

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 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 or cusc.team@nationalgrideso.com

Respondent details	Please enter your details
Respondent name:	Damian Clough
Company name:	SSE Generation
Email address:	Damian.Clough@sse.com
Phone number:	07833087067

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:

- 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;*
- 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);*
- 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;*
- Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency; and*
- 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><i>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;</i></p> <p>Positive</p> <p>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. Recovering costs through future SF settlement runs (in 2021/22) removes those distortions on competition. Therefore CMP373 better facilitates Applicable Objective (a).</p> <p><i>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);</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 the end consumer 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> <p>CMP373 is neutral with respect of better facilitating Applicable Objective (e).</p>
2	Do you support the proposed implementation approach?	<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.</p>

		<p>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. 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>Please note that the risk of distortion would be far greater if the ~£34M of costs were not allocated on a volume weighted basis across each settlement day - which the Workgroup is in agreement not to do (and which we are also fully in agreement not to do).</p>
3	Do you have any other comments?	<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. 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</p>

		<p>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>As volumes are less in summer, there is the potential option of volume weighting the costs into summer and winter to further minimise distortion if costs are recovered from the 1st June 2021.</p>
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	No.
Modification Specific Workgroup Consultation questions		
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?	As discussed in our answer to Q1 above, when comparing the proposal against the charging objectives, collecting these exceptional costs in the 2021/22 SF run allows the costs to be taken into account in the price cap calculations and allows Industry Users to then collect those costs from the end consumer leaving parties whole.
6	Do you think that it is more important to 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>We think that these exceptional costs should be treated the same as any other over and under recovery of BSUoS costs; that is they should be socialise (and not targeted in some way at users in 2020/21).</p> <p>This question is based on the premise of 'correctly target the liable users'. However, the liable user is ultimately the end consumer.</p> <p>The ESO bills BSUoS costs to each Industry Party but Industry Parties then recover those costs either through the Wholesale price, or through invoicing the end consumer.</p> <p>If Suppliers are invoiced through the 2020/21 RF run they can have a limited ability to try to claw back their 'share' of the ~£34M exceptional costs from old customers through reconciliations which is difficult. Otherwise they</p>

		<p>have to either pass those costs on to their current customers; which will create competition issues and may not be possible due to the price cap mechanism that Ofgem has established; or take a hit to their own bottom lines. All these above routes that are associated with a 2020/21 RF run approach are negative impacts on BSUoS billed parties resulting from someone else's error/omission over which those BSUoS billed parties had neither control or foresight.</p> <p>In terms of collecting these exceptional costs from the 'correct' BSUoS billed parties it is worth noting that it is likely to be very difficult and complex to develop a one-off mechanism to seek to identify and then target those parties. In reality these exceptional costs just need to be recovered across all users as they are not acting as a price signal (as the Balancing Services Taskforce has concluded).</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 rationale for your response.</p>	<p>There is merit in these exceptional costs being recovered over as many Days / Settlement Periods as possible. Those four extra months (June 2021 to March 2022) reduce the monthly recoverable amount from £5.5m to £3.4m, and thus significantly reduce potential distortions when compared with the Original proposal.</p> <p>As BSUoS is all about cost recovery then arguably there is no need to target a particular narrow time period (such as October 2021 to March 2022) or individual BSUoS billed user(s).</p> <p>However the benefits of this approach is more than offset by the ability of Suppliers to recover those costs shifted from 2020/21 into 2021/22 from customers currently on fixed BSUoS contracts, with those extra BSUoS costs unrecoverable as they were not forecasted at the time of those costs being set.</p> <p>Collecting the costs from the 2020/21 RF runs may result in BSUoS billed users not being able to recover those costs themselves so this is an imperfect solution as it is detrimental to facilitating competition as well as being detrimental in terms of cost reflectivity in charging terms.</p>
8	<p>Will the CMP373 Original Proposal or any of the potential alternative solutions impact your business</p>	<p>Click or tap here to enter text.</p>

	and/or end consumers. If so, how?	
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