

CUSC Workgroup Consultation Response Proforma**CMP350: 'Changes to the BSUoS Covid Support Scheme'**

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 27 July 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:	Simon Vicary
Company name:	EDF Energy Customers Limited
Email address:	simon.vicary@edfenergy.com
Phone number:	07875110961

CMP350

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-side of the table below, including your rationale.

CMP350 - Standard Workgroup Consultation questions

1	Do you believe that the CMP350 Original Proposal better facilitates the Applicable CUSC Charging Objectives?	<p>Yes; The impact of CMP350 against the first CUSC charging objective that relates to competition compared to baseline is positive. The unit BSUoS costs, over the period to the end of September 2020, are expected to be substantially higher than could have been foreseen by generators, suppliers and end consumers that have pass through contracts (in respect of BSUoS).</p> <p>CMP345 put in place a solution to protect generators, suppliers and end consumers against extremes of BSUoS but this is failing to capture an appropriate number of the much higher than normal BSUoS prices that still have significant commercial impact on generators, suppliers and end consumers.</p> <p>If unaddressed this is expected to adversely impact competition in the generation and supply of electricity. It could see some parties unable to continue to operate with consequences for the market and, ultimately for end consumers.</p> <p>If CMP350 is not passed the higher than expected BSUoS costs, expected until at least the end of September 2020, will also give rise to a risk of substantial new risk premia (leading to higher costs) being applied by market participants in future to account for the manner in which the electricity system operation costs of the societal response to this almost <i>force majeure</i>-like, unforeseeable, situation have been managed.</p> <p>In terms of cost-reflectivity: BSUoS is already acknowledged by both industry (via the output of the first task force report and its recommendation) and Ofgem (which formally accepted the recommendation) as a cost recovery type item, and not a market signal, so the change would be neutral against this objective.</p> <p>As to making sure that use of system charging takes account of the developments in transmission licensees' businesses, the impact of CMP350 over the current BSUoS Covid Support Scheme is positive. It will ensure that the BSUoS charging method properly takes account of the developments in transmission licensees' transmission businesses arising from the totally</p>
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		unprecedented Covid-19 event and its ongoing effect on transmission operations.
2	Do you support the proposed implementation approach for CMP350?	Yes
3	Do you have any other comments?	We believe that the proposal also reduces an entirely unexpected windfall benefit to embedded generation where it is of less than 100 MW capacity (SDG). BSUoS-related embedded benefits to SDG have already been found to be lacking in merit and are expected to be ended from 1 st April 2021 via CMP333, which is why embedded interests are resistive to this change proposal. CMP350 would reduce this windfall benefit, also avoiding a risk of supplier failures due to ongoing high BSUoS costs.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	Not at this time
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?	It is important that the ESO is able to efficiently finance any deferral of the amount of Covid BSUoS Support Scheme costs. In their letter approving Urgency for CMP350 Ofgem stated that ' <i>There is a limit to the amount of additional liquidity that can be provided by NGENSO under current arrangements and we have a duty to have regard to financeability of the regulated companies</i> '. £100m seems a sensible amount to set as a formal limit and we consider this to be a reasonable estimate of the total amount of Covid BSUoS Support Scheme costs that will be deferred under both CMP345 and the CMP350 proposal.
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	It is important that the ESO carefully manages the process when the £100m Cap is being approached and when it is reached. It is also important that generators, suppliers and end consumers are provided with regular information on this. The ESO's initial thoughts appear to be aligned with this so we support them.
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	The unit BSUoS costs, over the period to the end of September 2020, are expected to be substantially higher than could have been foreseen by generators, suppliers and end consumers.

	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	<p>A cap of £5/MWh, or an alternative of a similar magnitude, would reduce the adverse impact on competition in the generation and supply of electricity, minimising the consequences for the market and, ultimately for end consumers.</p> <p>CMP345 put in place a solution to protect generators, suppliers and end consumers against extremes of BSUoS (i.e. over £15/MWh) but this is failing to capture an appropriate number of the much higher than normal BSUoS prices that still have significant commercial impact on generators, suppliers and end consumers. We believe that a cap of £5/MWh is more appropriate based on historic prices over the same period.</p> <p>By capping the higher than expected BSUoS costs at £5/MWh until at least the end of September 2020, will minimise the need for substantial new risk premia (leading to higher costs) to be applied by market participants in future to account for the manner in which the electricity system operation costs of the societal response to this almost <i>force majeure</i>-like, unforeseeable, situation have been managed.</p>
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	<p>The unit BSUoS costs, over the period to the end of September 2020, and possibly until the 25th October clock change, are expected to be substantially higher than could have been foreseen by generators, suppliers and relevant end consumers.</p> <p>CMP345 put in place a solution to generators, suppliers and end consumers against extremes of BSUoS - but the end date of 31st August will fail to capture much higher than normal BSUoS prices after this date that will still have significant commercial impact on generators, suppliers and relevant end consumers.</p> <p>Therefore, we think it is appropriate to extend the Covid BSUoS support scheme introduced by CMP345 until at least the end of September 2020. After this date the modelling suggests a possibility that the £100m limit may be reached with a £5/MWh cap, but an extension to 25th October 2020 would continue to give protection against higher than expected BSUoS costs to generators, suppliers and end consumers.</p>