

# CMP373 “Deferral of BSUoS billing error adjustment”

## Workgroup 1

**Monday 26 April 2021**

**Online Meeting via Teams**

# WELCOME

**nationalgrid**ESO



The slide features several decorative yellow lines. In the top left, there are several thin, curved lines that sweep across the upper portion of the slide. In the bottom right, there are several thick, parallel diagonal lines that extend from the bottom left towards the top right, creating a sense of movement and direction.

# Objectives and Timeline

Paul Mullen – National Grid ESO Code Administrator

# Urgent Timeline for CMP373

Milestone	Date	Milestone	Date
Modification presented to Panel	21 April 2021 (9am to 9.45am)	Panel sign off that Workgroup Report has met its Terms of Reference	10 May 2021
Workgroup Nominations	21 April 2021 to 5pm on 23 April 2021	Code Administrator Consultation	10 May 2021 to 12 May 2021 (5pm)
Ofgem grant Urgency	23 April 2021 (by 5pm)	Draft Final Modification Report (DFMR) issued to Panel	13 May 2021
Workgroup 1 - Understand proposal and solution, agree timeline, agree terms of reference, agree potential alternative options, draft legal text and Workgroup Consultation questions	26 April 2021 (9am – 12pm) and (2pm – 5pm)	Panel undertake DFMR recommendation vote	14 May 2021
Workgroup Consultation	28 April 2021 (9am) to 4 May 2021 (12pm)	Final Modification Report issued to Panel to check votes recorded correctly	14 May 2021
Workgroup 2- Assess Workgroup Consultation Responses and carry out Alternative Vote	5 May 2021	Final Modification Report issued to Ofgem	14 May 2021
Workgroup 3 – Finalise solution(s) and legal text and hold Workgroup Vote	6 May 2021	Ofgem decision	21 May 2021 ( <i>decision needed by no later than 23 May 2021, which is a Sunday</i> )
Workgroup report issued to Panel	7 May 2021	Implementation Date	24 May 2021

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# Terms of Reference

**Paul Mullen – National Grid ESO Code Administrator**

# CMP373 Terms of Reference

## Workgroup Terms of Reference

- a) Consider EBGL implications
- b) Consider ESO's proposed way forward to address the £44m BSUoS under-recovery (as published on 20 April 2021). Ensure impacts are considered.
- c) Consider if recovery of £44m BSUoS under-recovery is more appropriate through the 2021/22 SF runs rather than the 2020/21 RF run. Ensure impacts are considered.
- d) Consider if Accelerated Loss of Mains Change Programme (ALoMCP) (£10m of the £44m BSUoS under-recovery) needs to be included in the solution(s).
- e) Consider if recovery via the SF Run should be profiled (based on Settlement Periods from previous year), or a flat recovery taking into account the conclusions of the Balancing Services Taskforce.

# Proposer's Slides

Simon Vicary – EDF Energy

# Defect

- On Friday, 9<sup>th</sup> 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 24<sup>th</sup> May 2021.
- This unforeseen cost recovery adjustment will cause significant problems for Suppliers, Generators and Consumers, in particular with an adverse impact on the Default Tariff Cap calculations, both past and future.



# Proposal

- 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.
- It will be better for the industry and consumers if the recovery of these costs is through the 2021/22 SF runs rather than the 2020/21 RF run.
- We do not believe that this approach will significantly change the ESO cashflow, and we believe that it does not unexpectedly penalise or reward industry parties for this unforeseen cost recovery adjustment.

# Urgency

- This mod 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 24<sup>th</sup> May 2021.
- This mod has a significant commercial impact on parties and consumers as they are due to be hit with an unexpected extra charge at very short notice, from 24<sup>th</sup> May 2021, that they did not know anything about until a circular on 9<sup>th</sup> April 2021.
  - £44m compares to increases of just £5.5m and £9.1m between the SF and RF settlement runs for 2017/18 and 2018/19 respectively.
- Mentioning the £44m as “AOB” at TCMF on 8<sup>th</sup> April 2021, without even a supporting slide in the pack, did not give parties any extra notice at all.

The background features several thick, flowing yellow lines that sweep across the slide. Some lines curve from the top left towards the center, while others originate from the bottom left and extend diagonally towards the right. These lines create a sense of movement and energy.

# ESO Slides

Jenny Doherty – National Grid ESO

# Identifying the under-recovery

At the end of March, our internal control processes detected an under-recovery of Balancing Services costs for FY20/21. This is made up of trading activities and Accelerated Loss of Mains Change Programme (ALoMCP).

**Trading cost** - was caused by a formatting change in our 3rd party trading settlement system which led to data not correctly pulling through to the master file which is used for invoicing purposes. The data was impacted between 30<sup>th</sup> September 2020 and 9th March 2021. We identified the issue on the 30th March 2021, when we were billing the settlement date of 10th March 2021 via SF. The exact figure was £33,163,790.21

**ALoMCP cost** - Following over recovery of scheme costs in a previous year we had temporarily ceased cost recovery in FY20. As work under the ALOMCP picked up, we should have resumed recovery from September 2020. The exact figure was £9,855,009.14

Our initial analysis shows that the under-recovery did not have a material effect on the BSUoS COVID19 cap introduced through CMP345 and CMP350

# Since identifying the issue we have undertaken further checks to ensure no additional under-recovery

## **We have performed a full reconciliation of FY21 BSUoS Charges**

- Control check consisted of
  - BSUoS Charges incurred through FY21 per financial accounts\* compared to;
  - Amounts billed through the SF run\*\* relating to FY21 settlement periods
- This control has highlighted the only discrepancy as being the identified under recovery
- This final check can only be performed at this point of the year as nearly all BSUoS income has now been invoiced via the SF run

\* BSUoS costs in the financial accounts are based on an accrued position for March costs

\*\* The SF run has completed until 29<sup>th</sup> March, II run data has been used for 30<sup>th</sup>-31<sup>st</sup>



# Lessons learnt

We take this incident very seriously and are committed to improve our processes to avoid the re-occurrence of such an incident in the future.

- **We are Onboarding external consultants** to expedite improvements in our internal control framework so that any such issues are picked up sooner - We agree with the feedback that key recommendations of these reviews should be shared at TCMF. We should be able to share this in August / September
- We are **expediting System enhancements** as we look to refresh our Charging and Billing system

# Are there any other implications of the trading data?

We are confident that there are no broader implications outside of the revenue process. We have confirmed this through various teams:

System/Process	Impact?	Notes
Cash out & BSAD	No impact	Separate systems process the data
Trading platform (enTrader)	No impact	The enTrader data itself was correct. The error occurred in the process of transferring the data into the BSUoS calculation model
Data Portal	No impact	This data is drawn directly from enTrader and therefore there is no link to the revenue process error. We have undertaken a spot check and the correct data has been published
BSUoS Forecasts	No impact	Historic Trading Data published with our forecasts is correct.

# ESO Approach

## **£33,163,790.21 of trading costs recovered in FY20/21 Reconciliation Final (RF) run**

These costs were incurred between 30<sup>th</sup> September 2020 and 9<sup>th</sup> March 2021 settlement days. These costs will be invoiced through the RF run between 19<sup>th</sup> November 2021 and 4<sup>th</sup> May 2022.

- This is the process as set out in the charging methodology in CUSC today for costs incurred in a specific settlement period
- This will ensure cost reflectivity i.e. those parties who incurred the costs will pay the associated charge
- There will be significant visibility of the charges ahead of RF invoices, this also supports companies cash flow
- Note – normal RF run will continue as normal in addition to the trading cost error

## **£9,855,009.14 of loss of mains recovered in FY21/22, smeared across all settlement days equally**

This will be from settlement day 1st April 2021, which will be invoiced through the SF run from 28th April 2021.

- Moving into FY21/22 is in response to feedback from stakeholders
- We can facilitate this change as the loss of mains costs are not attributable to specific settlement periods
- Note – Loss of mains costs incurred in FY21/22 will also continue as normal

# In early May we will publish indicative RF costs for whole of 2021

The initial analysis highlighted the following Settlement Days which would have a high RF cost due to under recovery of trading costs (>£500k)

Settlement Day	Actually Recovered	Should have Recovered	Trades Under-recovered	Total BSUoS Billed
31/10/2020	£25,169	£642,765	£617,596	£16,133,068
01/11/2020	£41,037	£747,073	£706,036	£15,365,374
02/11/2020	£45,075	£788,686	£743,611	£7,710,061
10/11/2020	£6,792	£572,621	£565,828	£4,877,126
13/11/2020	£48,240	£781,874	£733,634	£8,047,500
15/11/2020	£59,165	£1,054,351	£995,186	£6,817,033
16/11/2020	£73,075	£1,588,620	£1,515,546	£8,214,895
17/11/2020	£54,369	£943,036	£888,667	£10,611,593
18/11/2020	£14,655	£534,960	£520,305	£11,885,725
19/11/2020	£34,441	£552,694	£518,253	£5,507,072
23/11/2020	£23,812	£709,195	£685,383	£7,968,902

Settlement Day	Actually Recovered	Should have Recovered	Trades Under-recovered	Total BSUoS Billed
24/11/2020	£42,826	£851,586	£808,760	£6,289,064
27/11/2020	£216	£620,061	£619,845	£3,019,727
30/11/2020	-£4,710	£893,360	£898,070	£7,736,517
02/12/2020	-£5,804	£5,474,688	£5,480,491	£4,365,191
08/12/2020	-£61	£638,229	£638,290	£6,005,185
10/12/2020	-£4,709	£2,402,664	£2,407,373	£5,331,865
24/12/2020	£41,074	£625,536	£584,462	£4,675,027
27/12/2020	£63,656	£954,222	£890,566	£4,689,860
08/01/2021	£0	£501,138	£501,138	£17,076,285
11/02/2021	£0	£764,808	£764,808	£2,528,593

# Implementing EDF's proposal

There are three different considerations for implementation:

## 1) How the costs are recovered in each day

### a) **Across the settlement day – proposal**

- In this option, the costs recovered in each settlement day are the same
- The costs are volume weighted across the day through each settlement period i.e. when volume is highest in the day, the largest proportion of costs are paid
- This is how BSUoS charges work in BAU and is how the loss of mains is being recovered

### b) **Evenly across the settlement periods**

- In this option, the costs recovered in each settlement period are fixed i.e. if the volumes to spread the costs over or high / low it does not change the amount to be recovered
- This is how the recovery of CMP345 / 350 is occurring

## 2) What the implementation date is

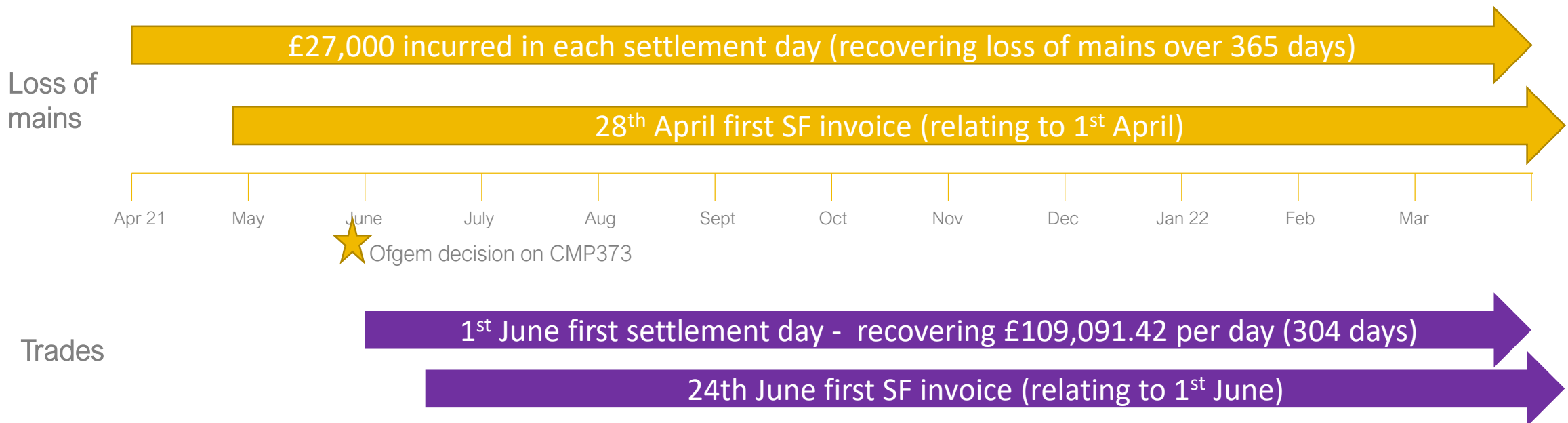
Proposal is implementation is the 1<sup>st</sup> June 2021

## 3) When invoicing commences

Proposal is that the implementation date is the first settlement day, therefore SF invoicing will commence 16 working days later (as in CMP350)



# Example to show timeline and volumes



# Timeline

## ESO approach

Date	Event	Note on impact
30 <sup>th</sup> September 2020 – 9 <sup>th</sup> March 2021	Under-recovery of trades	
30 <sup>th</sup> March	ESO identify the under-recovery in the 10 <sup>th</sup> March SF run	
1 <sup>st</sup> April 2021	First settlement day for FY21/22	Loss of mains being recovered across each settlement day in FY21/22
28 <sup>th</sup> April 2021	SF invoice for 1 <sup>st</sup> April 2021	Invoicing of loss of mains commences
25 <sup>th</sup> May 2021	RF invoice issued for 1 <sup>st</sup> April 2020	Not impacted by trade error
19 <sup>th</sup> November 2021 – 4 <sup>th</sup> May 2022	RF invoice for period of under-recovery (30 <sup>th</sup> Sept 20 – 9 <sup>th</sup> March)	Under CUSC, this is when the trade under-recovery will be recovered

## CMP373 approach

Date	Event	Note on impact
30 <sup>th</sup> September 2020 – 9 <sup>th</sup> March 2021	Under-recovery of trades	
30 <sup>th</sup> March	ESO identify the under-recovery in the 10 <sup>th</sup> March SF run	
1 <sup>st</sup> April 2021	First settlement day for FY21/22	Loss of mains being recovered across each settlement day in FY21/22
28 <sup>th</sup> April 2021	SF invoice for 1 <sup>st</sup> April 2021	Invoicing of loss of mains commences
1 <sup>st</sup> June 2021	First settlement day for trades recovery	Trades starts to be recovered across remaining settlement days in FY21/22
24 <sup>th</sup> June 2021	SF invoice for 1 <sup>st</sup> June 21	Invoicing for trades commences