

Code Administrator 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 by **12pm on 13 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.j.mullen@nationalgrideso.com or cusc.team@nationalgrideso.com

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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 in the right-hand side of the table below, including your rationale.

Code Administrator Consultation questions	
1	<p>Do you believe that the CMP373 Original Proposal better facilitates the Applicable Objectives?</p>

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

BSUoS costs from the SF settlement run, feed into future price cap calculations, however costs from the RF settlement run do not. By recovering those costs from Suppliers, not correctly billed through the SF run in 2020/21, in the RF run for 2020/21, this will create difficulties for Suppliers who will be faced with the choice of looking to recover, if they can, those costs from customers who may not be on their books anymore through reconciliation processes, or recovering those costs from their existing customer base with the problem that the price cap calculation; which is linked to SF (not RF) run related costs; will not reflect those RF run related costs. This will potentially harm competition as how these costs are recovered, and the options available to each Supplier will differ, as each Supplier may not operate in every segment of the market, i.e. domestic and I&C, and have the same proportions of Fixed and Pass through contracts. Recovering costs through future SF settlement runs (in 2021/22) removes those distortions on competition. Therefore CMP373 better facilitates Applicable Objective (a).

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*

		<p><i>requirements of a connect and manage connection);</i></p> <p>Positive</p> <p>BSUoS is a means of recovering the costs of operating and keeping in Balance the Transmission System as determined by the Balancing Services Taskforce. They do not provide a cost signal or reflect the costs a user puts on the System by using the System at a particular moment in time. Therefore, accurately recovering costs from a particular Settlement Period or User is unnecessary. The ESO will still recover the same amount of costs for 2020/21 from Industry Parties following this proposal as they would have done using the current baseline, albeit slightly later. Therefore as described in objective a) the ability of Industry parties to recover those costs from the end consumer will be improved by this proposal thus aligning cost recovery from all Users of the System, with costs incurred by the ESO. Therefore CMP373 better facilitates Applicable Objective (b).</p> <p><i>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;</i></p> <p>Neutral</p> <p>CMP373 is neutral with respect of better facilitating Applicable Objective (c).</p> <p><i>d. Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency; and</i></p> <p>Neutral</p> <p>CMP373 is neutral with respect of better facilitating Applicable Objective (d).</p> <p><i>e. Promoting efficiency in the implementation and administration of the system charging methodology.</i></p> <p>Neutral</p>
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		<p>CMP373 is neutral with respect of better facilitating Applicable Objective (e).</p>
2	<p>Do you support the proposed implementation approach?</p>	<p>As costs are being moved from one year (2020/21) to another year (2021/22) it is crucial to minimise distortions as these costs will now be forecastable and therefore could; if not correctly implemented; provide a cost signal, especially so if they are not volume weighted. Recovering those costs from as many Days as possible then volume weighting those costs across each Settlement Period within those Days so the BSUoS price for each Settlement Period within the day is the same (ignoring all other BSUoS costs) is the optimum solution if those costs can then be recovered by Suppliers.</p> <p>As the number of Days (and thus Settlement Periods) over which the recovery takes place decreases so the potential for distortion increases. As Balancing Services move to day ahead auctions, BSUoS costs will feed into Bid and Offer prices as well as auction prices for Balancing Services. The more you condense the number of Days/Settlement Periods, the more you potentially distort the BSUoS price. Users out of Balance will be charged or recompensed based on the Imbalance position partially based on costs not relating to the same charging year. It is therefore crucial to minimise this distortion.</p> <p>Implementation in October 1st 2021 , and paying those costs from 1st October to 31st March provides the correct balance between minimising price signals and cost recovery from Users of the System.</p>
3	<p>Do you have any other comments?</p>	<p>As BSUoS is for cost recovery purposes only, as determined by the Balancing Services Taskforce, the exceptional under recovery of ~£34M that occurs in this case becomes very similar to the K factor in TNUoS charging. There will normally be particular factors that arise as to why an over or under recovery may occur (and these may well arise in respect of 2020/21 for factors that are unrelated to the exceptional circumstances surrounding the ~£34M under recovery).</p>

	<p>However, the K factor is not then targeted at just those users who may have 'benefitted' etc., from the under or over recovery. Rather, the K factor is then socialised across all BSUoS paying users. A similar approach is likely to be adopted for CMP361.</p> <p>Targeting the recovery of the ~£34M exceptional item to particular days (or settlement periods) appears at first glance to be cost reflective. However, it is important to fully take into account that generation outputs / outages vary year on year, demand fluctuations arise (and this is especially the case in 2020/21 v 2021/22 with respect to the effects of Covid-19: domestic consumers would pay a higher proportion and industrial/commercial consumers a lower proportion if it was recovered in 2020/21 compared to 2021/22), and changing customer bases etc., means it is highly unlikely that a targeted approach will fully and proportionately target the same users from 2020/21 in 2021/22, therefore why try. Rather, such a targeted approach is more likely to create distortions and price signals with the unintended consequences of doing so.</p> <p>There is the argument that Consumers currently on Fixed Price contracts will now pay BSUoS costs they would not have paid under the Baseline with costs moving from 2020/21 to 2021/22, as those unbilled costs will have been included in any forecasts. This is no different from the existing K factors. Competitive pressure will determine how those costs are priced into future contracts. However for domestic consumers the Price Cap mechanism prevents those costs being collected from all Users of the System, unless Suppliers absorb those costs or pass them on to other consumers not dictated by the Price Cap or through reconciliations.</p> <p>There is no perfect solution which allows both full cost recovery for the ESO and for Suppliers to be able to pass on costs levied on them and not have to unfairly absorb those costs, whilst preventing Consumers not having to pay for those costs in the future. The Proposal however minimises the negative impacts of the billing error far more than the Baseline does.</p>
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