

**CUSC Code Administrator Consultation Response Proforma****CMP345 'Defer the additional Covid -19 BSUoS costs'**

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses to [cusc.team@nationalgrideso.com](mailto:cusc.team@nationalgrideso.com) by **3pm on 12 June 2020**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Panel.

If you have any queries on the content of this consultation, please contact Paul Mullen [paul.j.mullen@nationalgrideso.com](mailto:paul.j.mullen@nationalgrideso.com) or [cusc.team@nationalgrideso.com](mailto:cusc.team@nationalgrideso.com).

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**For reference the applicable CUSC objectives are:**

- 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. *Promoting efficiency in the implementation and administration of the CUSC arrangements.*

*\*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).*

**Please express your views in the right-hand side of the table below, including your rationale.**

Standard Code Administrator Consultation questions		
1	Do you believe that the CMP345 Original solution, WACM1, WACM2, WACM3, WACM4, WACM5, WACM6, WACM7 or WACM8 better facilitates the Applicable CUSC Objectives?	<p>We believe that any option, where costs are deferred outside of the current charging year, has a negative impact on competition as it smears costs across all BSUoS liable users, whether they were operating during Covid or not, and therefore is negative against objective (a). This is particularly prominent in light of the ESO's new forecast, as noted in response to question 3, where the forecast increase due to Covid in a scenario with a 10% reduction in demand (close to the demand reduction we are seeing today) is ~£250m between June and September. We believe that distorting competition, for a value which is significantly lower than the original forecast, is inappropriate. This is true of the original, WACM2, WACM5 and WACM8. We believe that WACM6 is positive against objective (a) as it allows those who need help during Covid to receive it, without distorting the market, as it is just the timeframe to pay the costs which is extended.</p> <p>Again, for objective (b) we do not think that any option which defers payments to the following charging year reflect the costs incurred correctly as this both relates to a different time period, when some users may not have been operating, and the charging methodology will be different outside of the current charging year, with CMP281 being approved and CMP333 due to go to The Authority later this year. We therefore think the original, WACM2, WACM5 and WACM8 are negative against this objective. The other alternates we believe are neutral against objective (b).</p> <p>Under objective (c) we believe it is essential that the ESO's ability to both finance and implement this modification are considered, as if an option which we cannot implement / finance is approved, we would be in breach of our licence. Based on this we believe that the original, WACM1, WACM2, WACM3, WACM5, and WACM8 are negative against objective (c). We believe that WACM6 and WACM7 are positive against this objective, and WACM4 is neutral as we cannot implement from a systems perspective, but we can from a finance perspective.</p>

		We believe that all options are neutral against objective (d).
2	Do you support the proposed implementation approach?	We do not have any new comments from those set out in our Work Group consultation response.
3	Do you have any other comments?	<p><b>BSUoS forecast</b> Based on feedback received that it would be helpful to see multiple forecasts for different demand scenarios, we have created new forecasts, which also incorporate our learning from system operation during Covid to date. These are available <a href="#">here</a>. Under a 10% reduction in demand scenario, we are forecasting costs of ~£250m more than in pre-covid forecasts between June and September. It is important to note that this forecast covers a different period (June to September) compared to the May – August period covered in our May forecast. The May forecast was also based on ~20% reduction in demand over the whole summer, due on the demand suppression experienced in early May. Since this forecast, we have experienced demand suppression of between 10-15%, with the 10% sensitivity being closest to what we are currently experiencing.</p> <p><b>ESO preferred solution</b> We would like to re-iterate that as set out in our Work Group Consultation Response, our preferred option is WACM6 if The Authority believed that support is required for BSUoS payers due to Covid. In light of the new BSUoS forecasts, this option may also be more favourable as the impact on Users is expected to be half of that set out in the original proposal (based on our best view in May). WACM6 ensures that those parties who want to access support, are able to receive it. This targeted approach ensures that consumers do not see increased costs as a result of the ESO providing this support.</p> <p>We recognise that the Work Group and consultation responses on CMP345 have to date been very split on the need for CMP345 and the baseline. We are comfortable with WACM6 or the baseline being the appropriate way forward.</p> <p><b>Summary of ESO's views</b> We have provided a table below which summarises our view on each option based on IT delivery, our</p>

ability to provide a manual workaround and whether the option is financeable based on our red lines. More detail explaining this can be found below.

Mod	IT delivery	Manual Workaround	Financeable	Overall Implementation status
Original				
WACM1				
WACM2				
WACM3				
WACM4				
WACM5	N/A			
WACM6				
WACM7	N/A			
WACM8				

### Financing CMP345

The ESO's requirements for supporting this modification are set out in the Code Admin Consultation. We wanted to highlight the reasons why our requirement is for within year recovery of costs. Recovery of costs in future years would result in a significant loss for ESO in financial year 2021, and restrict ESO's ability to provide expected returns to shareholders. The requirement to raise additional funding over such timescales would increase the perception of risk and could have a negative impact on ESO's credit rating. Providing support over a longer period may also mean that the risk of bad debt is increased, creating further liquidity issues for ESO. This is also the strong preference of our shareholder who will need to approve any financing option.

Based on these requirements, the only options which meet our criteria for providing financial support are WACM3, WACM4, WACM6 and WACM7.

### Implementation

We wanted to highlight our concerns over IT / manual work arounds to implement the different options. This is particularly important given the short timescales for implementation should the original or an alternate be approved by The Authority.

#### Original, WACM1 and WACM8

We have grouped these options together as they have the same definition of COVID costs.

Our main concerns are around the scale of system changes required to implement the options which are significant changes which would not be possible within the timescales. This is based on the need for a new system core methodology to calculate both non-Covid and Covid costs due to BM data being fed

automatically into our Charging and Billing System. To do this, we would also require changes to the data files from Elexon with BM actions tagged as being Covid or non-Covid. The changes in the Charging and Billing system would also then mean that downstream reporting and invoicing systems would need to change to be compatible. All of these changes would need to be fully tested to ensure that there are no impacts on our other processes using the same platforms such as TNUoS and connection charges.

We would not be able to create an offline workaround for this solution, which is compliant with our SOx requirements and ensures accurate billing in line with the licence, in the timescales required.

#### WACM2

As with the option above, we would require changes to the core system methodology in our Charging and Billing system to automatically remove any charges above £15/MWh, which then also has downstream and testing impacts. As above, this significant system change is not possible in the timescales required for this modification. We have considered how a manual work around could be progressed, however we don't believe this is possible due to two reasons:

1. A tariff above £15/MWh is likely to have occurred due to a significant increase in BM actions / costs. We are unable to manually adjust the BM actions due to this being an automatic infeed from Elexon's systems to ours.
2. If we were able to adjust the BM actions to reduce the overall BSUoS price, we do not think it is practical or compliant with accounting standards and good practice to manually adjust over 200 bills to all customers daily. This is particularly important as we must adhere to SOx requirements to ensure accurate billing and we do not believe a manual work around would be compliant.

#### WACM3 and WACM4

We have grouped these together as they are the same solution with different reporting timescales. The concerns for implementing this option are not about defining Covid costs, as we are able to remove ODFM and Nuclear De-load costs manually, it is

	<p>about fixing a £/MWh Levy for recovering the costs which will be added to the “normal” BSUoS cost. From a system perspective, as above, the core methodology would need to change to allow for two “tariffs” in the system which are added together. Due to this significant change, it is not possible to implement an IT solution in the timescales.</p> <p>We appreciate that a manual work around has been suggested, however, although easy to create the Levy value offline, we would not be able to build an offline model to calculate BSUoS charge and feed this manually into our SAP system to invoice Users within the timescales. We do not think that it is appropriate for an already stretched team, to calculate BSUoS charges and change over 200 invoices manually daily. In addition, we do not believe that charging BSUoS to Users via a spreadsheet would meet our compliance requirements due to the high value of this over several months.</p> <p><u>WACM5 and WACM7</u></p> <p>We have grouped these together as they are the same solution, with different timescales for recovery.</p> <p>These solutions are feasible from a systems perspective, as we can remove the £62.5m a month from our manual infeed of data into our Charging and Billing system. We would then recover the costs using our existing methodology.</p> <p><u>WACM6</u></p> <p>This option will require some IT change, however we have designed this option to ensure that it doesn’t impact the core charging methodology in the Charging and Billing system. To put forward this alternate, we consulted with ESO IT to create a solution which would be achievable in the short timescales.</p>
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