

Member Briefing on Changes to the BSUoS Covid Support Scheme

This is a REA members briefing outlining the latest proposed changes to the BSUoS Covid Support Scheme

Background

In June 2020 a Balancing Systems Use of Service (BSUoS) Covid Support Scheme was introduced to the market. This followed a contentious CUSC Modification proposal (CMP345), which Ofgem decided should be treated as urgent, and two very short consultations.

REA members raised concerns about the original proposal, which sought to defer the additional BSUoS costs arising from Covid over the period 1 May 2020 – 31 August 2020, then estimated at around £500 million. The proposal was planned to be backdated. Presuming that the CUSC Modification CMP333 to remove embedded benefits in April 2021 is passed, this would have led to a permanent loss of value for some embedded generators.

Concerns focused around four issues:

- Concerns that distributed generation in receipt of embedded benefits would lose out as a result of the change and might even be required to repay embedded benefits already received due to the backdating of the proposal.
- Concerns that transmission-connected plants coming online next year would be liable for a portion of any debt.
- A broader sense that a CUSC modification was not an appropriate forum to decide a policy change with significant implications for a wide range of market participants.
- The ESO's capacity to finance a deferral of £500 million of BSUoS charges to the next financial year, and the risk that Covid could continue to disrupt the electricity market into next year.

The REA engaged in a comprehensive dialogue with ESO and Ofgem to express these concerns, as well as responding to the formal consultations process, with the support of interested members.

The scheme introduced – 'BSUoS Covid Support Scheme'

In an REA and member win, Ofgem approved CMP345 but chose an alternative option for the scheme that significantly moderated the negative impacts regarding concerns raised by members.

The scheme was not backdated, being effective two days after the decision date, from 25 June to 31 August. The scheme saw BSUoS charges capped at a high £15/MWh, which meant that embedded generators that had already factored in the increased embedded benefits into their financial planning were not suddenly faced with all of that embedded benefit being removed. Furthermore, all BSUoS charges capped above £15/MWh were deferred as debt to be repaid next year, but this was a much less significant debt, meaning a much lower impact on transmission-connected generation due to come online in the next financial year.

Latest changes to the BSUoS Covid Support scheme

In late July CUSC modification proposal CMP350 was raised to alter the BSUoS Covid Support Scheme, and Ofgem decided to treat it as urgent.

This proposal sought to lower the cap on BSUoS charges to £5/MWh, to extend the scheme until 31 September, and to introduce a £100 million limit on the debt that could accumulate and be rolled over into the next financial year. Once this £100 million limit was reached, the scheme would cease to operate, even if the limit were reached before 31st September.

With balancing costs this summer unusually high, weekly updates of balancing charges on the ESO's website showed that it was highly likely that the £100 million limit would be reached before 31st September, and the scheme would have ended, exposing market participants to volatile BSUoS charges.

Members have raised concerns that this proposal would bring instability to the market and therefore undermine investor confidence. The REA objected to the proposal on the grounds that it would introduce further instability to the market, that the ESO would be asked to finance a significant level of debt into the next financial year, and the associated impacts on embedded generators and transmission plants entering the market next year.

Ofgem again chose a different option from that originally proposed, announcing the decision on 4th August, and effective immediately. ***The new scheme comprises:***

- A £10 MW/h cap on BSUoS charges (lowered from a £15 MW/h cap).
- The introduction of a £100 million limit on the debt that can be rolled over to next year. If the limit is reached before 25th October, the scheme will cease to operate.
- An extension of the scheme to 25th October (previously it was due to end on 31st August).

REA Analysis

The CUSC workgroup preferred a different and milder option for the scheme than the one Ofgem chose. It had been argued by some that introducing the scheme as it previously stood allowed Ofgem to appear to take action, while actually changing very little. By choosing this amendment, which was not the workgroup's preferred, milder option, Ofgem showed that it is taking the issue (and proposers British Gas) seriously, while also paying attention to the financial hardship being experienced by many suppliers and transmission generators.

Choosing an option to extend the scheme until 25th October also allows Ofgem time to consider any further, long-term changes that may be necessary to the BSUoS regime. During this time period, it is widely expected that the impact of the pandemic on businesses and on employment, along with the likelihood of further lockdown measures being implemented over the winter, will become clearer, and this may facilitate reliable estimates of demand and balancing costs over the next few months. With the publication of the review into the spring and summer 2020 balancing costs, and the work of the Second Balancing Services Task Force due to end with the submission of its final report in September, this makes sense.

The changes are still expected to have a small negative affect on embedded generation, however compared to the original BSUoS Covid Support Scheme, it is this is likely a smaller impact on

embedded generation and transmission-connected plants entering the market next year then previously proposed.

The REA objected to the proposal CMP350 on the grounds outlined about the likelihood that the £100 million would quickly be reached with a £5/MWh cap, and that this would introduce unnecessary uncertainty to the market over the next few weeks and undermine investor confidence.

Though this scheme sees a higher cap than originally proposed, there is still a risk or even likelihood that the £100 million cap will be reached, particularly if extreme weather returns. This is despite the scheme being extended over a period of time in which it is hoped demand will return to normal and will increase in line with the seasonal pattern. During the recent heatwave, one of the nation's coal-fired power stations had to be turned on due to a lack of wind generation, which suggests that demand is returning to normal, at least at some points. If BSUoS charges remain volatile, then reaching the £100 million limit could introduce instability to the market, but if they decline from the end of the summer onwards, then reaching the £100 million limit has a smaller impact.

Although the scheme has a cap of £10/MWh, the extension of the scheme to 25th October also means that the reduction in embedded benefits will continue for a longer period of time. The extension of the scheme and the lowering of the cap on BSUoS charges also means that that debt rolled over to next year will be higher. This means that transmission-connected plants entering the market next year will be liable for a small proportion of this debt.

Next Steps

These changes came into force as of 13th August and will continue to be in place until 25th October. It is possible that another modification will be put into place in this time, albeit this is unlikely as the second version of the scheme is more generous to suppliers and transmission-connected generators. Ofgem is conducting a [review](#) of Balancing Services costs in spring and summer 2020, which the REA will follow.

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