

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.

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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-hand 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>We agree with the Proposer of CMP350 that the Original does better facilitate the Applicable CUSC Objectives in terms of (a) and (c) whilst being neutral in terms of (b), (d) and (e).</p> <p>In terms of Applicable Objective (a) we agree that CMP350 provides some mitigation against the exceptional losses likely to be incurred by Parties as a result of the unprecedented Covid pandemic in terms of both the absolute level of BSUoS as well as, in particular, the abnormal frequency of higher than average BSUoS.</p> <p>In this respect it is important to recognise, that the effects of the Covid pandemic whilst currently in abeyance in parts of GB (notwithstanding the possibility of local '<i>hot spots</i>') have not concluded. Indeed, it has been credibly argued the pandemic could re-ignite, from its current low levels in GB, in a second or third wave in the future (the timings of which is uncertain for all).</p> <p>As such deferring some of the recovery of BSUoS costs arising from Covid to 2021/22 charging year will allow Parties to reflect these exceptional costs into future tariff offerings and wholesale prices and thus ensure that the cost recovery nature of BSUoS (as recognised by the BSUoS taskforce) is to some extent maintained.</p> <p>In this way CMP350 provides market participants with some protection, for exceptional events, that are high impact and low probability, such as a pandemic, and this, in turn, reduces the level of risk that will need to be factored into future tariffs and prices which facilitates effective competition in the generation and supply of electricity. As the proposer noted, and we concur, in their (and our) view this will, as a result, lower the long-term costs to consumers.</p> <p>In terms of Applicable Objective (c) we agree that the introduction, with CMP350 Original, of a (£100M) limit to the amount of Covid costs that are recovered via BSUoS that can be deferred will help to ensure the continued financeability of the ESO, consistent with Ofgem's CMP345 decision.</p>
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2	Do you support the proposed implementation approach for CMP350?	Yes, we support the proposed implementation approach.
3	Do you have any other comments?	<p>We note the Workgroup deliberations concerning the purported 'cliff edge' when the £100M ceiling is approached. However, those parties that are making this argument appear to be making a wholly contradictory case to the one they had made with CMP345 (as well as now with CMP350) as regards the ability of the market to have foreseen and taken account of the impact of Covid on BSUoS (and market prices) ahead of time.</p> <p>It was notable in May and June, immediately following the ESO's first indication of a significant increase in forecast BSUoS costs due to Covid, that the wholesale market did not react as expected. The ESO forecast of mid-May indicated a potential rise in average BSUoS <u>of</u> (not <u>to</u>) £4/MWh for June to August; whilst spark spreads increased slightly for contracts delivering in that period, it was clear that wholesale markets were not fully pricing-in this cost increase.</p> <p>This calls into question the alleged critical importance now of advance notice of exactly when (or if) the £100M ceiling (to be introduced by CMP350) will be reached. Deferral of up to £100M of costs with slight uncertainty of exactly when the ceiling would be reached is a better outcome for market participants than incurring significant unexpected costs, as applies following the decision on CMP345 WACM2.</p>
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No.

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?	<p>Yes. As the Proposer has identified, the Authority on page 12 of its CMP345 decision letter set out in the context of ESO financeability that it would be efficient and appropriate for the level of BSUoS costs associated with CMP345 WACM2 (the proposal approved by the Authority) to be £100M.</p> <p>Given the close symmetry of CMP345 WACM2 and CMP350 in the context of the principle of BSUoS costs being deferred (and that CMP345 WACM2, by virtue of the Authority's decision letter has a de-facto £100M limit already) it seems to us appropriate to include the formal</p>
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		limit of £100M into the CUSC to give the ESO and stakeholders added certainty of the maximum amount of BSUoS costs to be deferred.
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	<p>We appreciate the need for a process for informing stakeholders ahead of time that the £100M ceiling is being approached. A two-day (not working day) notification would be appropriate.</p> <p>We also appreciate that as a reasonable, efficient and proportionate¹ operator of the GB transmission system that the ESO (as an organisation) should be broadly aware of what costs it is incurring, near real time, for operating the transmission system (not least in order, internally, to meet its incentive scheme targets).</p> <p>Whilst it may be the case that it may take up to six days for the ESO to get the final accurate view as to the BSUoS outturn from Elexon, we disagree that the ESO has no reasonable estimate ahead of the sixth day as to the likely cost.</p> <p>Therefore, it should be possible for the ESO to forecast, with some degree of certainty, when exercising good industry practice, the level of the total deferred costs within the BSUoS Support Scheme and advise stakeholders accordingly.</p>
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	<p>The impact of measures taken by the ESO to deal with Covid has been to increase BSUoS in most periods compared to the counterfactual of a situation where Covid related actions were not required. This results in a situation where the distribution of expected BSUoS costs has in effect seen its mean increase but this has not necessarily resulted in a significant increase in the frequency of periods with very high BSUoS.</p> <p>The use of a BSUoS cap in the CMP350 Original delivers a solution to the problem which allows the impact of Covid related costs on suppliers and generators to be mitigated by reducing the impact of individual settlement period BSUoS on the average BSUoS over the period for which CMP350 applies.</p> <p>The level of mitigation is closely related to the level at which the cap is set. Our assessment of the impact of the revised cap as proposed by CMP350 Original is that</p>

¹ This being the legal standard that NGESO has to meet in order to recover its costs of operating the GB transmission system.

this brings the effect of CMP350 (@£5/MWh) much closer to mitigating the impact of the Covid related actions as was intended by the original methodology of CMP345 than the use of the £15/MWh cap as set out in the CMP345 WACM2 implemented change.

The impact of the £15/MWh cap can be seen by considering the number of settlement periods where it would have impacted between 1st April and 25th June in 2020 and in the previous three years (2017, 2018 and 2019).

In 2020 BSUoS has exceeded £15/MWh in 185 periods. It only exceeded £15/MWh in one period in 2017, six periods in 2018 and sixteen periods in 2019.

The impact of Covid 19 on BSUoS is most clearly seen in our graph (which is shown at the end of this consultation response) which illustrates the distribution of settlement period BSUoS over the same 1st April to 25th June 2020 period.

This shows how BSUoS cost overall has increased mostly due to increases in BSUoS cost in most settlement periods. The average figures for these periods also demonstrate this.

1 Apr to 25 June	2017	2018	2019	2020
Average £/MWh	2.62	2.47	3.02	5.54

This shows how the average for 2020 is far beyond what had been experienced in the previous three years.

The impact of capping at £15 and £5 is shown below.

1 Apr to 25 June	2017	2018	2019	2020
cap £15	2.62	2.47	3.01	5.30
cap £5	2.32	2.25	2.69	4.07

This shows how capping at £15/MWh in 2020 over the period 1st April to June 25th did little in returning average BSUoS to a level which a reasonable party could have foreseen. Capping at £5/MWh brings average BSUoS closer to the levels seen in the previous three years which is what a reasonable party might credibly have

		expected (rather than the unprecedented effects of a pandemic returning demand in GB to levels last seen in the 1960s).
8	<p>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>	<p>We believe that a time extension of the existing arrangements from the end of August to the end of September (with the CMP350 Original) and indeed to the end of October clock change (with the potential alternative noted in the consultation document) is warranted.</p> <p>As the ESO has publicly stated on numerous occasions (most recently just three weeks ago) in its response to the Covid situation there is an ongoing need for the ESO to incur additional BSUoS costs - above the level that stakeholders could have reasonably expected - in order to operate the transmission system until the clock change at the end of October. This is borne out by the ESO's actions to extend the ODFM arrangements to that time.</p> <p>It would be neither reasonable, efficient nor proportionate for the ESO to make such statements nor to extend ODFM if it had no credible reason for expecting the service to be necessary. It therefore follows that there is a credible need (identified by the ESO) that Covid related BSUoS costs will extend to the October clock change.</p> <p>For that reason, we support extending the Covid BSUoS Support Scheme until the 25th October 2020.</p>

[The following is the graph we refer to in Question 7 above]

