Final CUSC Modification Report

CMP350 'Changes to support the BSUoS Covid Support Scheme'

Overview of CMP350 Original: 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 (5pm)
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 Final Modification Report
Have 45 minutes? Read the full Final Modification Report and annexes

Status summary: Final Modification Report. This Report has been submitted to the Authority for them to decide whether this change should happen.

Panel Recommendation: The CUSC Panel recommended by majority that only WACM3 better facilitated the CUSC Objectives than the Baseline (the arrangements currently set out in CUSC). However, there was support (4 out of 9 votes) for the CMP350 Original and all other WACMs.

This modification is expected to have a: high impact on	Suppliers, Generators, Traders, End Consumers, National Grid ESO
Governance route	This modification has been 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

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 solutions:

The table below sets out the other solutions developed by the Workgroup. These build on the CMP350 Original by varying either the BSUoS price cap or the expiry date of the current Covid BSUoS Support Scheme. For completeness, we have shown how these other solutions compare with the current Covid BSUoS Support Scheme and the CMP350 Original:

Other Solutions	Limit for the amount of deferred Covid Costs	BSUoS Price Cap	Expiry Date of Covid BSUoS Support Scheme
Current Covid BSUoS Support Scheme	*None*	*£15/MWh*	*31 August 2020*
CMP350 Original	*£100m*	*£5/MWh*	*30 September 2020*
WACM1	£100m	£6.60/MWh	30 September 2020
WACM2	£100m	£10/MWh	30 September 2020
WACM3	£100m	£15/MWh	30 September 2020
WACM4	£100m	£5/MWh	25 October 2020
WACM5	£100m	£6.60/MWh	25 October 2020
WACM6	£100m	£10/MWh	25 October 2020
WACM7	£100m	£15/MWh	25 October 2020

Implementation date:

The proposed Implementation date for CMP350 Original and all seven WACMs is the next business day after an Authority decision, which is expected on 13 August 2020 (therefore the 14 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 the 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.

Final Modification Report

This document is the CMP350 **Final Modification Report.** 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?**
- Workgroup Vote
- Code Administrator Consultation Summary
- Panel Recommendation Vote
- **When will the change taken place?**
- **Acronym table and reference material**

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.

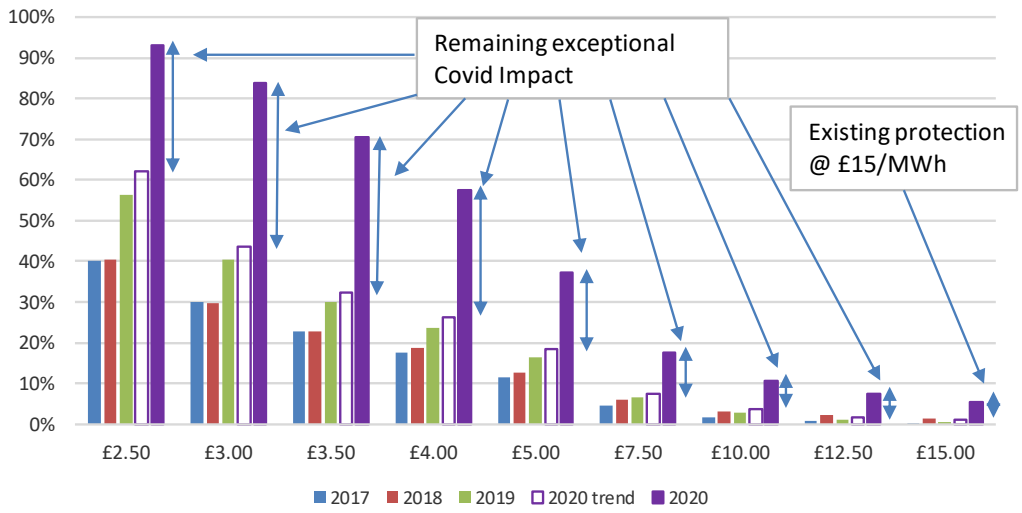
The current Covid BSUoS Support Scheme is scheduled to end on 31 August 2020; however, there is the potential for the impact of Covid to continue to drive low levels of demand and exceptional BSUoS costs into September when underlying demand levels typically remain low. This has been recognised by the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

Why is it an issue?

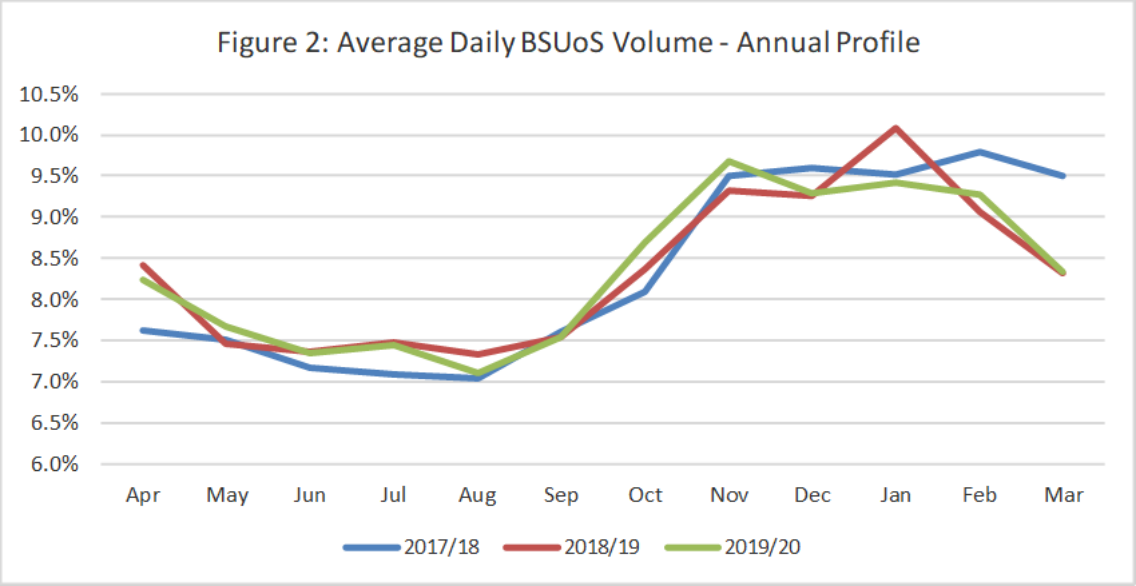
The Proposer believes that the current Covid BSUoS Support Scheme offers insufficient protection to market participants from the impact of Covid. The existing £15/MWh cap provides protection against increased instances of exceptional BSUoS price levels. However, the current Covid BSUoS Support Scheme 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 three times 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 the ESO, 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 ESO's exposure. Ofgem's decision letter on urgent treatment for CMP350[1] reiterated this.

Under the current Covid BSUoS Support Scheme, the ESO undertake weekly reporting on the ongoing costs of the Covid BSUoS Support Scheme. The latest report dated 27 July 2020 shows that the cumulative BSUoS charges deferred since the Covid BSUoS Support Scheme start date are currently £5,784,459. This will continue to accrue until

[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"

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. The ESO Workgroup Member clarified that the £100m would be exclusive of VAT but inclusive of the ESO's financing and administrative costs as agreed with the Authority. The ESO Workgroup Member also added that due to current uncertainty, the market may view the ESO's risk and credit profile[2] differently so financing costs may be higher.

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 business days' notice given their estimate of reaching the £100m limit on a reasonable endeavours basis. Workgroup members supported this approach.

The ESO had proposed an alternative approach, which was considered by the Workgroup prior to its consultation. The ESO believed this 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 was 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.

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.

[2] A Workgroup member argued that this risk and credit profile of the ESO may however be lower (and so financing costs may be lower) since CMP345 was approved with (i) the Authority's 9th July 2020 decision on moving the revenue collection risk associated with TNUoS charges from the ESO to the onshore Transmission Owners as well as (ii) NGET and SHETL having agreed to support the TNUoS scheme by deferring a proportion of their monthly payment from the ESO. The Workgroup member noted, in respect of the moving the revenue collection risk associated with TNUoS charges from the ESO to the onshore Transmission Owners, that Ofgem had determined that "*The ESO will benefit from this change because it will reduce a material part of the liquidity risk it would otherwise hold*" and that "*The ESO agreed that the transfer of TNUoS risk under this proposal could significantly reduce the size of facility required*". Other Workgroup members felt the changes to TNUoS collection risk would be seen as separate to BSUoS collection risk and would therefore have little impact on the credit profile.

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.

The Workgroup Consultation respondents highlighted the industry's need for clarity, with at least 2 business days' notice, as to when the Covid BSUoS Support Scheme would end. The ESO Workgroup Member noted these concerns and confirmed that they no longer wish to pursue the alternative approach they put forward prior to the Workgroup Consultation.

Therefore, the agreed solution that is within the CMP350 Original and all of the seven WACMs is:

- Weekly Reporting, as exists under CMP345 every Monday[3] until the Covid BSUoS Support Scheme reaches £60m;
- Daily reporting of the Covid BSUoS Support Scheme total thereafter; and
- At least 2 business days' notice from the ESO as to when the Covid BSUoS Support Scheme is to end.

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.

[3] With the exception of bank holidays in England and Wales

- 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. Analysis was shared with the Workgroup to support proposed caps at £5/MWh, £6.60/MWh, £10MWh and £15/MWh. The table in Annex 5 below provides some high level summaries of the analysis itself and the conclusions from the Workgroup Member who presented the detailed analysis for each of these four £/MWh options. The full analysis can be found in Annex 6 of this document. Please note that Annex 5 and Annex 6 do however omit the detailed analysis behind the EDF Workgroup Member's proposal of a £10/MWh cap as BSUoS forecasts are commercially sensitive and should only be shared by EDF with Ofgem.

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.

- 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 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 the 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.

- At the meeting to discuss the Workgroup Consultation, proposals were put forward for a £6.60/MWh cap and a £10/MWh cap.

    - The analysis for the £6.60/MWh cap uses the methodology proposed by the CMP350 Original but instead of using the distribution of BSUoS prices for the whole summer to date (April-June) it uses the distribution from July to better reflect the change in price distribution as lockdown has been eased and as demand starts to return to close to normal. Using the July distribution of BSUoS prices suggests a cap of £6.60/MWh for the period Aug-Sept to attain the ~£4/MWh average that the Original sought to deliver; and
    - The EDF Workgroup Member proposed a £10/MWh cap. Based on their forecasts, they concluded that when comparing the 14 August to 30 September period in 2019 and 2020 that a cap of £10/MWh could defer up to £40m of extra BSUoS costs in the same period for 2020 compared to £6m in 2019. Given the commercially sensitive nature of this forecast, this analysis will only be shared by the EDF Workgroup Member to Ofgem. The EDF Workgroup Member agreed to issue this analysis directly to Ofgem.

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[4] that the system operational needs arising from Covid may extend beyond the summer[5]. 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 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.

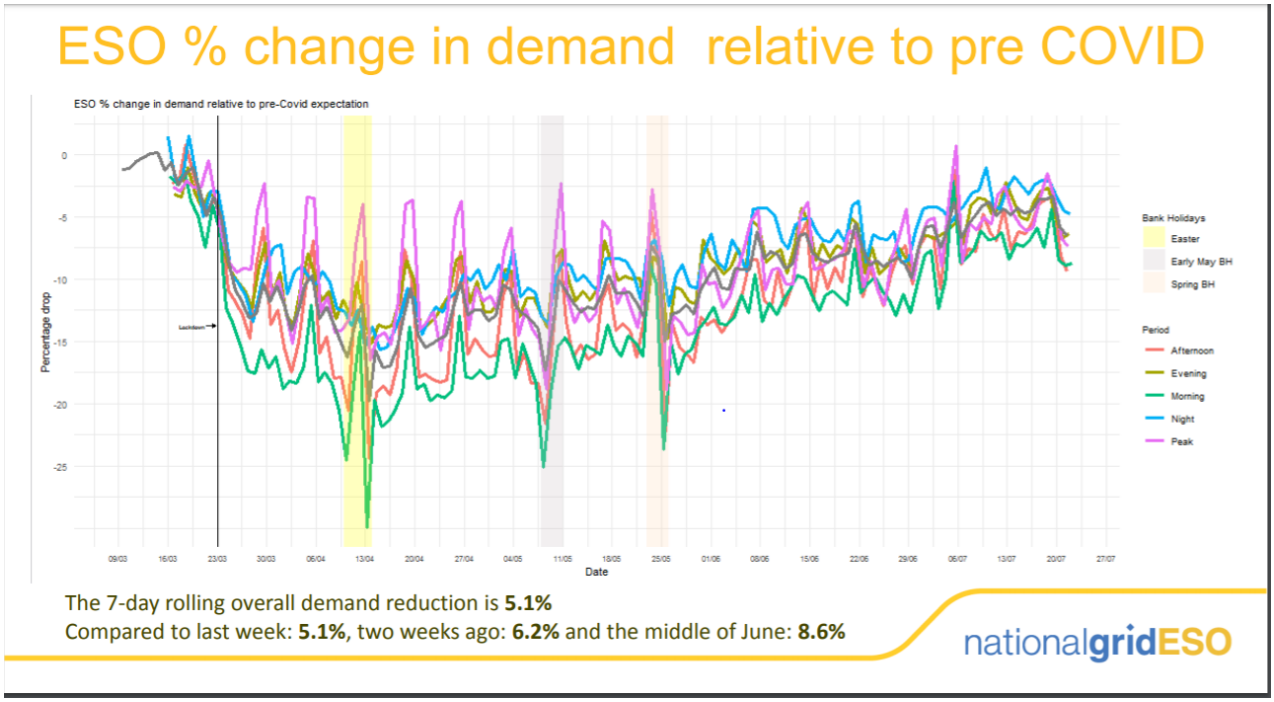
Some Workgroup Members also noted that demand levels are returning to levels nearer normal for this time of the year.

- The 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

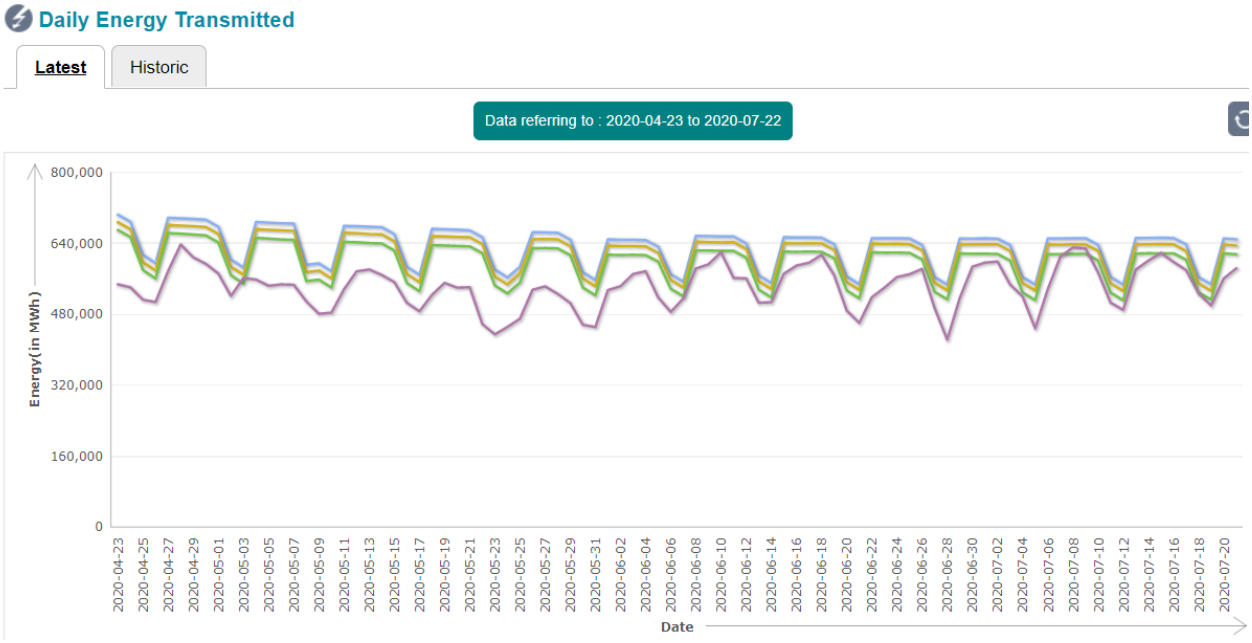
[4] See e.g. the ESO 7th May 2020 blog: https://www.nationalgrideso.com/news/actions-were-taking-manage-reduced-demand-electricity-summer

[5] "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]

(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.



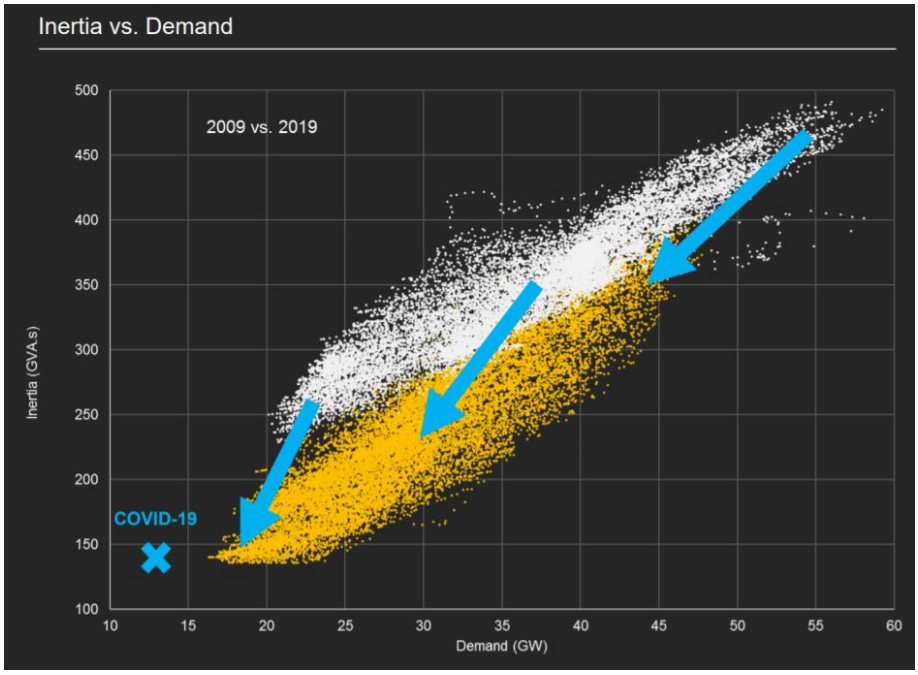
- A Workgroup Member also articulated that Elexon publish a daily graph showing the Daily Energy Transmitted. This shows that the volume of electricity transmitted across the transmission system is moving closer towards the normal range. The attached graph from 22 July 2020 is shown below:



However, another Workgroup member noted that in the recent GSR027 Workgroup[6] discussions that the ESO's presentation had included evidence of historic demand trends

[6] '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

in GB from 2009-2019 and included the recent Covid demand levels[7] 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:



Post Workgroup Consultation

Workgroup Consultation Summary

The Workgroup held their Workgroup Consultation between 24 July 2020 and 27 July 2020 and received 23 responses, none of which were confidential. The full responses and a summary of the responses can be found in Annexes 7 and 8. The Workgroup met to discuss and consider all the responses received and noted the following trends within the industry's responses:

- In General
  - 8 respondents supported the CMP350 Original as this will provide the necessary support for market participants for both instances of exceptionally high levels of BSUoS prices as well as the exceptional frequency of high levels of BSUoS prices;
  - The remaining 15 didn't support the CMP350 Original for a variety of reasons. They predominantly argued that this has a distortive impact on competition with some also arguing that smaller participants (e.g. embedded generators) would be disadvantaged; and
  - Some respondents stated that this proposed change creates additional instability in the market at a time when there is already a great deal of uncertainty and thus undermines investor confidence in a stable, predictable regulatory regime. Others noted that the there is significant regulatory change under TCR and BSUOS task force which should be taken into consideration.

[7] 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.

- On the overall cap of £100m
  - The vast majority (18 of 23 respondents) were supportive of a formal cap of £100m although 1 respondent argued for a higher cap of £125m. Many respondents stated that the market requires absolute certainty when the cap will cease to apply with at least 2 business days' notice whilst some respondents recognising the ESO's difficulties in providing such certainty.

- On the proposed £5/MWh BSUoS price cap, there were mixed views, which are summarised in the table below:

Supportive	Not Supportive
Provides some mitigation against the exceptional losses likely to be incurred by Parties as a result of unforeseen BSUoS costs arising during the Covid pandemic. 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. Provides a necessary and more appropriate level of protection for market participants for both instances of exceptionally high levels of BSUoS prices as well as the exceptional frequency of high levels of BSUoS prices. Deferring costs to a future period will allow Parties to reflect these exceptional costs into future tariff/price offerings.	Business as usual BSUOS would be included in a £5/MWh cap. £100m will be used up – exacerbates distributional impacts as more costs deferred to 2021/22 which will then be picked up by those who didn't consume in 2020/2021. Low cap (as the £100m is more likely to be reached) creates financing costs for the ESO, industry and consumers (who will be required to pay these costs back in 2021/2022). £/5/MWh cap will also come into effect more during overnight periods, as the day/night differential in demand is still present, despite overall demand reductions, those who consume overnight will be shielded to a greater extent and less exposed when deferred costs are spread across all Settlement Periods in 2021/22.

- On the proposed extension of the Covid BSUoS Support Scheme beyond 31 August 2020, there were mixed views:

Supportive	Not Supportive
Some respondents supported the extension of the Covid BSUoS Support Scheme out through to the end of September as demand will remain low. However, this does not necessarily equate to supporting a £5/MWh cap as well.	Difficult to argue that costs are unforeseen Demand levels returning to near normal levels £100m overall limit would be hit at £5/MWh so no need to extend

Some of the respondents who supported the extension to 30 September 2020 were less convinced about extending further. However, there were 8 respondents who supported extension of the scheme out to 25 October 2020 (date of clock change). They argued that extending to 25 October would align with GC0143 and ODFM which were introduced by the ESO as a measure against Covid related low demand.	

Workgroup Alternatives

Following review of the Workgroup Consultation responses, the Workgroup assessed the Original and any potential solutions they had previously identified. Further potential solutions were brought forward by the Workgroup which built on the CMP350 Original by varying either the BSUoS price cap or the expiry date of the current Covid BSUoS Support Scheme.

In total, seven alternative solutions were put forward and debated by the Workgroup and these are set out in summary below:

Other Solutions	Limit for the amount of deferred Covid Costs	BSUoS Price Cap	Expiry Date of Covid BSUoS Support Scheme
CMP350 Original	*£100m*	*£5/MWh*	*30 September 2020*
Alternative 1	£100m	£6.60/MWh	30 September 2020
Alternative 2	£100m	£10/MWh	30 September 2020
Alternative 3	£100m	£15/MWh	30 September 2020
Alternative 4	£100m	£5/MWh	25 October 2020
Alternative 5	£100m	£6.60/MWh	25 October 2020
Alternative 6	£100m	£10/MWh	25 October 2020
Alternative 7	£100m	£15/MWh	25 October 2020

The Workgroup reviewed all of these proposed solutions and identified the key characteristics of each them. This Workgroup review of the proposed alternative solutions can be found in Annex 9 of this Workgroup Report.

Following, this review, all seven of these were voted on and taken forward by the Workgroup.

Alternative (WACM)4 and Alternative (WACM)5 did not receive majority support from the Workgroup. However, the Chair noted that there was support (6 out of 13 votes) from within the Workgroup and industry (8 out of 23 respondents) for the Covid BSUoS Support Scheme to be extended to 25 October 2020. In addition, it would be prudent to present

both the date options to Ofgem and there is minimal workload impact in developing these and it should minimise the risk of a further urgent modification being raised, as Ofgem have all options available to them through this modification. The Chair therefore decided that they should be progressed.

Workgroup conclusions

The Workgroup concluded by majority that only WACM3 better facilitated the CUSC Objectives than the Baseline (the arrangements currently set out in CUSC). However, there was support (6 out of 13 votes) for the CMP350 Original and all other WACMs.

This Workgroup Vote can be found in the impact section of this report.

Legal Text

The legal text for the CMP350 Original and all seven of the WACMs is set out in Annex 11.

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.

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

- The 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;
- The 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 the ESO. This will increase the resource requirements in the revenue team for both daily reporting and increase HMRC reporting (due to increased settlement periods where the cap is breached). However, this is not expected to be difficult to implement as the ESO already produces weekly reports as part of CMP345.

Consumers

- 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.

- A Workgroup Consultation respondent noted that there appears to be no clear benefit for consumers - Suppliers wouldn't or couldn't necessarily pass on savings this year. Deferral of these additional costs would lead to higher costs for customers next year when the deferred costs needs to be paid. This creates a financial burden on consumers next year in an uncertain time.

- Distributional impacts on consumers (domestic vs non-domestic) will be different than in previous years

- 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. Some respondents to the Workgroup Consultation supported this and stated that this proposed change creates additional instability in the market at a time when there is already a great deal of uncertainty and thus undermines investor confidence in a stable, predictable regulatory regime. Others noted that the there is significant regulatory change under TCR and BSUOS task force which should be taken into consideration.

- 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.

- A respondent to the Workgroup Consultation noted that a competitive distortion from CMP345 would be exacerbated in the retail market. They stated that Suppliers who have already paid for power inclusive of Covid uplifted BSUoS costs will in effect have to pay twice – once now, and again in the next charging year, once the deferred costs are recouped. Others on the Workgroup did not agree with this and noted that if CMP350 is not approved, the higher than expected BSUoS costs will also give rise to a risk of substantial new risk premia (leading to higher consumer costs) being applied by market participants in future to account for the manner in which the electricity system operation costs of the situation have been managed.

- Some respondents to the Workgroup Consultation noted that there is a risk of skewing the market in favour of larger participants e.g.
    - Smaller generators and suppliers may not have the resources to keep informed and up-to-date every day on the rate at which the £100 million cap is being reached, and therefore would be at risk of being caught unawares when the Covid BSUoS Support Scheme ended upon the limit being reached; and
    - by reducing the BSUoS payments to embedded generation. 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.

- There is an 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.

- All parties will need to manage the risk of the end of the Covid BSUoS Support Scheme. The two business days' notice from the ESO to stakeholders of when the Covid BSUoS Support Scheme is ending is designed to help parties manage that risk.

Workgroup Vote

The Workgroup met on 29 July 2020 to carry out their Workgroup vote. 13 Workgroup Members voted, and the full Workgroup vote can be found in Annex 12. The tables below provide:

- a summary of how many Workgroup members believed the Original and each of the seven WACMs were better than the Baseline; and
- a summary of the Workgroup members view on the best option to implement this change.

The applicable CUSC (charging) objectives are:

CUSC charging objectives

(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 use of system charging methodology.

Assessment of the Original and WACM1 to WACM7 vs Baseline

The Workgroup concluded by majority that only WACM3 better facilitated the CUSC Objectives than the Baseline. However, there was support (6 out of 13 votes) for the Original and WACM1, WACM2, WACM4, WACM5, WACM6 and WACM7

Proposed Solution	Of the 13 votes, how many said that this option was better than the Baseline
Original	6
WACM1	6
WACM2	6
WACM3	7
WACM4	6
WACM5	6
WACM6	6
WACM7	6

Best Option

Workgroup Member	Company	BEST Option?	Which objective(s) does the change better facilitate? (if baseline not applicable)
George Moran	British Gas	Original	a and c
Garth Graham	SSE Generation	WACM4	a and c
Grahame Neale	National Grid ESO	WACM3	a and c
Grace March	Sembcorp	Baseline	n/a
Bill Reed	RWE	Baseline	n/a
Paul Jones	Uniper	Baseline	n/a
Simon Vicary	EDF	WACM2	a and c
Joshua Logan	Drax	Baseline	n/a
Graz Macdonald	Viridis	Baseline	n/a
Joe Dunn	Scottish Power	WACM4	a and c
Kate Dooley	ESB	WACM1	a and c
Lisa Waters	Waters Wye Associates	Baseline	n/a
Matthew Cullen	E.ON/npower	WACM1	a and c

Code Administrator Consultation Summary

The Code Administrator Consultation was issued on the 31 July 2020 and closed at 5pm on 4 August 2020. 13 responses were received with all of these being non-confidential. A summary of these responses can be found in Annex 13 and the full responses can be found in Annex 14.

The responses received predominantly re-iterated previously expressed views in the Workgroup and/or the Workgroup Consultation. There was a clear mix of respondents either supporting one or other of the CMP350 solutions; or stating that no change should be made to the current Covid BSUoS Support Scheme with some arguing this creates market uncertainty.

Most respondents believed that it was appropriate for the Covid BSUoS Support Scheme to be capped at £100m. However, respondents differed on what the level of BSUoS price cap should be or when the Covid BSUoS Support Scheme should end.

Panel Views

The CUSC Panel met on the 6 August 2020 to carry out their recommendation vote.

They assessed whether a change should be made to the CUSC by assessing the proposed change and any alternatives against the code objectives. The full vote can be found below.

Applicable CUSC Charging Objectives

(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; Facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such 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) Promoting efficiency in the implementation and administration of the use of system charging methodology.

*Objective (d) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).

CMP350 Vote

Vote 1: ***Does the Original, WACM1, WACM2, WACM3, WACM4, WACM5, WACM6 or WACM7 facilitate the objectives better than the Baseline?***

Panel Member: Andy Pace

	Better facilitates ACO (a)?	Better facilitates ACO (b)?	Better facilitates ACO (c)?	Better facilitates ACO (d)?	Better facilitates ACO (e)?	Overall (Y/N)
Original	Yes	Neutral	Yes	Neutral	Neutral	Yes
WACM1	Yes	Neutral	Yes	Neutral	Neutral	Yes
WACM2	Yes	Neutral	Yes	Neutral	Neutral	Yes
WACM3	Yes	Neutral	Yes	Neutral	Neutral	Yes
WACM4	Yes	Neutral	Yes	Neutral	Neutral	Yes
WACM5	Yes	Neutral	Yes	Neutral	Neutral	Yes
WACM6	Yes	Neutral	Yes	Neutral	Neutral	Yes
WACM7	Yes	Neutral	Yes	Neutral	Neutral	Yes

Voting Statement

Citizens Advice recognise that unforeseen volatility in BSUoS has been brought about by Covid-19 and that some of these balancing costs are creating additional volatility for Suppliers. This risk is likely to continue, particularly if low demand combines with a potential second wave of coronavirus and lockdown. A cap protects against this volatility and this modification and the WACMs propose an extension to the cap period and in some cases a reduced level of the cap. All the WACMs also formalise the maximum amount of support provided at £100m. All these features have the potential to be better than baseline and we have therefore voted in favour of the original and the WACMs and believe that they better meet charging objectives (a) and (c).

Our preferred WACM is WACM3 which extends the current cap level until 30th Sep. Thereafter, low demand is less likely to be an issue for the System Operator. However, Ofgem should consider all of these options as ways of mitigating risk and providing the right balance of support to market participants and protection to end consumers dependant on their view of the impact of Covid on Suppliers. We would also like to note that there are risks involved with the potential for 'sequel modifications' to be proposed in response to further developments as this represents an imperfect method of governance and decision making where modifications could continue to create further volatility and winners and losers

Panel Member: Cem Suleyman

	Better facilitates ACO (a)?	Better facilitates ACO (b)?	Better facilitates ACO (c)?	Better facilitates ACO (d)?	Better facilitates ACO (e)?	Overall (Y/N)
Original	No	Neutral	Neutral	Neutral	No	No
WACM1	No	Neutral	Neutral	Neutral	No	No
WACM2	Neutral	Neutral	Neutral	Neutral	No	No
WACM3	Neutral	Neutral	Neutral	Neutral	No	No
WACM4	No	Neutral	Neutral	Neutral	No	No
WACM5	No	Neutral	Neutral	Neutral	No	No
WACM6	Neutral	Neutral	Neutral	Neutral	No	No
WACM7	Neutral	Neutral	Neutral	Neutral	No	No

Voting Statement

No new convincing evidence has been presented to support the claims made in support of CMP350 beyond what was presented during the Workgroup discussions for CMP345. Talk of a linear BSUoS trend is nothing more than conjecture. There is no way of knowing what proportion increased BSUoS costs are Covid-19 related or not. How much of the cost increase is due to lockdown conditions (which are substantially weaker now than at their peak) and how much is due to a significant proportion of non-synchronous generation, a trend that is expected to continue? No one is able to satisfactorily differentiate between these two effects.

Quite obviously, capping BSUoS at £5/MWh and £6.60/MWh will capture many costs unrelated to Covid-19. These price levels are in no way extraordinary. As such those options that cap BSUoS at £5/MWh and £6.60/MWh do not better facilitate Applicable CUSC Objective (ACO) (a). £10/MWh 'feels' more reasonable, but no convincing case has been made for a cap at this level. By capping BSUoS at this level there will be a number of winners and losers. It's difficult to determine the impact on competition of this change, but at best it is neutral against ACO (a). Clearly the options retaining the current £15/MWh cap have a neutral impact on ACO (a) as well.

The adoption of the CMP345 Covid BSUoS Support Scheme was at best pointless, so I see no benefit in extending it any further. Therefore all options do not better facilitate ACO (e). As such, none of the options presented overall better facilitate the ACOs.

Panel Member: Grace March

	Better facilitates ACO (a)?	Better facilitates ACO (b)?	Better facilitates ACO (c)?	Better facilitates ACO (d)?	Better facilitates ACO (e)?	Overall (Y/N)
Original	No	No	Neutral	Neutral	Neutral	No
WACM1	No	No	Neutral	Neutral	Neutral	No
WACM2	No	No	Neutral	Neutral	Neutral	No
WACM3	No	No	Neutral	Neutral	Neutral	No
WACM4	No	No	Neutral	Neutral	No	No
WACM5	No	No	Neutral	Neutral	No	No
WACM6	No	No	Neutral	Neutral	No	No
WACM7	No	No	Neutral	Neutral	No	No

Voting Statement

All proposals are negative against ACO(a) as they create a distortion between users with different profiles, as the cap is more likely to hit in overnight settlement periods, which would normally have lower demand. Analysis from the ENCC suggests that demand is within ~5% of expected demand, meaning a flat cap is likely to impact "business as usual" BSUoS, rather than high prices due to excessively low demand. Suppliers who price BSUoS as a pass-through charge will not see any benefit, whereas suppliers that fix their view of BSUoS will, so these proposals favour some types of suppliers over others. The nature of the cliff-edge when the £100m limit is reached will also cause competition distortion between those Users who are engaged and have the resources to monitor the deferred amount, including trading in the market. This uncertainty may well lead to a higher risk premia as the limit approaches, and so be detrimental to the end consumer.

As all proposals feature a flat cap applied to all Settlement Periods evenly, they are negative against ACO(b). The cap is likely to affect overnight users more but the deferred amount will be recovered across all Settlement Periods next year and therefore from different users. Keeping an artificial limit on BSUoS as demand returns back to expected conditions is not cost-reflective.

Linking the end date of BSUoS to the ODFM scheme is negative against ACO(e) as it raises the potential question of whether the BSUoS support scheme end date should change if the ODFM end date needs to change for unrelated reasons. The proposed legal text does not make this link explicit but it was a key reason for the chosen date. These WACMS are therefore negative against ACO(e).

The earliest warning of abnormally high balancing costs was in Mid-May, with a forecast "extra" £500m needing to be recovered. This has turned out to be an over forecast but a prudent market participant would have expected higher costs continuing beyond the 3 month forecast the ESO provided. By the proposed extension period, there will have been time for industry participants to have prepared and adjusted their position to a

certain extent, so an increase frequency of high - but still within the range of "normal" - BSUoS should not be considered "unforeseeable". These proposals are therefore an unnecessary intervention and will add further uncertainty on top of the work that is already going on around BSUoS reform.

Panel Member: Jon Wisdom

	Better facilitates ACO (a)?	Better facilitates ACO (b)?	Better facilitates ACO (c)?	Better facilitates ACO (d)?	Better facilitates ACO (e)?	Overall (Y/N)
Original	Negative	Neutral	Positive	Neutral	Neutral	No
WACM1	Negative	Neutral	Positive	Neutral	Neutral	No
WACM2	Negative	Neutral	Positive	Neutral	Neutral	No
WACM3	Positive	Neutral	Positive	Neutral	Neutral	Yes
WACM4	Negative	Neutral	Positive	Neutral	Neutral	No
WACM5	Negative	Neutral	Positive	Neutral	Neutral	No
WACM6	Negative	Neutral	Positive	Neutral	Neutral	No
WACM7	Negative	Neutral	Positive	Neutral	Neutral	No

Voting Statement

Of all the options (Original and all WACMs) developed by the workgroup, only WACM3 better facilitates the Applicable CUSC Objectives than the baseline. All the options are neutral against Applicable CUSC Objectives B, D and E as this modification has little or no impact in relation to them.

All of the options are positive in respect of Applicable CUSC Objective C as they all introduce a £100m cumulative cap to support the ESO's financeability.

Against Applicable CUSC Objective A, only WACM3 is positive because it maintains the principle of providing support to industry against exceptional costs only i.e. it maintains the current £15/MWh as justified through CMP345. There is very little evidence that parties are likely to exit the market due to BSUoS volatility and any decrease to the £15/MWh cap may be unnecessarily transferring costs to future consumers. The other options are negative as a lower cap would introduce significant market distortions because BSUoS would be artificially lowered from prices that are common outside of the current COVID-19 influenced period. We also do not consider that Covid related costs in October are unforeseen and therefore an extension beyond September does not seem reasonable as parties should have anticipated any cost increase from revised ESO messaging earlier in 2020.

Panel Member: Joe Dunn

	Better facilitates ACO (a)?	Better facilitates ACO (b)?	Better facilitates ACO (c)?	Better facilitates ACO (d)?	Better facilitates ACO (e)?	Overall (Y/N)
Original	Yes	Neutral	Yes	Neutral	Neutral	Yes
WACM1	Yes	Neutral	Yes	Neutral	Neutral	Yes
WACM2	Yes	Neutral	Yes	Neutral	Neutral	Yes
WACM3	Yes	Neutral	Yes	Neutral	Neutral	Yes
WACM4	Yes	Neutral	Yes	Neutral	Neutral	Yes
WACM5	Yes	Neutral	Yes	Neutral	Neutral	Yes
WACM6	Yes	Neutral	Yes	Neutral	Neutral	Yes
WACM7	Yes	Neutral	Yes	Neutral	Neutral	Yes

Voting Statement

Relative to the baseline, all of the options (including the original and each of the alternatives) better facilitate ACO (a) as they will have a positive impact on consumers as they all enable the recovery of an increased 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 been reasonably anticipated. As a result of better facilitating competition in the generation and supply of electricity, the developments of transmission licensees' transmission businesses are therefore improved, better facilitating ACO (c) in all cases. In addition to ACO (c) so far as is consistent with ACO (a), all of the options (including the original and each of the alternatives) include the introduction of a limit to the total amount of Covid costs that can be deferred ensuring certainty of a cap which will aid the continued financeability of the ESO. Additionally, WACMs 4,5,6 and 7 provide a date extension that aligns with ODFM which was extended and GC0143, both introduced to manage low demand associated with covid and therefore provide the option to align the period of the Covid BSUoS support scheme. All of the options are neutral against ACOs (b), (d) and (e).

In terms of assessment of what best meets the ACO objectives each of the alternatives are made up of two input options; the period of deferment and the £/MWh cap and our initial views are covered below under those headings:

The period of deferment (30th Sep/ 25th October)

The original and WACMs 1, 2 and 3 fail to take into account an appropriate period of deferment whereas WACMs 4, 5, 6 and 7 all run to 25th October which aligns sensibly with ODFM and GC0143 which were implemented in order to deal with Covid related low demand.

The £/MWh cap

According to the analysis provided by the proposer and other workgroup members WACMs 2, 3, 6 and 7 have £/MWh caps that are too high, whereas the original and

WACMs 1, 4 and 5 have £/MWh caps at appropriate levels justified by the analysis provided.

Taking the above into account, and the assessment regarding the level of expected deferment, given analysis provided by NGESO, on the frequency of when an array of caps were breeched over time, the following proposals would seem appropriate: The original and WACMs 1, 4, 5 and 6.

In terms of best meeting the ACOs, and thereafter according the forecast analysis provided by the ESO, the Original and WACMs 4 and 5 are all of a similar par differing only by how quickly the overall limit of £100m is approached.

In different measures (to a greater or lesser degree) all of the proposals will improve the impact on consumers by addressing the exceptional frequency of higher BSUoS rates across a broader range of BSUoS price levels which the existing 'Covid BSUoS Support Scheme' (as result of CMP345) did not.

Each of the alternatives are made up of two input options; the period of deferment and the £/MWh cap and our initial views are covered below under those headings:

Panel Member: Mark Duffield

	Better facilitates ACO (a)?	Better facilitates ACO (b)?	Better facilitates ACO (c)?	Better facilitates ACO (d)?	Better facilitates ACO (e)?	Overall (Y/N)
Original	No	No	Neutral	Neutral	No	No
WACM1	No	No	Neutral	Neutral	No	No
WACM2	No	No	Neutral	Neutral	No	No
WACM3	No	No	Neutral	Neutral	No	No
WACM4	No	No	Neutral	Neutral	No	No
WACM5	No	No	Neutral	Neutral	No	No
WACM6	No	No	Neutral	Neutral	No	No
WACM7	No	No	Neutral	Neutral	No	No

Voting Statement

In my votes for whether the precursor CUSC amendment proposal (CMP345) to CMP 350 better met the applicable CUSC objective, I set out how I believed that an approach that does not attempt to differentiate between actors regarding who may defer costs, or indeed one that redistributes these costs to a potentially different constituency of market participant is unlikely to better facilitate the applicable objectives.

I therefore supported those WACMs that allowed for the deferral of a proportion of their costs to a later date within the same charging year. This was on the grounds that this appears to allow a more proportionate option for those that need additional support while

allowing parties that do not need support, or indeed those that seek to secure it from other sources to decline this particular form of support under the CUSC.

In their decision to approve WACM2 of CMP345 Ofgem noted that the application of a cap of £15/MWh between 25 June and 31 August would be unlikely to defer more than 5% of the total BSUoS bill for that period (forecasts of the total for that period appear to be around £400m, meaning a deferral of around £20-25m) , with that deferred amount being recovered in equal instalments across 2021/22.

All variants of CMP350 propose a larger deferral of up to £100m across the original and all WACMs, and with varying levels of cap on the BSUoS charge and with varying periods over which that cap applies. All will however inevitably defer greater costs into 2021/22 than the current baseline.

While Ofgem determined that on balance the negatives of deferral of a relatively small amount of costs to the following year (regarding distributional effects) was outweighed by the benefits in my original vote for CMP345 I disagreed with this analysis. I still disagree that this is a better approach and as each of the Original and WACMs serves to make the issues that I identified in CMP345 still larger I do not believe that any better facilitate the Applicable CUSC Objectives.

Panel Member: Andrew Enzor

	Better facilitates ACO (a)?	Better facilitates ACO (b)?	Better facilitates ACO (c)?	Better facilitates ACO (d)?	Better facilitates ACO (e)?	Overall (Y/N)
Original	No	No	Neutral	Neutral	No	No
WACM1	No	No	Neutral	Neutral	No	No
WACM2	No	No	Neutral	Neutral	No	No
WACM3	No	No	Neutral	Neutral	No	No
WACM4	No	No	Neutral	Neutral	No	No
WACM5	No	No	Neutral	Neutral	No	No
WACM6	No	No	Neutral	Neutral	No	No
WACM7	No	No	Neutral	Neutral	No	No

Voting Statement

Neither the original nor any of the WACMs better facilitate the applicable objectives.

ACO(a): Lowering the cap on BSUoS will adversely impact competition by transferring costs from those using the system at times of high BSUoS in summer 2020 to those using the system throughout 2021. Extending the expiry date for CMP345 will also have this effect.

ACO(b): Uncapped BSUoS costs reflect the cost of balancing the system in that half-hour. Hence any cap reduces the extent to which charges reflect the costs incurred by transmission licensees.

ACO(c): Neutral

ACO(d): Neutral

ACO(e): The original and all WACMs create the prospect of the £100mn limit being reached and the need for detailed forecasting on when that will take place, both from the ESO and market participants. This does not promote efficiency.

Panel Member: Paul Mott

	Better facilitates ACO (a)?	Better facilitates ACO (b)?	Better facilitates ACO (c)?	Better facilitates ACO (d)?	Better facilitates ACO (e)?	Overall (Y/N)
Original	Yes	Neutral	Yes	Neutral	Neutral	Yes
WACM1	Yes	Neutral	Yes	Neutral	Neutral	Yes
WACM2	Yes	Neutral	Yes	Neutral	Neutral	Yes
WACM3	Yes	Neutral	Yes	Neutral	Neutral	Yes
WACM4	Yes	Neutral	Yes	Neutral	Neutral	Yes
WACM5	Yes	Neutral	Yes	Neutral	Neutral	Yes
WACM6	Yes	Neutral	Yes	Neutral	Neutral	Yes
WACM7	Yes	Neutral	Yes	Neutral	Neutral	Yes

Voting Statement

BSUoS costs are higher because of covid, and evidence has been presented that the very high £15/MWh cap under CMP345 doesn't give enough protection against unforecasted high BSUoS values to parties, including customers on BSUoS pass-through contracts, for which extra risk is created. Moreover, there is evidence of an upturn in the number of COVID cases and of continued home-working by those who remain unwilling to commute to open plan offices on public transport as a result; many offices in large cities and towns remain closed, with their aircon, lighting and IT demand still zero as a result. The ESO's office is not open to visitors for workgroup or panel meetings as yet, for example. The end date of 31st August that is hard coded in CMP345 appears to be too soon; either end of September or the 25th October clock change look more appropriate estimates for when the ultra-low-demand may end as mass vaccinations of the population take place and the phrase "social distancing" goes into the history books where it belongs. 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. CMP350 and its variants are better than the current BSUoS Covid Support Scheme at ensuring that the BSUoS charging method properly takes account of the developments in transmission licensees' transmission businesses arising from the totally unprecedented Covid-19 event and its ongoing effect on transmission operations

Panel Member: Garth Graham

	Better facilitates ACO (a)?	Better facilitates ACO (b)?	Better facilitates ACO (c)?	Better facilitates ACO (d)?	Better facilitates ACO (e)?	Overall (Y/N)
Original	Yes	Neutral	Yes	Neutral	Neutral	Yes
WACM1	Yes	Neutral	Yes	Neutral	Neutral	Yes
WACM2	Yes	Neutral	Yes	Neutral	Neutral	Yes
WACM3	Yes	Neutral	Yes	Neutral	Neutral	Yes
WACM4	Yes	Neutral	Yes	Neutral	Neutral	Yes
WACM5	Yes	Neutral	Yes	Neutral	Neutral	Yes
WACM6	Yes	Neutral	Yes	Neutral	Neutral	Yes
WACM7	Yes	Neutral	Yes	Neutral	Neutral	Yes

Voting Statement

The CMP350 proposal has identified a defect which has; as can be seen from the Workgroup deliberations as well as the Workgroup and Code Administrator Consultation responses; drawn extensive views for and against the solution to that defect from across the industry.

I am mindful of the continued uncertainty as to the effects of Covid on BSUoS costs; in terms of the exceptional levels seen as well as the dramatic increase in the frequency of those exceptional levels; as has been illustrated, yet again, with this morning's announcement from the ESO[8] concerning the extension of the Sizewell contract.

This clearly goes to show that a £15/MWh cap, introduced on 25th June and due to expire on 31st August (which CMP350 seeks to address) is not catching a reasonable proportion of the Covid costs that fall within BSUoS when it is not even covering the clearly unprecedented cost of the Sizewell contract[9] never mind anything else.

I also note, in respect of today's ESO announcement on the Sizewell contract extension (as well as the £M quantum) the comment in the ESO's response (of Tuesday this week)

[8] https://www.nationalgrideso.com/document/174271/download

[9] According to the ESO today the Sizewell contract cost: "*For the period 7th May – 19th June the contract cost in the range of £17 - £23m. For the period from June 19th – August 10th, the contract cost in the range £17 - £23m. For the period August 10th - September 24th we forecast that the contract will cost in the range £21m - £27m depending on outturn market prices*"

to the Code Administrator Consultation that "*We do not believe that October 2020 can be classed as unforeseen…*" even though an extra increase, of up to £27M, in the overall cost of BSUoS, due to Covid, was unforeseen, by market participants, even as late as Tuesday this week.

Prior to setting out my vote (see below) I am also aware of one aspect, in particular, of the CMP350 proposal; which concerns what the level of GB electricity demand is and how might a BSUoS paying party have foreseen the demand situation ahead of them setting their wholesale prices (for generation) or tariffs (for demand).

In relation to this, a number of Workgroup members and a number of the responses to the Workgroup and Code Administrator consultations have mistakenly (it seems to me) conflated the ongoing suppression of electricity demand and economic activity in GB; due to Covid; with what the situation would have been absent of Covid and concluded (perhaps unwisely and erroneously?) that things are '*returning to normal*' and thus, in their view, there is no need for the BSUoS Covid Support Scheme to be changed (in terms of £/MWh level or the £100M cap or the end date).

Those who hold this view also seek to downplay (or overlook entirely?) the effects of (i) further local outbreaks in GB; along with the associated lockdown as, for example, was seen in Greater Manchester, East Lancashire and parts of West Yorkshire that was announced only a few days ago[10] as well as in Aberdeen yesterday[11]; and (ii) the possibility (widely accepted in the medical and scientific[12] communities) of a second and third pandemic wave over the coming autumn/winter and beyond.

The singular, and combined, effects of (i) and (ii) on GB electricity demand; by those who suggest things are '*returning to normal*'; over the forthcoming months is thus downplayed in the context of CMP350.

One source that those who believe things are '*returning to normal*' refer to is the ESO's weekly ENCC webinar and, in particular, its slide showing the GB electricity demand outturn since just before the Covid lockdown – the latest version of this graph is shown at the top of page 12 of the Draft Final Modification Report.

However, it is clear from both the title of that graph on page 12 ("*ESO % change in demand relative to pre Covid*") and from the information shown in the separate graph (also produced by the ESO) at the top of page 13 that GB electricity demand remains 5% (or more) below the level if would have been absent of Covid and that this takes into account the trend in demand reduction that has been seen, over the past ten years, due to the growth, in particular, of embedded solar and wind resources that; as pointed out at Footnote 7 in the Draft Final Modification Report; is illustrated (in the ESO's page 13 graph) by "*The white dots* [which] *are demand levels in 2009 and the orange dots for*

[10] https://www.bbc.co.uk/news/av/uk-53600608/lockdown-tightened-in-parts-of-northern-england

[11] https://www.bbc.co.uk/news/uk-scotland-north-east-orkney-shetland-53672793

[12] For example, according to the BBC [https://www.bbc.co.uk/news/health-53638083] on Tuesday this week, a study from UCL and the London School of Hygiene and Tropical Medicine; which models to see how the virus might spread in the UK as pupils returned to the classroom and their parents were more able to go back to work or resume other activities; shows the combined effect on pupils and parents would be enough to cause a second wave, if there was no effective test-and-trace programme, that would be twice as big as the first peak, unless the Government took other actions such as reimposing lockdown (which, we would argue, will have a further GB electricity demand reduction effect).

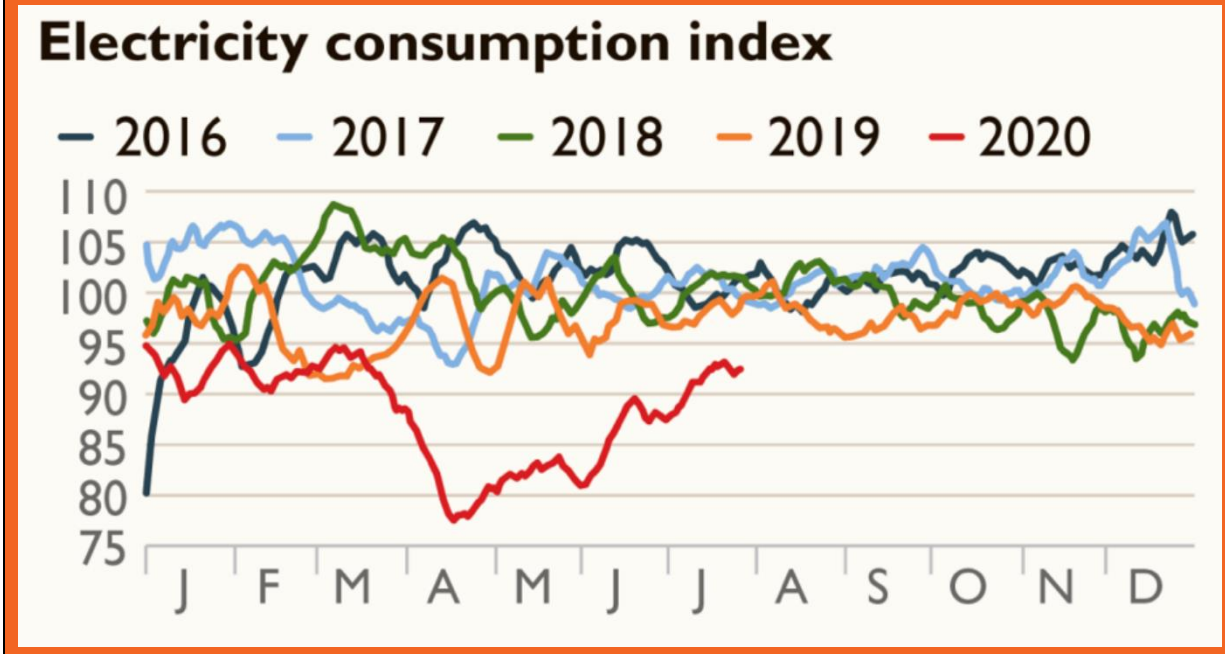
2019. The blue arrows show the trend. The blue 'X' is for the demand levels seen in Covid".

It is important to also note the scientific evidence, as reported in The Times on 9th May 2020 (and discussed in the CMP345 Workgroup) that solar generation output in GB has increased as a result of direct environmental effects brought on by the Covid lockdown:

> "*...solar power generation is booming in sparkling clear skies free of large amounts of air pollution. With the drastic cut in road traffic, industry and aircraft [due to Covid] the air is so much cleaner that it has helped to boost solar power generation and set records in the UK, Germany and Spain*"; and "*Air pollution not only cuts down sunlight with a thick haze, but also makes the solar panels dirtier and less efficient. Aerosols from gases such as sulphur dioxide also seed more cloud cover, cutting solar output further*".

This is having a further, exacerbating, effect in terms of suppressing GB electricity demand as a result of Covid (which is over and above the ten-year trend of demand suppression shown in the ESO's graph at the top of page 13 of the DFMR) in 2020/21.

The overall effect of Covid on GB electricity demand was shown most recently (and starkly) in a report, in The Times on 30th July 2020, into the economic analysis undertaken by Jefferies investment bank and, in particular, the 'Electricity Consumption Index':



[Times 30th July 2020, source: Jefferies investment bank]

As can clearly be seen the red line shows the electricity consumption situation in 2020 (compared with the four preceding years) and this, even at the latter part of July, remains at least 5% (or more) below the levels seen at this time in 2019 (or indeed 2018, 2017 and 2016). It is difficult indeed to reconcile the view often expressed by those who do not support CMP350 (or indeed CMP345 before it) that this level of demand suppression in 2020/21 should have been anticipated, in terms of the unprecedented frequency of BSUoS cost increases, by market participants nevertheless.

The GB electricity demand has not returned to normal and shows no sign of doing so in the immediate future. Any suggestion to the contrary has, I observe, not been evidenced by those who promulgate that (erroneous?) view.

Indeed, even today, the ESO's Covid related action (which feeds directly through to the frequency of exceptionally high BSUoS) of contracting till the 24th September for Sizewell, is a further example of things not '*returning to normal*'.

Furthermore, as the Jefferies investment bank report in The Times (see above) a week ago today shows the general economic situation in GB remains precarious and certainly some way off 'normality'. For example, the Jefferies 'UK Economic Activity Radar[13]', where 100= historical norms, currently (as of late July) languishes at circa 58% of the pre Covid level – that is not, in our view, '*returning to normal*'.

This general economic analysis is part of an overwhelming body of recent evidence that supports the case that economic activity in GB is unlikely to return to pre Covid (or 'normal') levels until 2021 at the earliest.

By far and away the most authoritative of that analysis[14] would be the work of the Office of Budget Responsibility (OBR) including that which it produced ahead of the Chancellor's July Budget statement some three weeks ago.

The latest of OBR Covid related forecast was on 14th July 2020 and the central of the three scenarios[15] is that:

> "*output recovers more slowly, regaining its pre-virus peak by the end of 2022. Cumulative business investment is 6 per cent lower than in the March forecast over five years, while unemployment and business failures remain elevated. Real GDP is 3 per cent lower in the first quarter of 2025 than in our March forecast*"[16]

Even the most optimistic of the three OBR cases (the upside scenario) is that:

> "*activity rebounds relatively quickly, recovering its pre-virus peak by the first quarter of 2021, and there is no enduring economic scarring*"

For completeness the most pessimistic of the OBR cases (the downside scenario) makes for salutary reading:

> "*output recovers even more slowly, returning to its pre-virus peak only in the third quarter of 2024. This results in a more significant loss of business investment, more firm failures and persistently high unemployment as the economy undergoes significant restructuring. Real GDP is 6 per cent lower in the first quarter of 2025 than in our March forecast*"

I'd venture to suggest that the OBR's central scenario is a credible one for The Authority to adopt when assessing the economic effects of Covid on electricity demand in GB over the coming six to nine months and, in turn, comparing that (Covid effect) with what a BSUoS paying party might credible have expected (in the past), in terms of economic activity (and thus the level of electricity demand in GB), absent of Covid in 2020/21 when

[13] According to The Times this is a composite index of several up to date activity indicators from energy use to traffic congestion to online searches.

[14] https://obr.uk/coronavirus-analysis/

[15] https://cdn.obr.uk/OBR_FSR_July_2020.pdf

[16] See page 5 of the OBR July Fiscal Sustainability Report.

they were setting their wholesale prices as generators or tariffs as suppliers some time ago.

In conclusion, based on the evidence I have detailed here, I believe that the view of the Authority; in its CMP345 decision letter, on the matter of the level of GB electricity demand reduction in 2020/21; remains valid today (4th August 2020) as when it was first written some five weeks ago (on 25th June 2020) namely:

> "*We recognise that the Covid pandemic has resulted in demand reductions that even prudent market participants may not have foreseen, or incorporated into all of their commercial decisions for summer 2020. We also recognise that this demand reduction has led to forecast increased balancing costs that can be considered 'exceptional' in nature*." [emphasis added]

In light of the above along with the information contained in the Draft Final Modification Report, including the associated Annexes, I have concluded that when compared to the baseline that all eight options associated with this CMP350 proposal (namely the Original proposal and the seven WACM proposals) all better meet Applicable Objectives (a) and (c) whilst being neutral in terms of Applicable Objectives (b), (d) and (e). Of the overall nine options (Original, the seven WACMs and the baseline) WACM4 is best in my view. This is based on the following hierarchy of those options:

1st WACM4

2nd Original

3rd WACM5

4th WACM1

5th WACM6

6th WACM2

7th WACM7

8th WACM3

9th Baseline.

Vote 2 – *Which option is the best?*

Panel Member	BEST Option?
Andy Pace	WACM3
Cem Suleyman	Baseline
Grace March	Baseline
Jon Wisdom	WACM3

Joseph Dunn	WACM4
Mark Duffield	Baseline
Andrew Enzor	Baseline
Paul Mott	WACM2
Garth Graham	WACM4

Panel conclusion

The CUSC Panel recommended by majority that only WACM3 better facilitated the CUSC Objectives than the Baseline (the arrangements currently set out in CUSC). However, there was support (4 out of 9 votes) for the CMP350 Original and all other WACMs. The table below shows how many votes were in favour of the Proposed Solution being better than the Baseline.

Proposed Solution	Of the 9 votes, how many said that this option was better than the Baseline
Original	4
WACM1	4
WACM2	4
WACM3	5
WACM4	4
WACM5	4
WACM6	4
WACM7	4

When will this change take place?

Implementation date:

The proposed Implementation date for CMP350 Original and all seven WACMs is the next business day after an Authority decision, which is expected on 13 August 2020 (therefore the 14 August 2020).

If either of the CMP350 Original, WACM1, WACM2 or WACM3 are 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.

If either of WACM4, WACM5, WACM6 or WACM7 are approved, the revised Covid BSUoS Support Scheme will thereafter remain in place until 25 October 2020 or when the £100m overall cap is reached, whichever is the earlier.

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
Annex 7	CMP350 Workgroup Consultation Summary
Annex 8	CMP350 Workgroup Consultation Responses
Annex 9	Workgroup Review of Proposed Alternative Solutions
Annex 10	CMP350 Workgroup Alternative CUSC Modifications
Annex 11	CMP350 Legal Text
Annex 12	CMP350 Workgroup Vote
Annex 13	Code Administrator Consultation Summary
Annex 14	Code Administrator Consultation Responses