

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 – 15 November 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 National Grid in September 2016.

Workgroup Consultation

- **Nine** responses were received to the Workgroup 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.

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.
- *Note:* an Addendum was written regarding the simplification of the WACM following the vote by the workgroup. This was due to significant complexity in defining legal text. All bar one of the voters was contacted following this simplification and all agreed their voting position had not altered.

Terms of Reference

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>

Workgroup Vote

- Eight members of the workgroup voted.
- During the voting
 - Six members of the Workgroup voted in support of the Original
 - One member voted for the WACM over the Original.
 - One voted for the Baseline.

Legal Text

- Please note: Legal text has been defined for both the Original and the WACM.
- Due to the significant complexities of writing legal text for the WACM the WACM was simplified. This is noted with an addendum in the annex of the report.

Code Administrator Conclusions

- **Nine** responses were received to the Code Administrator Consultation.
- A variety of views were recorded.
 - Eight respondents agreed with the proposed implementation approach.
 - One respondent did not support the proposed implementation approach.

National Grid View

- National Grid's understand and acknowledge the defect put forward by the proposer, however there are a number of significant practical issues in linking cost recovery to an IAE. These included:
 1. IAE's can be submitted after all costs have been recovered
 2. Complexity for industry participants to calculate deferred costs
 3. Interaction with the Incentive Scheme
 4. Impact on Objective C; only neutral if the SO is held whole and received appropriate financing costs on any cost recovery taking place later in the year in which costs are incurred

Questions before Panel Vote?



Panel Recommendation Vote

The Applicable CUSC objectives for CMP267 are:

Use of System Charging Methodology

(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 in accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard 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.

(e) in addition, the objective, in so far as consistent with sub-paragraphs (a) above, of facilitating competition in the carrying out of works for connection to the national electricity transmission system.

Timetable

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