

CUSC Modification Proposal Form

CMP373: Deferral of BSUoS billing error adjustment

Overview: On Friday, 9th April 2021, the ESO informed industry parties that they had underbilled BSUoS by ~£44m of Balancing Services costs incurred in 2020/21. The ESO proposes to recover this cost through the Reconciliation Final run (RF) for 2020/21, commencing from 24th May 2021, but this unforeseen cost recovery adjustment will cause significant problems for Suppliers, Generators and Consumers. This modification proposes to adjust BSUoS in the 2021/22 charging year to ensure stakeholders do not face retrospective costs, which are forced upon them through no fault of their own, and to avoid an adverse impact on the Default Tariff Cap calculations, both past and future.

Modification process & timetable

1	Proposal Form 20 April 2021
2	Workgroup Consultation 28 April 2021 - 04 May 2021
3	Workgroup Report 07 May 2021
4	Code Administrator Consultation 10 May 2021 - 12 May 2021
5	Draft Final Modification Report 13 May 2021
6	Final Modification Report 14 May 2021
7	Implementation 24 May 2021

Status summary: The Proposer has raised a modification and is seeking a decision from the Panel on the governance route to be taken.

This modification is expected to have a: High impact

Suppliers, Generators and Consumers.

Proposer's recommendation of governance route

Urgent modification to proceed under a timetable agreed by the Authority (with an Authority decision)

Who can I talk to about the change?

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What is the issue?

The ESO is responsible for recovering the cost of balancing the electricity transmission system. They normally recover these costs in a timely manner via BSUoS charges and look to minimise the volatility of the charge wherever possible.

It has come to light, through the ESO end of year reporting processes, that ~£44m of Balancing Services costs incurred in 2020/21, due to two different issues, have yet to be recovered.

- 1) £34m of trading activities:
A formatting change in the ESO trading system - enTrader, failed to transfer the correct data to the master file which impacted BSUoS invoicing.
- 2) £10m Accelerated Loss of Mains Change Programme (ALoMCP):
The ESO failed to restart recovery for the ALoMCP earlier in Financial Year 2021.

Neither of these issues was a result of daily balancing cost adjustments which the ESO is responsible for.

The ESO has decided to recover this cost through the Reconciliation Final run (RF) for 2020/21, commencing from 24th May 2021.

These mistakes occurred in the ESO's process which a Supplier, Generator or Consumers would not reasonably be expected to manage risk against.

Why change?

The failure to recover these costs in the normal timescales (profiled to when these costs were incurred) is due to errors made solely by the ESO. Furthermore, no transparency of any potential problem was given until the announcement to recover all of these costs in a settlement billing run (RF) with just 6 weeks of notice.

The £44m, which is expected to be billed in May 2021, is much higher than the typical amount for an RF run so Suppliers, Generators and Consumers will suffer significant financial impact. This compares to increases of just £5.5m and £9.1m between the SF and RF settlement runs for 2017/18 and 2018/19 respectively¹.

The Standard Variable Tariff cap calculation methodology specifically uses the SF Settlement Runs. Any adjustments to BSUoS costs made to the RF billing, which occurs after the SF run, cannot be reflected in the Default Tariff Cap.

- Winter 20 price cap (July 2019 to June 2020 BSUoS), is in the past now so cannot be recovered.
- Summer 21 price cap (calendar 2020 BSUoS), was published on 7th Feb and can no longer be changed.
- Winter 21 price cap (July 2020 to June 2021 BSUoS). This will be published by 6th August 2021 but will use SF data under the current methodology, so will not recover additional costs pushed through RF.

What is the proposer's solution?

It will be better for the industry and consumers if the recovery of these costs is through the 2021/22 II and SF runs rather than the 2020/21 RF run. We do not believe that this

¹ The full year RF data for 2019/2020 is not available as at 20th April 2021.

approach will significantly change the ESO cashflow and does not unexpectedly penalise (or reward) industry parties for this unforeseen cost recovery adjustment.

This modification needs to be progressed under an Urgent timetable so that the industry has certainty before the relevant RF runs start on 24th May 2021.

Draft legal text

To be drafted and agreed by the Workgroup.

What is the impact of this change?

Proposer's assessment against CUSC Charging Objectives	
Relevant Objective	Identified impact
(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;	Positive Does not unexpectedly penalise (or reward) industry parties for this unforeseen cost recovery adjustment. It also avoids the adverse impact on the Default Tariff Cap calculations, both past and future, which would have an anti-competitive differential discriminatory effect on suppliers that are more focussed on the domestic market.
(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;	Neutral
(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;	Neutral
(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and	Neutral
(e) Promoting efficiency in the implementation and administration of the system charging methodology.	Neutral

*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).

Proposer's assessment of the impact of the modification on the stakeholder / consumer benefit categories

Stakeholder / consumer benefit categories	Identified impact
Improved safety and reliability of the system	Neutral The proposed approach of the ESO, as set out in its 9 th April note, does not allow Suppliers to pass through the unexpected extra 2021/22 costs in the Default Tariff Cap. This is because of the way in which Default Tariff Cap is constructed and which BSUoS costs (SF not RF) that it uses in the twice yearly calculation to construct it for future application. This could cause marginally-viable suppliers to fail, depriving consumer of choice and causing them much worry as most do not have a good understanding that a Supplier failure does not imperil their physical ongoing supply of electricity.
Lower bills than would otherwise be the case	Positive Non-domestic consumers are faced under the ESO's approach it has proposed in its 9 th April letter, with extra bills that until 9 th April 2021 they could have had no idea were coming, due not to real balancing service phenomena but to an ESO error. The unexpected surplus costs are best delayed.
Benefits for society as a whole	Positive The avoidance of shock costs that were not known of or forecastable prior to April 9 th will avoid damage to investor confidence and thereby keep costs down through effective and economic competition.
Reduced environmental damage	Neutral
Improved quality of service	Neutral

When will this change take place?

Implementation date

As soon as possible but no later than 24th May 2021 (which is the effective date of the ESO recovery approach).

Date decision required by

As soon as possible but no later than 23rd May 2021.

Implementation approach

The approach will be similar to the one being proposed by the ESO but using the 2021/22 II and SF runs rather than the 2020/21 RF run.

Proposer's justification for governance route

Governance route: Urgent modification to proceed under a timetable agreed by the Authority (with an Authority decision)

This modification needs to be progressed under an Urgent timetable so that the industry has certainty before the ESO publish an RF run forecast in May ahead of when these RF runs start on 24th May 2021.

The first of three criteria for Urgency is that the mod has a significant commercial impact on parties or consumers (or on safety, or to prevent the ESO from being in breach/non-compliant). This modification does have a significant commercial impact on parties and consumers as they are due to be hit with an unexpected extra charge at very short notice, on 24th May 2021, that they did not know anything about until a note on 9th April 2021. They still do not know today, the intended recovery period that starts 24th May for no less a sum than £44m. This compares to increases of just £5.5m and £9.1m between the SF and RF settlement runs for 2017/18 and 2018/19 respectively.²

Mentioning the £44m as "AOB" at the Transmission Charging Methodology Forum (TCMF 8th April 2021, without even a supporting slide in the pack, did not give them any extra notice at all. The modification will enjoy widespread support and needs to be processed ahead of 24th May 2021. The need for urgency is thus compelling.

Interactions

- | | | | |
|---|--|--|--------------------------------|
| <input type="checkbox"/> Grid Code | <input type="checkbox"/> BSC | <input type="checkbox"/> STC | <input type="checkbox"/> SQSS |
| <input type="checkbox"/> European Network Codes | <input type="checkbox"/> EBGL Article 18 T&Cs ³ | <input type="checkbox"/> Other modifications | <input type="checkbox"/> Other |

No interactions identified.

Acronyms, key terms and reference material

Acronym / key term	Meaning
BSC	Balancing and Settlement Code
CMP	CUSC Modification Proposal
CUSC	Connection and Use of System Code
EBGL	Electricity Balancing Guideline
STC	System Operator Transmission Owner Code
SQSS	Security and Quality of Supply Standards
T&Cs	Terms and Conditions
II	Interim Initial Settlement Run
SF	Settlement Final Settlement Run
RF	Reconciliation Final Settlement Run
ALoMCP	Accelerated Loss of Mains Change Programme

² The full year RF data for 2019/2020 is not available as at 20th April 2021.

³ If your modification amends any of the clauses mapped out in Exhibit Y to the CUSC, it will change the Terms & Conditions relating to Balancing Service Providers. The modification will need to follow the process set out in Article 18 of the European Electricity Balancing Guideline (EBGL – EU Regulation 2017/2195) – the main aspect of this is that the modification will need to be consulted on for 1 month in the Code Administrator Consultation phase. N.B. This will also satisfy the requirements of the NCER process.

Reference material

- None.