

ESO Analysis on Alternative Over-Recovery Return

Timeline Change impact

- As per CMP292, a charging modification which is due for an April 2025 implementation, would need to be approved by Ofgem by September 2024, otherwise implementation is pushed to April 2026.
- As the CMP420 timeline has been amended, it no longer falls within these timescales for implementation for April 2025.
- There is a provision within CMP292 that does allow Ofgem to grant an earlier implementation date “where the Authority has directed otherwise” and so under CMP420, we would need to ask for this special consideration.

Impact

- The interest charge is calculated on a year end value for K, so the first value that is available will relate to the period April 23 to March 24. During that period we are significantly over-recovering so expect an interest charge to result.
- A delay in implementation for April 2026 would mean that any interest could not be paid back to consumers in a timely manner and would create difficulty in when the ESO is able to include this interest in future tariff periods.
- It is important that implementation is April 2025 to allow any expected interest to be paid back within the April 2025 tariff period to ensure money is returned to consumers as quickly as possible.

Original Proposal

- The proposal looked to amend how over and under recovery were included within any tariff by amending the definition of kb_t in section 14.31 of the CUSC:

kb_t = the amount included in the Fixed BSUoS Price for Fixed Price Period t , to account for ~~all~~any over or under recovery, including forecasted over and under recovery from previous Fixed Price Periods. For the first Fixed Price Period ($t=0$) this amount is zero. kb_t is calculated as per paragraphs 14.31.6 and 14.31.6a

~~14.31.6~~ 14.31.6a For the avoidance of doubt, all over recovery, both actual and forecasted over recovery, up until Fixed Price Period t , will be included in the forecast average Total BSUoS Costs for Fixed Price Period t ($fBSUoS_{TOTt}$) as detailed in 14.31.5.

- By amending the word “any” to “all” and the inclusion of both actual and forecasted over and under recovery from previous Fixed Price Periods, this removes the ESO’s ability for flexibility when setting tariffs. The ESO needs this flexibility in assessing how much over/under recovery is fed into the next tariff period to reduce the likelihood of tariffs being reset mid fixed period.

Fixed Tariff 3 and Draft Tariff 4

Alternative Recovery Mechanism

Fixed Tariff 1 and Fixed Tariff 2 in Fixed Tariff 3

No adjustment in Draft Tariff 4

Fixed Tariff 3 Apr - Sep	Financial Year 2024/25 - Tariff 3 - Final	
	Description	Final Tariff
	Balancing Costs (Central) £m	1,259.3
	Internal Costs £m	236.4
	Winter Security of Supply Payback from 23/24 £m	-150.0
	Over recovery from Fixed Tariff 1 and Fixed Tariff 2 (Apr 23 - Mar 24) £m	-865.1
	Total BSUoS £m	480.6
	Estimated BSUoS Volume TWh	129.9
	BSUoS Tariff £/MWh	£3.70

Fixed Tariff 4 Oct - Mar	Financial Year 2024/25 - Tariff 4 - Draft	
	Description	Draft Tariff
	Balancing Costs (Central) £m	1,407.7
	Internal Costs £m	235.1
	No adjustment for Winter Security of Supply Payback	0.0
	No adjustment for over-recovery	0.0
	Total BSUoS £m	1,642.8
	Estimated BSUoS Volume TWh	149.0
	BSUoS Tariff £/MWh	£11.03

As published June 23

Fixed Tariff 1 in Fixed Tariff 3

Fixed Tariff 2 in Draft Tariff 4

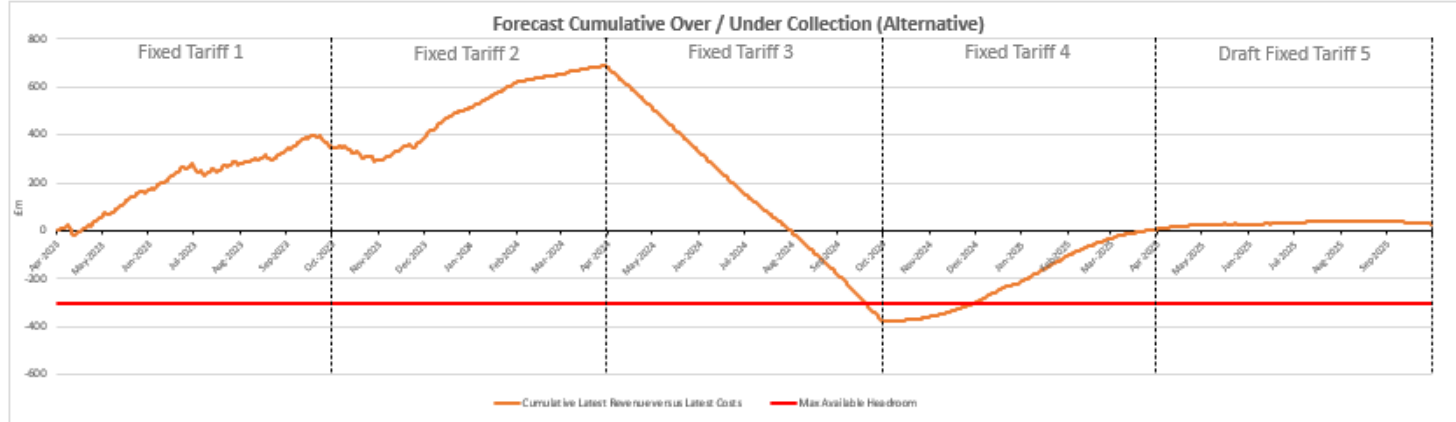
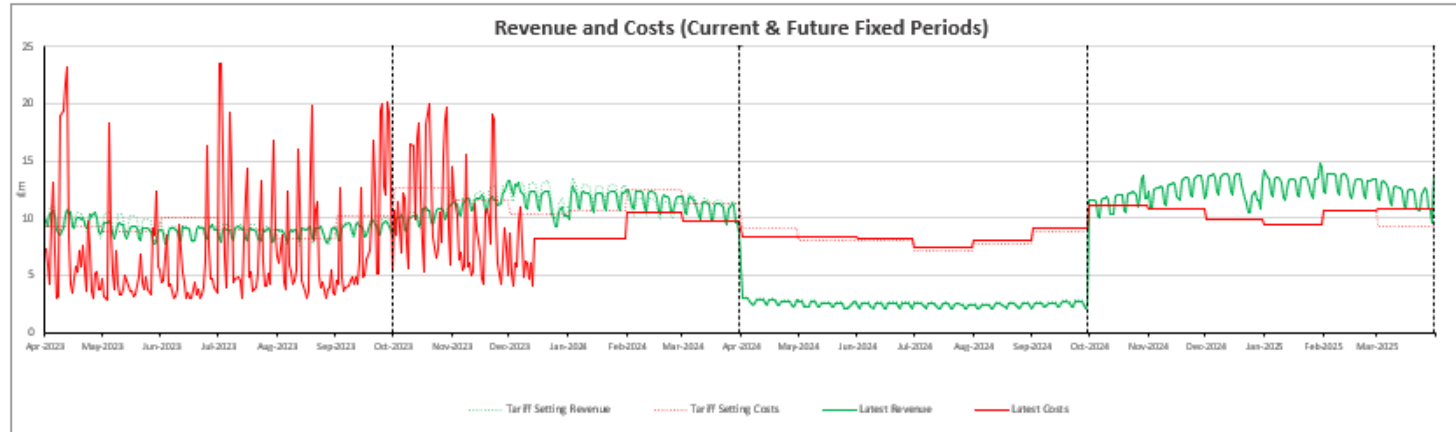
Fixed Tariff 3 Apr - Sep	Financial Year 2024/25 - Tariff 3 - Final	
	Description	Final Tariff
	Balancing Costs (Central) £m	1,259.3
	Internal Costs £m	236.4
	Winter Security of Supply Payback from 23/24 £m	-75.0
	Over recovery from Fixed Tariff 1 (Apr 23-Sep 23) £m	-429.2
	Total BSUoS £m	991.5
	Estimated BSUoS Volume TWh	129.9
	BSUoS Tariff £/MWh	£7.63

Fixed Tariff 4 Oct - Mar	Financial Year 2024/25 - Tariff 4 - Draft	
	Description	Draft Tariff
	Balancing Costs (Central) £m	1,407.7
	Internal Costs £m	235.1
	Winter Security of Supply Payback from 23/24 £m	-75.0
	Over recovery from Fixed Tariff 2 (Oct 23-Mar 24) £m	-435.9
	Total BSUoS £m	1,131.9
	Estimated BSUoS Volume TWh	149.0
	BSUoS Tariff £/MWh	£7.60

Forecast Recovery Position as of Fixed Tariff 4 setting (December 2023)

Today's Date	14/12/2023
Latest Revenue in Fixed Period to date	2,486,204,605
Latest Costs in Fixed Period to date	2,022,069,715
Over / (Under) Recovery to Date	464,134,890

Last date Control Room data available	13/12/2023
Last date II data entered	06/12/2023
Last date SF data entered	21/11/2023
Latest published forecast	January 24



Alternative

As at 14/12/2023

Forecast cash position at the end of fixed tariff 1
£351m

Forecast cash position at the end of fixed tariff 2
£686m

Forecast cash position at the end of fixed tariff 3
-£376m

Forecast cash position at the end of fixed tariff 4
£7m

Forecast cash position at the end of draft tariff 5
£29m

As Published

As at 14/12/2023

Forecast cash position at the end of fixed tariff 1
£351m

Forecast cash position at the end of fixed tariff 2
£686m

Forecast cash position at the end of fixed tariff 3
£109m

Forecast cash position at the end of fixed tariff 4
-£68m

Forecast cash position at the end of draft tariff 5
£28m

Fixed Tariff 4 and Draft Tariff 5

Alternative Recovery Mechanism

Forecast under-recovery by the end of Fixed Tariff 3

No adjustment in Draft Tariff 5

Financial Year 2024/25 - Tariff 4 - Final		
Fixed Tariff 4 Oct - Mar	Description	Final Tariff
	Balancing Costs (Central) £m	1,502.5
	Internal Costs £m	359.2
	Forecast under-recovery by the end of Fixed Tariff 3 (Apr 23 - Oct 24) £m	376.0
	Winter Security of Supply	25.0
	2021/22 Under-Recovery of BSUoS	21.7
	Total BSUoS £m	2,284.4
	Estimated BSUoS Volume TWh	141.8
	BSUoS Tariff £/MWh	£16.11

Financial Year 2025/26 - Tariff 5- Draft		
Draft Tariff 5 Apr-Sep	Description	Draft Tariff
	Balancing Costs (Central) £m	1,267.4
	Internal Costs £m	271.8
	No adjustment for under-recovery	0.0
	Total BSUoS £m	1,539.2
	Estimated BSUoS Volume TWh	129.2
	BSUoS Tariff £/MWh	£11.92

As published – Dec 23

Forecast Over-Recovery by end of Fixed Tariff 2, less any adjustment already made for Fixed Tariff 1 in Fixed Tariff 3

Forecast under-recovery from Fixed Tariff 3 in Draft Tariff 5

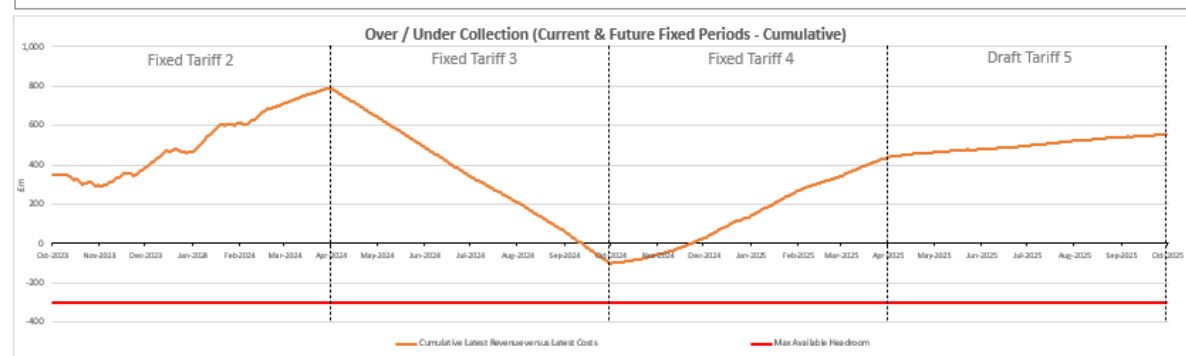
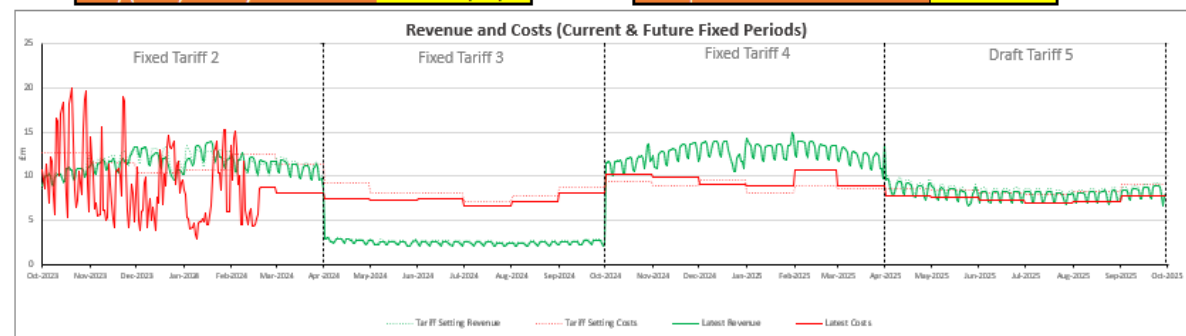
Financial Year 2024/25 - Tariff 4 - Final		
Fixed Tariff 4 Oct - Mar	Description	Final Tariff
	Balancing Costs (Central) £m	1,502.5
	Internal Costs £m	359.2
	Forecast over-recovery by end of FT2, less any adjustment already made for FT1 in FT3	-182.0
	Winter Security of Supply	25.0
	2021/22 Under-Recovery of BSUoS	21.7
	Total BSUoS £m	1,726.4
	Estimated BSUoS Volume TWh	141.8
	BSUoS Tariff £/MWh	£12.17

Financial Year 2025/26 - Tariff 5- Draft		
Draft Tariff 5 Apr-Sep	Description	Draft Tariff
	Balancing Costs (Central) £m	1,267.4
	Internal Costs £m	271.8
	Forecast under-recovery from FT3 in FT5	73.0
	Total BSUoS £m	1,612.2
	Estimated BSUoS Volume TWh	129.2
	BSUoS Tariff £/MWh	£12.48

Forecast Recovery Position as of 19th February 2024

Today's Date	19/02/2024
Latest Revenue in Fixed Period to date	3,279,082,682
Latest Costs in Fixed Period to date	2,596,863,919
Over / (Under) Recovery to Date	682,218,763

Last date Control Room data available	18/02/2024
Last date II data entered	08/02/2024
Last date SF data entered	24/01/2024
Latest published forecast	March 24



Alternative

Fixed Tariff Summary

Fixed Tariff 2
(Oct 23 - Mar 24)
£14.03/MWh

Fixed Tariff 3
(Apr 24 - Sep 24)
£3.7/MWh

Fixed Tariff 4
Oct 24 - Mar 25
£16.17/MWh

Draft Tariff 5
Apr 25 - Sep 25
£11.92/MWh

Forecast Cash position as of 19/02/2024

Forecast cash position at the end of fixed tariff 2
£790m

Forecast cash position at the end of fixed tariff 3
-£101m

Forecast cash position at the end of fixed tariff 4
£438m

Forecast cash position at the end of draft tariff 5
£553m

As Published

Fixed Tariff Summary

Fixed Tariff 2
(Oct 23 - Mar 24)
£14.03/MWh

Fixed Tariff 3
(Apr 24 - Sep 24)
£7.63/MWh

Fixed Tariff 4
Oct 24 - Mar 25
£12.17/MWh

Draft Tariff 5
Apr 25 - Sep 25
£12.48/MWh

Forecast Cash position as of 19/02/2024

Forecast cash position at the end of fixed tariff 2
£790m

Forecast cash position at the end of fixed tariff 3
£380m

Forecast cash position at the end of fixed tariff 4
£356m

Forecast cash position at the end of draft fixed tariff 5
£536m

Updated Proposal

- To increase BSUoS Reporting obligations on the ESO and having these obligations put into the CUSC:
 - 1) A weekly report will be produced comparing Fixed Tariff Revenue vs Costs.*
 - 2) After a standard tariff release, The Company will provide a BSUoS Fixed Tariff webinar providing industry with background information on the tariffs and a chance to ask questions ahead of the tariff being charged.*
- This provides increased transparency and offers industry the confidence that the current reporting will be maintained.

Issue:

- Currently reporting obligations are within Section 3 of the CUSC and as CMP420 is a charging modification relating to Section 14, a change to Section 3 cannot happen under this modification. It is up to the discretion of the workgroup and proposer to assess whether these obligations could be put within Section 14 instead.

Identified Ways Forward

- We have identified some options of how to you could proceed:
 - 1) It is agreed that the additional reporting obligations should be placed with Section 3 of the CUSC and not Section 14. Therefore, a consequential modification would need to be raised to allow this change.
 - 2) It is agreed that there is a place for the additional reporting obligations within Section 14 of the CUSC and therefore proceed with this change under CMP420.
 - 3) Only progress CMP420 with the interest solution of the modification.