

CMP267 ‘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’



Special CUSC Panel – 18 October 2016
Code Governance Team

Background

- CMP267 aims to defer any unforeseen increases in BSUoS cost arising from an IAE by two years when those unforeseen costs exceeds £30m in a charging year.
- 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. EDF (Proposer) believe most market participants will be able to manage IAEs in a charging year with a combined effect on BSUoS of under £30m.
- 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.
- Note: The rationale for urgency on this mod was to try and get a decision ahead of any recovery of black start costs, and that has now changed due to the open letter published by NG in September 2016

Workgroup Consultation

- Nine responses were received to the Consultation and were considered by the Workgroup.
- Seven respondents supported the original proposal as better meeting the Applicable CUSC Objectives. One did not support it. One respondent raised a WACM.
- During the voting eight members of the work group voted in support of the original over the baseline and only one member voted for the WACM over the original.

WACMs

- The Original plus one WACM was agreed by the Workgroup
- **Original:** 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. EDF 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.
- **WACM1:** This WACM proposes that, after approval of the IAE by Ofgem, up to £2.5m per month is recovered in BSUoS through the SF settlement run in the next 15 months. Thereafter, i.e. from month 16, the remaining recovery arising from the IAE is split equally over the next 12 months.
- The proposal provides certainty that the potential risk within a 15 month period is known. This then allows market participants to adjust their risk appetite accordingly.

Proposed CUSC Modification

| Terms of reference: | Section or page of report |
|---|--|
| <p>a. Consider the implications of deferring National Grids income. E.g. additional financing costs and credit risks. E.g. potentially a different set of parties may be paying from those connected this year.</p> | <p>Paragraphs 3.64 to 3.68</p> <p>Payment by different sets of parties is considered under ToR f below.</p> |
| <p>a. Consider the implications on customers (pass through and non-pass through customers) in deferring the cost recovery into different financial years to when the costs were borne.</p> | <p>Paragraphs 3.44 to 3.48</p> |
| <p>a. There are potentially other costs that are not later deemed as IAEs that can cause significant increases in BSUoS costs –these should be considered by the workgroup.</p> | <p>Workgroup discussed 11-13 non granted IAEs (paragraphs 3.5 to 3.7), and CMP250 which is seeking to address all causes of BSUoS price volatility (paragraphs 3.51 to 3.56)</p> |
| <p>a. Workgroup to consider stakeholder engagement.</p> | <p>Workgroup noted stakeholder engagement around recovery of 16/17 black start costs (paragraphs 3.101 to 3.104)</p> |
| <p>a. Consider the consequential changes for other Code and license changes and the dependency of potential license changes</p> | <p>Paragraphs 3.60 to 3.63 and 3.92 to 3.100</p> |
| <p>a. Consider the distributional impacts on parties (in particular but not limited to Suppliers and Generators).</p> | <p>See ToR b above, plus paragraphs 3.49 to 3.50 and 3.74 to 3.79</p> |

Next Steps

- The Panel is invited to:
 - Accept the Workgroup Report
 - Agree for CMP267 to progress to Code Administrator Consultation

Proposed Timetable

| | |
|------------------|---|
| 20 October 2016 | Code Administrator Consultation issued (5 Working days) |
| 27 October 2016 | Deadline for responses |
| 2 November 2016 | Draft FMR published for industry comment (2 Working Days) |
| 4 November 2016 | Deadline for comments |
| 2 November 2016 | Draft FMR circulated to Panel |
| 15 November 2016 | Special Panel meeting for Panel recommendation vote |
| 17 November 2016 | FMR circulated for Panel comment (3 Working day) |
| 22 November 2016 | Deadline for Panel comment |
| 23 November 2016 | Final report sent to Authority for decision |
| 7 December 2016 | Indicative Authority Decision due (10 working days) |
| 9 December 2016 | Implementation date |