

CMPXXX: DEFER THE RECOVERY OF BSUOS COSTS, AFTER THEY HAVE EXCEEDED £30M, ARISING FROM ANY INCOME ADJUSTING EVENTS RAISED IN A GIVEN CHARGING YEAR, OVER THE SUBSEQUENT TWO CHARGING YEARS.

**CUSC PANEL – 19TH JULY 2016
BINOY DHARSI**



Background

- Under the Balancing Services Incentive Scheme (BSIS) National Grid is able to apply for the SO Incentives to be revised so as to allow them to recover costs which were beyond their reasonable control and were caused by an unforeseen event i.e. an Income Adjusting Event (IAE).
- Any additional cost incurred by the SO is recovered in the regulatory year in which the IAE was raised.
- Black Start contracts to a maximum value of £113m across chargeable volume of 521.9TWh (taken from March 2016 MBSS report for the 2015/16 period) would equate to an annualised cost of £0.22/MWh to industry participants.

Summary of Defect

- National Grid notified Ofgem of an IAE in relation to the 2016-2017 System Operator Incentive Scheme. Approval of the IAE would lead to the recovery of up to £113m, through 2016-2017 BSUoS charges.
- Historically, Black Start contracts have been a relatively small component of Balancing Services costs at £20-£40m/year for ~16-18 plants. The recovery of up to £113m for two plants is an unprecedented amount and if the IAE is approved, will have a significant commercial impact on market participants, and ultimately customers. We believe that the potential for such a material short notice impact on BSUoS charges to occur in these circumstances, represents a defect to the CUSC

Proposed CUSC Modification

- This proposal seeks to defer unforeseen increase in BSUoS costs arising from an IAE by two years. This proposal only applies to IAE's which, in their total in any given charging year, have a combined effect on "raw BSUoS" of over £30m. We believe most market participants will be able to manage IAEs in a charging year with a combined effect on BSUoS of under £30m (i.e. the same amount as the floor on National Grid's incentive scheme which reflects its maximum commercial exposure under the scheme) in the year it is incurred. This proposal enables market participants to spread out the unexpected cost over a two year period.

Justification against Applicable CUSC Objective

- (a) that compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity;
- This modification will mitigate the impacts of the unprecedented and unforeseen BSUoS charges on market participants. By allowing the costs to be known in advance and be recovered over a two year period, the proposal facilitates effective competition in the generation and supply of electricity, by removing the uncertainty that comes from short-notice, unforecastable, changes in BSUoS of materiality above this threshold. These short-notice, unforecastable, changes create risks that are hard for any participant to finance efficiently, adding to consumer costs; they may also have more adverse impacts on some categories of participant than others.
- Since the modification will apply to future IAEs as well as the current potential IAE, it provides clarity going forward if a similar event occurs again. It provides the clarity that market participants need.

Justification against Applicable CUSC Objective

- Charging Objective (b)
 - The proposer believes that the proposal is neutral against applicable charging objective (b).
- Charging Objective (c)
 - The proposer believes that the proposal is neutral against applicable charging objective (c).
- Charging Objective (d)
 - The proposer believes that the proposal is neutral against applicable charging objective (d).

Justification for Urgent Status

- Historically, Black Start contracts have been a relatively small component of Balancing Services costs at £20-£40m/year for ~16-18 plants. £113m for two plants is an unprecedented amount and if the IAE is approved, will have a significant commercial impact on market participants, and ultimately customers who may experience higher risk premia as a result of the IAE. Currently BSUoS costs are just under £1bn so this additional cost represents a 10% increase in costs. However, as we are already mid-way through the year effectively if recovered within year this increase costs for parties by a factor of 20%
- Since Ofgem has to determine on the level of cost pass-through by 24 August 2016 (i.e. 3 months from the date of National Grid's notification), we would like our CUSC modification to be considered as an Urgent modification. It is time sensitive to Ofgem's determination of the IAE

THANK YOU

