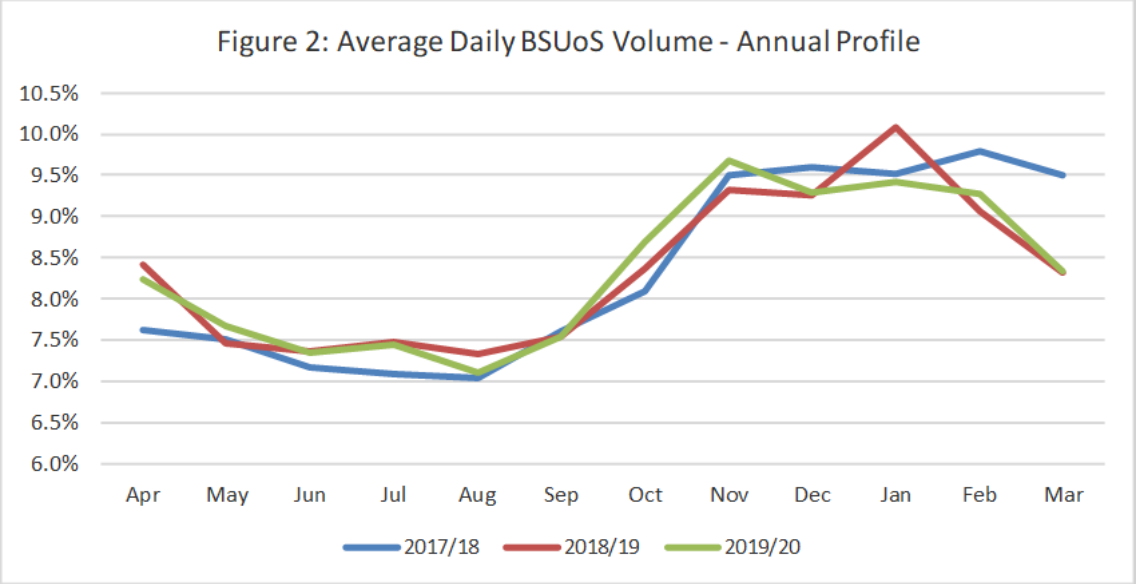
Figure 1: Frequency of Summer HH BSUoS greater than…



Using data from the summers (1 April – 30 September) of 2017-2019, the Proposer has plotted a linear trend in how frequently BSUoS could be expected to outturn higher than a range of different price levels (the hollow purple column in the chart) and compared this to what has been observed so far in the summer of 2020 (full purple column). The Proposer considers that the difference between the observed 2020 levels and the trended 2020 levels is a reasonable representation of the exceptional impact of Covid on the level of BSUoS.

The current Covid BSUoS Support Scheme is scheduled to end on 31 August 2020. However, the Proposer considers that there is clearly the potential for the impact of Covid to continue to drive low levels of demand and exceptional BSUoS costs into September when underlying demand levels typically remain low. This has also been recognised by the ESO in its updated June 2020 BSUoS scenarios. Figure 2 below shows the annual profile of daily BSUoS volumes for the last 3 years (pre-Covid) and demonstrates that 'normal' daily volumes for September are similar to other summer months. Therefore, the Proposer

considers that any further demand reduction caused by Covid in September will continue to drive exceptional BSUoS costs.



What is the solution?

Proposer's solution:

Introducing a limit of £100m for the cumulative amount of deferred Covid BSUoS Support Scheme costs	**Reducing the current £15/MWh cap to £5/MWh**	**Extending the application of the Covid BSUoS Support Scheme from 31 August 2020 to 30 September 2020**

Workgroup Considerations

The Workgroup has convened twice to discuss the perceived issue, detail the scope of the proposed defect, devise potential solutions and assess the proposal in terms of the Applicable CUSC Objectives.

Introducing a limit of £100m for the cumulative amount of deferred Covid BSUoS Support Scheme costs

There is no formal limit to the amount of deferred BSUoS Support Scheme costs in the current Covid BSUoS Support Scheme. In approving CMP345 Ofgem noted that there was a limit to the amount of liquidity that could be provided by NGESO, under current arrangements, and stated that it would be efficient and appropriate, should the level of BSUoS costs being deferred approach £100m, to consider further how to mitigate the NGESO's exposure. Ofgem's decision letter on urgent treatment for CMP350[1] reiterated this.

[1] Ofgem Decision Letter on Urgency dated 21 July 2020 stated "There is a limit to the amount of additional liquidity that can be provided by NGESO under current arrangements and we have a duty to have regard to financeability of the regulated companies"

Under the current Covid BSUoS Support Scheme, ESO undertake weekly reporting on the ongoing costs of the BSUoS Covid support scheme.

The report dated 20 July 2020 shows that the cumulative BSUoS charges deferred since the scheme start date are currently £5,784,459. This will continue to accrue until implementation of CMP350 (if approved) and then would be subsumed into the overall £100m cap introduced by CMP350 (if approved)

The CMP350 Workgroup agreed that £100m was an appropriate cap.

Workgroup Consultation question: CMP350 Original proposes introducing a formal limit of £100m to the amount of Covid BSUoS Support Scheme costs which can be deferred. Do you agree that a formal limit of £100m should be introduced?

However, the Workgroup felt it was also crucial to define the process when the £100m limit is approaching as stakeholders will need sufficient warning to mitigate against any such price 'cliff-edge' when the Covid BSUoS Support Scheme suddenly stops. The Workgroup also noted that the risk of the £100m limit being reached is increased with longer Covid BSUoS Support Scheme durations and lower £/MWh cap levels.

The Proposer clarified that their Original Solution is to set a hard date for the Covid BSUoS Support Scheme to end. This would be set by the ESO providing at least 2 working days' notice given their estimate of reaching the £100m limit on a best endeavours basis. Some Workgroup members expressed support for this approach.

The ESO has proposed an alternative approach, which it believes provides the industry with data transparency, whilst also reducing the ESO's financial exposure by removing the risk that the £100m cumulative cap could be exceeded. This is as follows:

- Provide updates on costs deferred over the £/MWh cap every working day once £60m has been reached;
- The support will cease on the settlement period before the £100m cap was breached; and
- The ESO can provide notice, on when they believe this is likely to happen; however this notice would only be meaningful at a higher £/MWh cap. The reason for this, is that at £5/MWh, there will be a high frequency of £5/MWh Settlement Periods and due to a 6 day lag in receiving BSUoS settlement information from Elexon, this would be very difficult to forecast.

Workgroup Consultation question: The ESO has included some initial thoughts on how the process would work when the £100m Cap is being approached and when it is reached. Do you agree with this approach? Please provide the rationale for your response.

A Workgroup member relayed Trader's concerns on the ESO's approach and stated they would prefer the notice to confirm the actual date and Settlement Period that the Covid BSUoS Support Scheme would end as per the Original proposal.

Another Workgroup member noted that the 6 day lag for the ESO Revenue team to calculate the ongoing Covid BSUoS Support Scheme cost may be reduced by engagement with the ESO's ENCC team.

Reducing the current £15/MWh cap to £5/MWh

CMP350 Original proposes that the new cap should apply from 1 August 2020 or as soon as possible thereafter; however, no retrospectivity has been sought.

The Proposer explained how they arrived at a cap of £5/MWh.

- Using a trend of observed BSUoS rates over previous summers to project what a market participant could have anticipated for summer 2020 provides an estimated BSUoS rate of £3.48/MWh for summer 2020;

- An error margin of 15% been applied to reflect the likely actions a prudent market participant would take when seeking to price BSUoS for summer 2020 ahead of time. This error margin is the average difference between the Central forecast and the 'High Error forecast provided by National Grid ESO for each of those forecasts for summer 2020. This is set out in Table 1 below:

Table 1: Summer 2020 £/MWh (National Grid ESO)			
	Central	High error	Difference
Sep-19	£ 3.25	£ 3.69	14%
Oct-19	£ 3.25	£ 3.75	15%
Nov-19	£ 3.25	£ 3.79	17%
Dec-19	£ 3.26	£ 3.70	14%
Jan-20	£ 3.36	£ 3.82	14%
Average	**£ 3.28**	**£ 3.75**	**15%**

- This 15% error margin is then applied to the estimated BSUoS rate of £3.48/MWh for summer 2020 to produce a high error band view of £4.00/MWh. The Proposer believes that £4.00/MWh is an objectively justified prudent estimate of the overall level of BSUoS for summer 2020 and an average rate in excess of this represents the increase in overall BSUoS costs which a prudent market participant could not have foreseen and taken account of in commercial planning for the summer.

- To derive the proposed £5/MWh cap, the Proposer looked at the outturn BSUoS data to date for summer 2020 (April 2020 to June 2020), and calculated a half hourly cap which would have produced an overall average rate of £4.00/MWh. The required half hourly cap to achieve this is £4.97/MWh, which has been rounded up to £5.00/MWh by the Proposer.

Some Workgroup members noted that the Covid BSUoS Support Scheme provides protection against increased instances of exceptionally high BSUoS price levels. CMP350 seeks to address the exceptional frequency of higher BSUoS rates across a broad range of BSUoS price levels. The Proposer was clear that £5/MWh does not in itself constitute an exceptional price level; however the cumulative impact of such instances constitutes an exceptional frequency and a £5/MWh BSUoS cap is required to return to a more "normalised" average BSUoS outcome.

The Workgroup considered the impact of reducing the cap to £5/MWh and sought to determine what an appropriate cap level might be. The Proposer and three Workgroup members presented analysis to set out their thoughts on this topic. The table in Annex 5 below provides some high level details of the analysis itself and the conclusions from the Workgroup Member who presented the analysis. The full analysis can be found in Annex 6 of this document.

The CMP350 Workgroup raised the following general points:

- Some Workgroup members were concerned that the averaging approach in the Proposer's analysis could be misleading as it does not reflect that the BSUoS charges are normally volatile and so a flat cap would have some adverse distortional

impacts. There is a significant range and frequency of prices across Settlement Periods such as the difference between day and night – this analysis is summarised in Annex 5 with the full analysis set out in Annex 6.

- The Workgroup discussed how, in general, a lower £/MWh threshold would defer more BSUoS costs in to the following financial year and this would have material effects on the market.

- Some of the Workgroup felt that the £5/MWh took the prices in some periods too far below where "normal" BSUoS would be. While there was a lot of volatility in BSUoS, that was a longer term structural issue that the second BSUoS Task Force was looking to address - this low cap would add distortions to both this summer and next year.

- Some Workgroup members agreed that applying a £5/MWh cap as proposed would remove any unforecastable instances of Settlement Periods that are in the high range of "normal" but would also limit the "business as usual" BSUoS beyond the effects of Covid. To mitigate this, a Workgroup member argued that in principle you should capture the difference between the normal 2020 trend and the estimated trend based on Covid e.g. under a normal 2020 trend the probability of seeing prices above £2.5/MWh might be 62%, but under the Covid distribution seen to date that probability has grown to 93%. Therefore, you would need to identify which of the instances of BSUoS costs are Covid related and which are Business as Usual. On balance, it was felt that this would be complex and difficult to implement in the timescales. This was discussed at length during CMP345 and no single solution was agreed upon. Possible solutions were presented to Ofgem as WACMs, of which Ofgem selected the £15/MWh and so didn't address this issue directly.

- Workgroup agreed it was difficult to pinpoint an appropriate cap; however, some Workgroup members noted that £5/MWh was too low and believed that the £100m overall cap would be reached sooner than the expiry date of 30 September 2020 or even 31 August 2020 if a £5/MWh cap was proposed. The Proposer noted that the supporting analysis they provided estimated that a £5/MWh cap would only breach the £100m cap under a 15% demand suppression scenario. This is based on National Grid ESO's June BSUoS scenarios: and assumes that the cap results in the same proportion of deferred costs that would have occurred had the cap been in place between April and June.

- Some Workgroup members believed that using the cap developed for CMP345 in this manner was inappropriate as it had been specifically developed to address high balancing costs incurred in periods of unusual low demand (typically below 18GW). Analysis for CMP345 showed that a £15/MWh cap was a reasonable proxy for identifying those periods, which allowed parties operating in shorter term markets to predict when the cap was likely to operate and act accordingly. The solution was deliberately not intended to address higher incidences of less extreme BSUoS prices. The Workgroup members felt that to do this would need a solution similar to others developed for CMP345 which sought to remove additional costs caused by the low demand levels experienced due to the Covid pandemic.

Workgroup agreed to ask the industry for their thoughts on what an appropriate £/MWh cap could be and consider these responses once the Workgroup Consultation has concluded.

Workgroup Consultation question: CMP345 introduced a £15/MWh cap for BSUoS. The CMP350 Original proposes to revise this cap to £5/MWh due to the increased frequency of BSUoS costs above £5/MWh. Do you think it is appropriate to revise the cap for BSUoS to below £15/MWh and if so to what value? Please provide the rationale for your response including any supporting analysis.

Extending the application of the Covid BSUoS Support Scheme from 31 August 2020 to 30 September 2020

The CMP350 Workgroup Chair noted that the current Covid BSUoS Support Scheme is in place until 31 August 2020 and the CMP350 Workgroup, when considering proposing alternative dates beyond 31 August 2020, need to be mindful as to whether such costs would be viewed as unforeseen. However, some Workgroup members reiterated the point that when suppliers and generators were selling 1 and 2 year fixed priced tariffs in late 2019 there was no way to have foreseen the impact that Covid would have on BSUoS during September 2020.

The Proposer considers that there remains potential for Covid to continue to drive low levels of demand and exceptional BSUoS costs into September 2020, when underlying demand levels typically remain low. The Proposer noted that this trend has been recognised by the ESO in its updated June 2020 BSUoS scenarios.

A Workgroup Member proposed extending the Covid BSUoS Support Scheme to 25 October 2020 which links to the winter clock change. The Workgroup member explained that it is widely accepted by external scientists / medical experts that it is possible for Covid to continue into this autumn/winter and thus beyond 30 September 2020. The Workgroup member also noted that 25 October 2020 is the date that the ESO has identified as being the end point for two of the three Covid special measures - these being ODFM, GC0143 - which the ESO has introduced as a result of Covid and which feed through into higher BSUoS costs. The ESO has also identified[2] that the system operational needs arising from Covid may extend beyond the summer[3]. The ESO Workgroup member noted that the extension of ODFM was to align with the end of GC0143. Therefore it ensures that a clear commercial option was open to the ESO. Due to increased demands, there is not an expectation that the service would definitely be used over this period.

Some Workgroup Members challenged as to how costs in October could be unforecastable or unforeseen. The ESO forecast that gave rise to CMP345 was released in early May

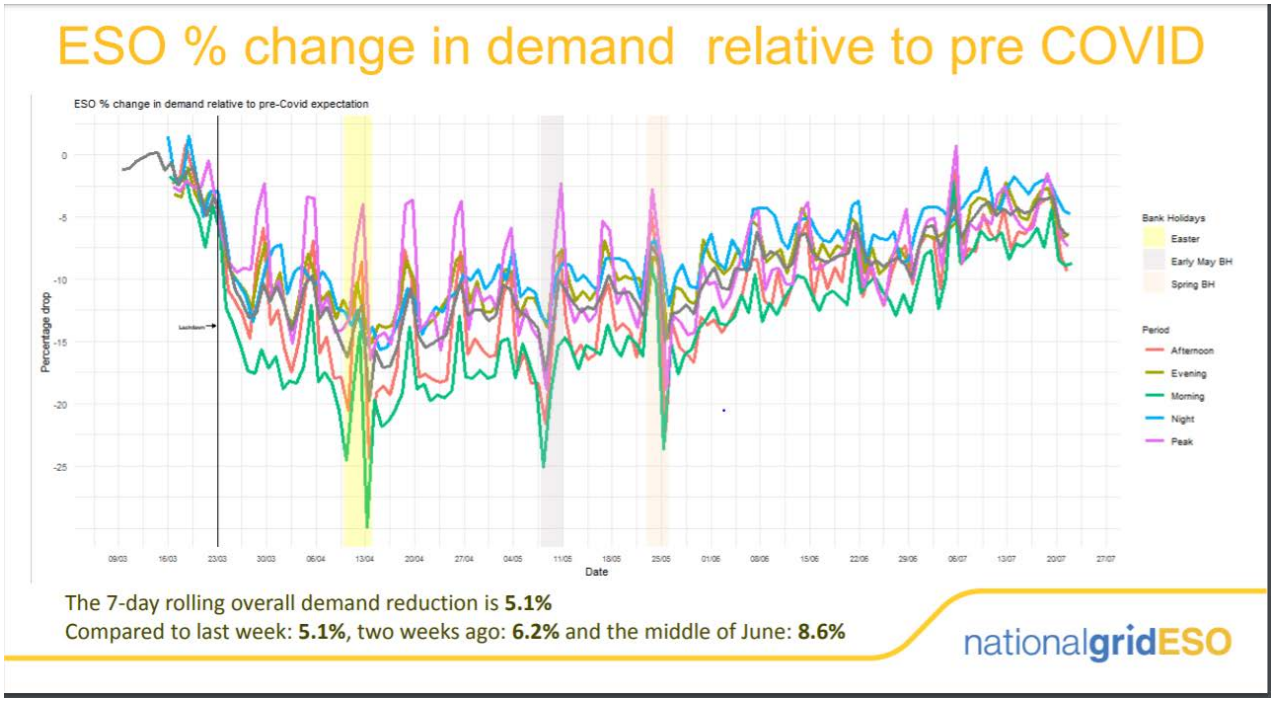
[2] See e.g. the ESO 7th May 2020 blog: https://www.nationalgrideso.com/news/actions-were-taking-manage-reduced-demand-electricity-summer

[3] "Over the past week we've put in place three new tools [Sizewell Contract, ODFM and GC0143] and processes for our control room to draw upon, and give them additional support over the summer period. These primarily focus on ensuring that electricity supply on the transmission and distribution networks can be managed effectively, allowing our control room to maintain stability on the transmission network in any situation, including those currently beyond our forecasted summer scenarios." [emphasis added]

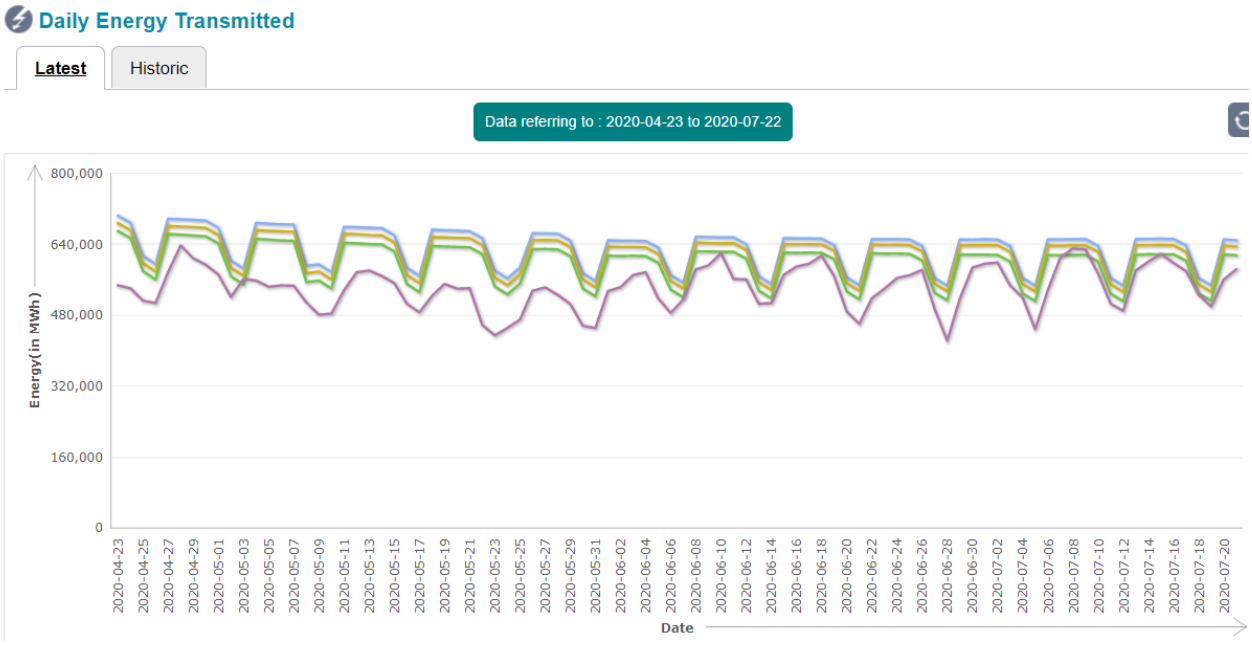
2020, meaning October 2020's costs (six months later), whilst not forecasted directly by the ESO, could reasonably be expected to be significantly higher than previous years.

Some Workgroup Members also noted that demand levels are returning to levels nearer normal for this time of the year.

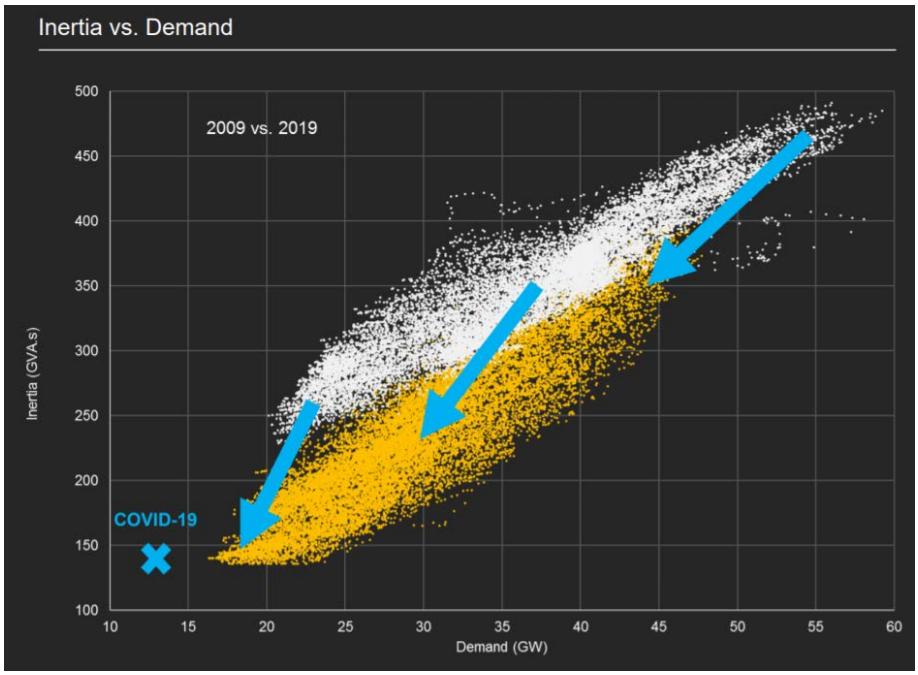
- ESO noted that they are seeing increased demand and expect to see this trend continue throughout September and October 2020 although it remains below historic levels. This view was supported by a Workgroup Member who noted that levels of demand are returning towards normality with a decrease of demand reduction from levels of 15% to 20% at the height of Covid to ~ 5% at this time. The diagram below shows a comparison between Covid observed volumes of demand (grey line) against non-Covid expected volumes of demand for each part of the day (the coloured lines). This data is provided from early March 2020 (i.e. before lockdown) to 20 July 2020, to show how demand was suppressed as a result of lockdown and how it is now recovering towards expected levels.



- A Workgroup Member also articulated that Elexon publish a daily graph showing the Daily Energy Transmitted. This shows that the volume of electricity transmitted across the transmission system is moving closer towards the normal range. The attached graph from 22 July 2020 is shown below:



However, another Workgroup member noted that in the recent GSR027 Workgroup[4] discussions that the ESO's presentation had included evidence of historic demand trends in GB from 2009-2019 and included the recent Covid demand levels[5] which showed the exceptional nature of those Covid demand levels compared to the trend (with demand during Covid returning to levels last seen in GB in the 1960s). This slide is attached below:



Workgroup Consultation question: The Covid BSUoS support scheme introduced by CMP345 expires on 31 August 2020. The CMP350 Original proposes extending the expiry date to 30 September 2020 and a Workgroup Member has proposed extending this further to 25 October 2020. Do you think it is appropriate to extend the Covid BSUoS support

[4] 'Background, Aim and Proposal' in Workgroup 1 papers at: https://www.nationalgrideso.com/industry-information/codes/security-and-quality-supply-standards-old/modifications/gsr027-review

[5] See slide 43 (of 97) of the ESO's presentation. The white dots are demand levels in 2009 and the orange dots for 2019. The blue arrows show the trend. The blue 'X' is for the demand levels seen in Covid.

scheme introduced by CMP345 and if so, to what date? Please provide the rationale for your response.

Draft Legal text

This will be developed by the Workgroup after the conclusion of the Workgroup Consultation.

What is the impact of this change?

Who will it impact?

Suppliers

- Extending the Covid BSUoS support scheme to 30 September 2020 could mitigate the impact of Covid which is likely to continue to drive higher than anticipated BSUoS costs into September when underlying demand levels typically remain low.

- As suppliers have sold many fixed price products over the latter half of 2019 and the first few months of 2020 without these exceptional BSUoS prices taken into account, they are exposed to significant losses without this mitigation. In the current retail market this could drive a number of suppliers to leave the market, thereby reducing competition and therefore competitive forces which keep prices low for customers.

- Deferring costs to a future period will allow Suppliers to reflect a portion of these costs into future tariff offerings. Such protection 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. Some Workgroup members believe this will, as a result, lower the long-term costs to consumers.

Generators

- Extending the Covid BSUoS support scheme to 30 September 2020 could mitigate the potential for the impact of Covid to continue to drive low levels of demand and exceptional BSUoS costs into September when underlying demand levels typically remain low.

- The effects on Generators will depend on their contractual positions.

    - Those who have contracted a significant amount of their power over the long term will benefit either by relieving losses resulting from under-forecasting BSUoS or providing additional gains in periods when BSUoS was anticipated correctly.
    - Those operating in shorter term markets such as day-ahead, intraday and the Balancing Mechanism would find it more difficult to predict when and how often the cap might take effect as the relationship between demand and price levels becomes less clear for lower levels of price cap.

- This modification will impact parties who pay BSUoS or receive an embedded benefit. Embedded generators may see lower embedded benefits, depending on

their operating regime strategy. This could have a material impact on their income, depending on their sales strategy, as the wholesale power prices are now very low.

Traders

- Any changes to BSUoS impact wholesale prices. Traders, who have positions for the summer, will need to alter those to reflect likely prices as a result of the cap. Unwinding positions can be a costly exercise.
- The proposed cap creates a new risk of a sudden, potentially significant rise in BSUoS prices between days or Settlement periods. This again creates a trading risk that parties will need to manage.

- Likewise, the carryover of £100m into 2021/22 will impact forward prices.

ESO

- ESO financeability concerns remain. As was the case for CMP345, any support being provided through the ESO. which is recovered in the following financial year will result in a financial cost to the ESO in FY20/21. The ESO's view of the £15/MWh BSUoS price cap until the 31 August 2020 was a £30-45m cost for the ESO. However, under a lower BSUoS price cap, this cost will increase, increasing the exposure of the ESO. This will have an impact on future financeability. It is recognised by Ofgem and the CMP350 Workgroup that introducing a formal overall cap of £100m will somewhat mitigate the ESO's exposure;
- ESO System impacts would be minor if solution approved relates to changing the BSUoS price cap to a number between £5/MWh and £15/MWh and/or extending the expiry date of the Covid BSUoS support scheme; and

- The introduction of a BSUoS price cap to the total amount of deferred BSUoS costs will add an additional step to the ESO's process and will require additional monitoring by ESO. However, this is not expected to be difficult to manage as the ESO already produces weekly reports as part of CMP345.

Wider

- Parties will have arranged financing based on a £15/MWh BSUoS price cap. Creating further uncertainty is arguably unhelpful for parties e.g. who are engaged in the pre-qualification process for the Capacity Market or more generally for market or investor confidence;

- Ongoing Risk that even if this change is implemented, a party may seek a further refinement to the Covid BSUoS support scheme in the event there is a 2nd or 3rd Covid wave.

- The BSUoS price cap of £5/MWh is potentially more likely to be reached in overnight Settlement Periods, when demand is usually lower, and this there could be distortional effects between different types of Users, based on their generation / demand profile. A BSUoS price cap would defer a different amount from different Settlement Periods. When the deferred money is smeared back over 2021/22 Settlement Periods, you have a cross-subsidisation between those parties who had

greater chargeable volumes in the periods where the BSUoS price cap was hit and those parties that had little or no chargeable volume in the capped periods. So whilst for some market participants there is some relief in the current charging year, for others this could be outweighed by increased costs in the 2021/22 charging year particularly where fixed contracts / trades have already been agreed.

- Were Ofgem to accept CMP333, then embedded generators would not get a deferred benefit, but instead lose income compared to a within year reapportionment of cost.

Proposer's Assessment against Code Objectives

CUSC Charging objectives;

Impact of the modification on the Code objectives:	
Relevant Objective	**Identified impact**
(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;	Positive
(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);	None
(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;	Positive
(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	None
(e) To promote efficiency in the implementation and administration of the use of system charging methodology	None

Proposer's view of CMP350 Original against the CUSC Objectives

This proposal will be positive in terms of **Applicable Objective (a):** The proposal will provide some mitigation 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 events, that are high impact and low probability, such as Covid, 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.

Applicable Objective (c): The introduction of a limit to the amount of Covid costs that can be deferred will help to ensure the continued financeability of the ESO.

Standard Workgroup Consultation question: Do you believe that CMP350 Original proposal better facilitates the Applicable CUSC Objectives?

When will this change take place?

Implementation date:

The proposed Implementation date is 14 August 2020, subject to the Authority's approval on or before 13 August 2020.

If CMP350 is approved, the revised Covid BSUoS Support Scheme will thereafter remain in place until 30 September 2020 or when the £100m overall cap is reached, whichever is the earlier.

Standard Workgroup Consultation question: Do you support the implementation approach?

How to respond

Standard Workgroup Consultation questions:

1. Do you believe that CMP350 Original proposal better facilitates the Applicable CUSC Objectives?
2. Do you support the proposed implementation approach?
3. Do you have any other comments?
4. Do you wish to raise a Workgroup Consultation Alternative request for the Workgroup to consider?

Specific Workgroup Consultation questions:

5. CMP350 Original proposes introducing a formal limit of £100m to the amount of Covid BSUoS Support Scheme costs which can be deferred. Do you agree that a formal limit of £100m should be introduced?
6. The ESO has included some initial thoughts on how the process would work when the £100m Cap is being approached and when it is reached. Do you agree with this approach? Please provide the rationale for your response.
7. CMP345 introduced a £15/MWh cap for BSUoS. The CMP350 Original proposes to revise this cap to £5/MWh due to the increased frequency of BSUoS costs above £5/MWh. Do you think it is appropriate to revise the cap for BSUoS to below

£15/MWh and if so to what value? Please provide the rationale for your response including any supporting analysis.

8. The Covid BSUoS support scheme introduced by CMP345 expires on 31 August 2020. The CMP350 Original proposes extending the expiry date to 30 September 2020 and a Workgroup Member has proposed extending this further to 25 October 2020. Do you think it is appropriate to extend the Covid BSUoS support scheme introduced by CMP345 and if so, to what date? Please provide the rationale for your response.

Please send your response to cusc.team@nationalgrideso.com using the response pro-forma which can be found on the National Grid ESO website via the following link: https://www.nationalgrideso.com/industry-information/codes/connection-and-use-system-code-cusc-old/modifications/changes-bsuos

In accordance with Governance Rules if you wish to raise a Workgroup Consultation Alternative Request please fill in the form that can be located at the following link or get in contact with us via email at cusc.team@nationalgrideso.com

https://www.nationalgrideso.com/codes/connection-and-use-system-code-cusc

If you wish to submit a confidential response, please note that information provided in response to this consultation will be published on National Grid ESO's website unless the response is clearly marked "Private & Confidential", we will contact you to establish the extent of the confidentiality. A response marked "Private & Confidential" will be disclosed to the Authority in full but, unless agreed otherwise, will not be shared with the CUSC Modifications Panel or the industry and may therefore not influence the debate to the same extent as a non-confidential response. Please note an automatic confidentiality disclaimer generated by your IT System will not in itself, mean that your response is treated as if it had been marked "Private and Confidential".

Acronym table and reference material

Acronym	Meaning
BSUoS	Balancing Services Use of System
ESO	Electricity System Operator
FY	Financial Year
II	Interim Initial
ODFM	Optional Downward Flexibility Management
SF	Settlement Final
WACM	Workgroup Alternative CUSC Modification

Reference material:

CMP345 'Defer the additional COVID-19 BSUoS costs'

Annexes

Annex	Information
Annex 1	CMP350 Proposal Form
Annex 2	Terms of Reference

Annex 3	Urgency Letters
Annex 4	Proposer's Presentation on Original and addressing Terms of Reference
Annex 5	Workgroup Analysis – Summary Table
Annex 6	Workgroup Analysis – Full