

**Workgroup Consultation Response Proforma****CMP373 'Deferral of BSUoS billing error adjustment'**

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses to [cusc.team@nationalgrideso.com](mailto:cusc.team@nationalgrideso.com) by **12pm on 4 May 2021**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

If you have any queries on the content of this consultation, please contact Paul Mullen [paul.j.mullen@nationalgrideso.com](mailto:paul.j.mullen@nationalgrideso.com) or [cusc.team@nationalgrideso.com](mailto:cusc.team@nationalgrideso.com)

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**I wish my response to be:**

(Please mark the relevant box)

 Non-Confidential Confidential

*Note: A confidential response will be disclosed to the Authority in full but, unless agreed otherwise, will not be shared with the Panel, the Workgroup or the industry and may therefore not influence the debate to the same extent as a non-confidential response.*

**For reference the Applicable CUSC (charging) Objectives are:**

- 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 accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard licence 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; and*
- e. *Promoting efficiency in the implementation and administration of the system charging methodology.*

*\*Objective (d) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).*

**Please express your views regarding the Workgroup Consultation in the right-hand side of the table below, including your rationale.**

Standard Workgroup Consultation questions		
1	Do you believe that the CMP373 Original Proposal better facilitates the Applicable Objectives?	<p>Allowing the unrecovered BSUoS costs to be deferred until the SF runs in 2021/22 means that suppliers can recover these costs across all their customers. Under the NGENSO plan of recovering the £34m through the RF settlement run, suppliers will be unable to pass these costs through to domestic customers on the default tariff ('price cap tariff') as the cap set by Ofgem is calculated using SF settlement run data. Also, most B2B customers on pass through contracts (where third party costs are passed through to the customer) are charged based on the SF settlement run. Therefore, by deferring costs until the SF settlement runs in 2021/22 this ensures that the additional charges can be recouped from all customers rather than a subset of customers. If the charges have to be recouped through a subset of customers, then future fixed tariffs may increase from a market efficient level. This increase will vary between suppliers, dependent on the proportion of their base that are on tariffs where the additional cost cannot be recovered. This will clearly distort the market and hamper competition (<u>Applicable Objective a</u>).</p> <p>Whilst E.ON would prefer to see all additional charges being correctly allocated to the BSUoS parties based on the costs and chargeable volume from the time they were incurred (30<sup>th</sup> Sept 2020-6<sup>th</sup> March 2021) and then these correct charges passed through to customers via the SF settlement run, we acknowledge that this will require a new complex and manual billing process in addition to the usual process. In order to facilitate <u>Applicable Objective e</u> we are satisfied with a simple socialisation of the costs through the addition of the costs in to the usual 2021/22 SF settlement process and the allocation based on 2021/22 chargeable volumes. However, we also believe that the implementation dates of 1/10/21-31/3/22 allow for a more accurate reflection of the true allocation by not unfairly penalising customers and generation that see their peak demand/generation in the summer when there was no under-recovery. Therefore, we support the implementation over the winter rather than the option to</p>

		<p>socialise the costs over the longest period possible (1<sup>st</sup> June – 31<sup>st</sup> March). We acknowledge that this is a proxy and demand maybe very different this coming winter compared to last winter, but it seems a fair &amp; reasonable compromise.</p> <p>We also believe that to facilitate <u>Applicable Objective e</u> it is better to apply a fixed cost for each day in the implementation period and weight the charge for each settlement period within that day according to the chargeable volume seen. This is the business as usual process and means all parties are equipped to deal with the change rather than applying a fixed cost to each settlement period (as was used for the Covid 19 deferrals in CMP345/350).</p>
2	Do you support the proposed implementation approach?	See response to Q1
3	Do you have any other comments?	We believe the most important aspect of this modification is to ensure that the additional cost can be recouped from all customers rather than a subset (unlike through the NGESO proposal of using the RF settlement runs) such that all customers are treated on an even footing and no subset of customers is subsidising another subset whilst avoiding a situation where Suppliers are required to make up or absorb any unrecoverable shortfall (see Q5).
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No
<b>Modification Specific Workgroup Consultation questions</b>		
5	Do you believe that it is more appropriate to recover the £33,163,790.21 of trading costs in the FY 2021/2022 Settlement Final (SF) Run? Please provide the rationale for your response?	Yes. By applying the trading costs to the SF run, this allows suppliers to ensure that all customers contribute equally to the additional costs. By using the NGESO suggested RF settlement runs, suppliers either absorb the cost themselves (a cost that they have incurred through no fault of their own and which there was no chance of managing) or pass on the cost to a subset of customers which will distort the true market cost of supplying electricity.
6	Do you think that it is more important to	We believe that it is most important to ensure that all customers who should have paid the additional costs can

	<p>socialise the costs across users in FY 2021/2022 or to correctly target the liable users when the costs were incurred using the RF run? If not socialised do you have a proposal for how the Default Tariff Cap calculations would work? Please provide the rationale for your response.</p>	<p>pay some proportion of it through the 2021/22 SF runs. We disagree however that it is a choice between socialisation of the costs through the SF 2021/22 runs or accurate allocation of the costs through the RF runs. We believe that it is possible to calculate each participants' true allocation of costs and then have this applied to the 2021/22 SF runs in a similar manner to the Original Proposal. Whilst it will mean that each participant is effectively paying a different BSUoS rate, we believe that although difficult for NGENSO, it ought to be possible and reasonable to have accuracy through the SF runs.</p> <p>For example (numbers are purely illustrative)</p> <p>E.ON UK 'true' under recovery charge from 20/21= £2m  BG 'true' under recovery charge from 20/21= £2.5m  Therefore E.ON pays £11k per day extra over 21/22 Winter and BG pays £13.7k per day extra over 21/22 Winter</p> <p>SF charge for 1<sup>st</sup> Oct 2021 = £2.5m across 1TWh = £2.5/MWh  E.ON chargeable volume share = 10%  E.ON share of SF charge = £250k  E.ON share with under recovery = £261k  Effective BSUoS rate paid by E.ON UK = £261k/100GWh = £2.61/MWh  BG chargeable volume share = 12%  BG share of SF charge = £300k  BG share with under recovery = £314k  Effective BSUoS rate paid by BG = £314k/120GWh = £2.614MWh</p> <p>However, we are prepared to forego this accuracy in order to guarantee that suppliers can ensure all customers who should pay for the BSUoS under-recovery are eligible for these costs to be passed on to them.</p>
7	<p>Do you believe that the costs should be recovered from 1 October 2021 to 31 March 2022 (as per Original proposal) or 1 June 2021 to 31 March 2022 or using the default of the RF runs? Please provide the</p>	<p>We believe that costs should be recovered from all customers who have incurred them. Therefore, we believe that this is best managed through the 2021/22 SF runs. In the absence of a more accurate calculation (see response to Q6), we believe that recovering the costs from a similar period a year later is the best approximation that does not penalise BSUoS payees who have a seasonal bias e.g. solar farms and that it can be simply delivered through current processes. Therefore E.ON supports an implementation period of 1<sup>st</sup> Oct 21 – 31<sup>st</sup> Mar 2022.</p>

	rationale for your response.	
8	Will the CMP373 Original Proposal or any of the potential alternative solutions impact your business and/or end consumers. If so, how?	The worst option for E.ON and our customers will be the NGESO option of using the RF run to charge for the under recovered costs as this cannot be passed through to all customers and will therefore impact competition and cause market distortion. The Original proposal (start date of 1 <sup>st</sup> Oct) will be marginally beneficial for E.ON and our I&C customers as it allows us to price the deferred costs into the Oct round of renewals, which will be more transparent and equitable for new and renewing customers (rather than a new and unforeseen cost to an existing pass through tariff).