

Public

P378 'Introduction of a CM Supplier Interim Charge'

Initial Written Assessment

21 December 2018
Matthew Woolliscroft

ELEXON

Background

- Capacity Market (CM) payments to Capacity Providers have been 'suspended'
- Collection of monies from Suppliers to fund Capacity provider payments 'suspended'
- Suppliers can request money already paid for current Delivery Year i.e. Oct and Nov 18 monies
 - 2018/19 Delivery Year will not be funded
- Capacity Providers required to adhere to Capacity Agreements
- Department for Business, Energy and Industrial (BEIS) have stated its minded to continue to collect payments from suppliers during the standstill period
- BEIS consulting on two options:
 - Electricity Settlement Company (ESC) begin collecting money from suppliers
 - Modification to the BSC i.e. P378
- Issue 76 raised to consider how the BSC could help stabilise the market
 - Outcome of Issue 76 meeting informed P378 solution

Issue

- There is a risk that Suppliers and consumers will be adversely impacted by a 'price shock' if standstill lifted and CM payments backdated
- This could result in BSC Defaults and other defaults in market
- The value of the missing payments will escalate further as each month passes
- The Proposer therefore feels it is for the industry itself to undertake some contingency planning for the orderly reinstatement of the CM scheme in order to protect the parties and their customers from a price shock at some point in the future
- All of these issues have an impact on BSC Parties and the efficient operation of the BSC. We therefore believe that the BSC is an appropriate vehicle to help manage this market wide risk
 - Initial external legal: Within scope of Transmission Licence

Solution

- Introduce new BSC Charge 'CM Supplier Interim Charge' until September 2019
- Collections made according to existing payment schedule for CM Supplier Charge
 - Payments for 1 Jan 19 to implementation date collected in first invoice
 - Payments for Oct to Dec 18 smeared across subsequent 2 invoices
 - Following payments made according to schedule
- No Credit Cover or mutualisation to keep solution simple
- Failure to pay will carry the same sanctions as any other BSC Default
- Funds will be released to:
 - ESC if it starts issuing invoices for the period collected; or
 - Suppliers if the CM is not reinstated and all appeal routes are exhausted; or
 - Suppliers at the end of September 2020 is no other triggers invoked
- ELEXON will report the funds it has invoiced and collected on a monthly basis by ELEXON Circular and publish on BSC Website

Urgency

- The Proposer believes that P378 should be treated as Urgent because:
 - without the ability for Suppliers to plan, there is a significant risk to any future collection will have a commercial impact in Suppliers, their customers and Capacity providers;
 - there is a risk that Suppliers and their customers will be unable to comply with the CM regulations when it is reinstated without future planning;
 - centrally planning for compliance with the CM will make it more equitable for customers as all Suppliers will need to comply, thus protecting competition;
 - if a customer is faced with a one off bill for back payments, they may be forced into debt or fuel poverty;
 - without planning it is likely that some Suppliers will default , with remaining Suppliers costs being increased as a result;
 - Ofgem is due to review its price cap in February, and so should have certainty that Suppliers can continue to collect payments from customers before it makes a decision

Progression

- Under urgency, the Proposer requests the following timetable:

Proposed Urgent Progression Timetable for P378

Event	Date
Present Initial Written Assessment to Panel	21 December 2018
Consultation – minimum 10WD	14 January 2019 – 25 January 2019
Present Draft Modification Report to Panel	28 January 2019
Issue Final Modification Report to Authority	29 January 2019

- If the draft legal text is ready, we will extend the consultation period
- The solution was discussed by a Workgroup under Issue 76
 - A Party has questioned whether a Workgroup should be included as part of the Urgent timetable
 - A Party has also questioned whether an Alternative solution could be proposed if needed

Consultation considerations

- The proposer believes that the Panel should ask the following in its consultation:
 - Should this Fund be set up to cover the period up to the end of the current CM Delivery Year (as drafted) or cover the Delivery Year 2019/20 as well?
 - Is the schedule of payments outlined above (i.e. where the 'missing months' are recovered) sensible?
 - Is the long stop date for repayments of the Fund to Suppliers set at the right point in time?
 - The proposal is to place the money in an Elexon account. Are parties satisfied with this and if not what type of account would be more appropriate?
 - This proposal does not facilitate Suppliers who may want to make additional or ad hoc payments into this fund. Would Suppliers want the ability to pay more to plan for what they believe may be their financial exposure in the future?

Costs and impact

- We estimate that P378 will incur implementation costs from the following:
 - Effort for external lawyers to draft the legal text; and
 - Effort to implement document changes to the BSC
- We expect these to amount to ~£41k - £45k

- P378 will introduce a new BSC charge for Suppliers equivalent to their expected CM payments
- No BSC System or Agent changes

- The Proposer believes that this Modification will help protect Suppliers (and end consumers) from a price shock when the CM standstill is lifted

Applicable BSC Objectives (1 of 2)

- (b) as providing industry with the certainty that funds will be available to Capacity providers if the standstill is lifted will encourage participants to continue normal operations, thus protecting the operation of the Transmission System
- (c) Having the funds available for efficient restarting of CM payments will reassure investors to continue normal operations. The continued collection will also help Suppliers protect their customers against a price shock upon the restarting of the CM by requiring all Suppliers to continue paying into a fund, will ensure a level playing field by removing the risk that prudent Suppliers will pay more in the event that any shortfall is mutualised

Applicable BSC Objectives (2 of 2)

- (d) By introducing a BSC planning charge, there is less risk of Parties paying Default Funding Shares on defaulting Parties liabilities as a result of shock CM charges. By requiring Suppliers to pay into the fund, it is less likely that Suppliers will default on payments upon the restarting of the CM
- (f) If the CM standstill is lifted, the existence of the fund will make it easier for the market to return to normal operations of the CM regime. While this will not help the regime at present, the Proposer believes that this future planning will aid the efficient and economic return to normal CM operations

Self-Governance

- P378 should **not** be Self-Governance because:
 - It will have a material impact in consumers by requiring Suppliers to continue collecting payments
 - It will have a material impact on competition by ensuring that a level playing field is maintained during the CM standstill

Recommendations (1 of 2)

We invite the Panel to:

- **RECOMMEND** to the Authority that P378 should be treated as an Urgent Modification Proposal;
- **AGREE** the Urgent P378 progression timetable for recommendation to the Authority;
- **AGREE** that P378:
 - **DOES** better facilitate Applicable BSC Objective (b);
 - **DOES** better facilitate Applicable BSC Objective (c);
 - **DOES** better facilitate Applicable BSC Objective (d); and
 - **DOES** better facilitate Applicable BSC Objective (f);
- **AGREE** an initial recommendation that P378 should be **approved**;

Recommendations (2 of 2)

- **AGREE** an initial Implementation Date of:
 - 5WD following the Authority’s decision;
- **AGREE** an initial recommendation that P378 should **not** be treated as a Self-Governance Modification Proposal;
- **NOTE** that ELEXON will either:
 - issue the P378 Draft Modification Report (including the draft BSC legal text) for at least a 10 WD consultation and will present the results to the Panel at its meeting on 28 January 2019; or
 - return to the Panel on 10 January to ask the Panel how P378 should proceed

