

2020/21 BSUoS cost under recovery overview

NGESO

April 2021

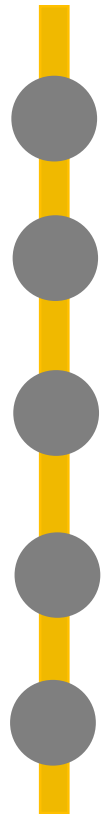
This webinar will be recorded

Since this webinar, we have updated our recovery approach.
Please see updated comms at the end of this slide pack

Welcome and introduction

Kayte O'Neill
Head of Markets

Agenda

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- How the under recovery occurred
 - Recovery options and rationale for our decision
 - Impact on BSUoS recovery
 - Lessons learnt and next steps
 - Q&A – please raise your hand or submit questions via Team chat

We will publish the recorded webinar and slides on our website after the call.

What is the under recovery and why it happened

Our end of year processes have detected £44m of Balancing Services costs incurred in FY20/21 have yet to be recovered. This is made up of £34m of trading activities and £10m Accelerated Loss of Mains Change Programme (ALoMCP).

Trading cost - It was caused by a formatting change in our trading system – enTrader. The trading data for between 31st September 2020 and 9th March 2021 was not correctly pulled through to the master file which is used for invoicing purposes.

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.

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

How the money will be recovered

Two mechanisms exist for the recovery of the outstanding £44m, the Settlement Final (SF) and Reconciliation Final (RF)

Settlements Final recovery - via SF run for FY20/21 for with 8SDs left to bill from today, noting that this is only applicable to ALoMCP as CUSC does not allow for trade costs to be smeared across differing settlement periods.

Pros - SF run feeds into price cap setting and enables some suppliers to recover the cost from their consumers.

Cons - Cost shock due to the short notice of the increased charges which would have a significant impact on some parties' cash flow.

Reconciliation Final recovery – recover via RF run invoiced from 26th May 2021

Pros - Provide visibility on the charges which will be due, and reduces the cash flow impacts

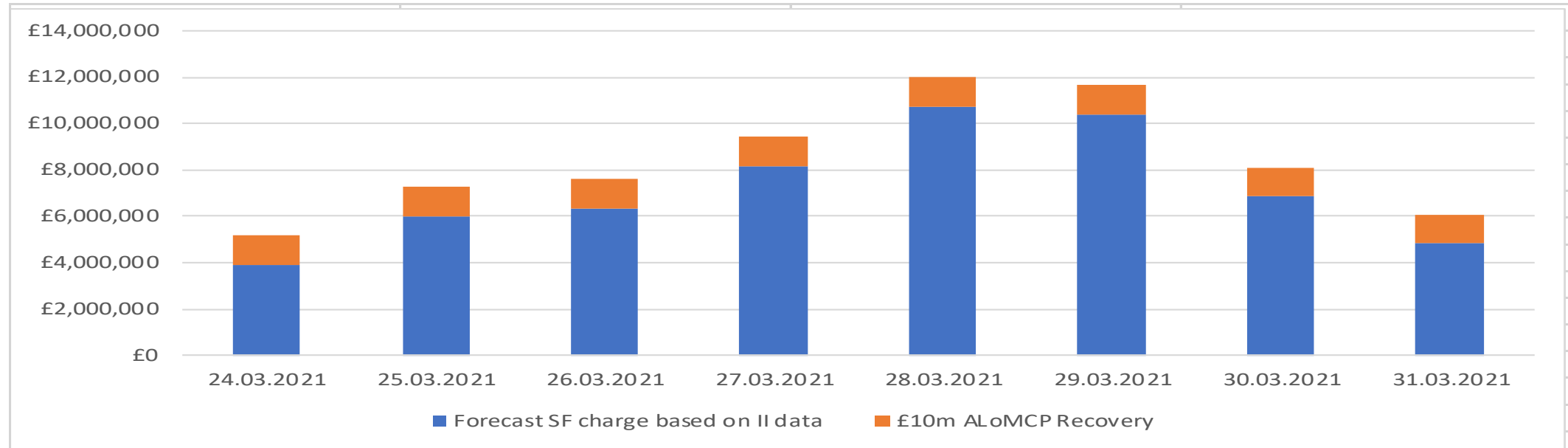
Cons – Difficult for some suppliers to recover costs through the price cap and contracts

Further engagement with customers has led us to look to recover the LoM via the SF, with the cost of trades being recovered through the RF run

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Recovery of the £10m ALoMCP, will begin tomorrow using the last 8 SD's of 20/21 Scheme Year



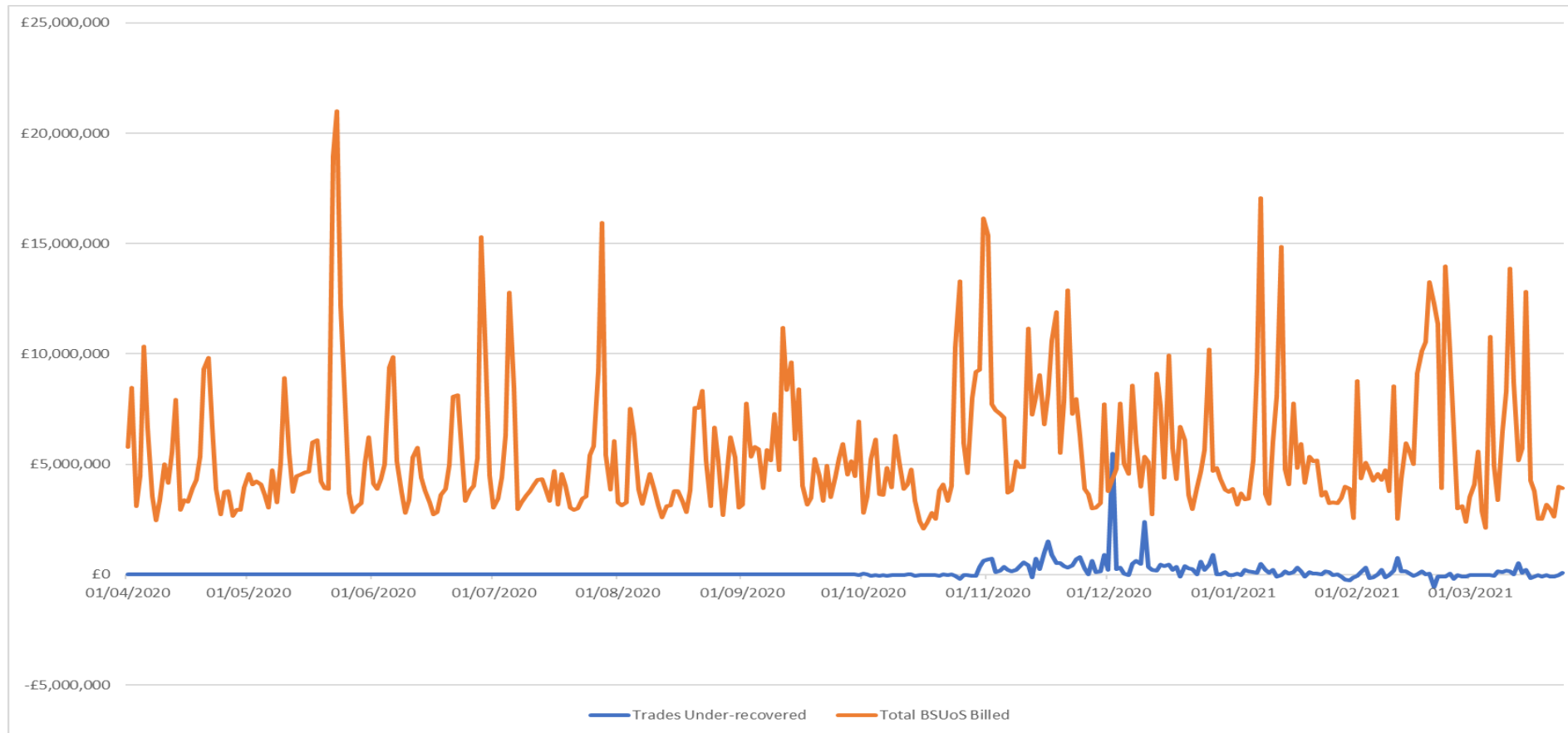
Settlement Day	Forecast SF charge based on II data	£10m ALoMCP Recovery	% Change
24.03.2021	£3,912,013	£1,250,000	31.95%
25.03.2021	£6,005,419	£1,250,000	20.81%
26.03.2021	£6,336,822	£1,250,000	19.73%
27.03.2021	£8,178,719	£1,250,000	15.28%
28.03.2021	£10,741,892	£1,250,000	11.64%
29.03.2021	£10,410,323	£1,250,000	12.01%
30.03.2021	£6,858,067	£1,250,000	18.23%
31.03.2021	£4,816,096	£1,250,000	25.95%

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Recovery of Trading costs will go through the RF run

Trading cost will be recovered via the RF run for between 30th September and 9th March 2021 and over the Settlement Periods when the trades occurred. The majority of the cost (~£30m) will be billed between March 2022 and April 2022.

BSUoS Billed v Trades Under Recovered



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

The initial analysis highlighted the following SDs 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 BSUs 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 BSUs 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
13/03/2021	£37,718	£555,403	£517,685	£5,165,399

ESO Lessons learnt and next steps

We take this incident very seriously and are committed to improve our processes to avoid the reoccurrence of such an incident in the future. Lessons learnt and actions include

- **Handover process**, changed between differing ESO teams, with updates to Standard Operating Procedures
- Greater **strength and frequency** in some **process controls**
- **Expedite System enhancements** as we look to refresh our Charging and Billing system
- **Onboarding external consultants** to further review the existing risk and control

Immediate Next Steps

- The SF run for between 24th March and 31st March will include recovery of ALoMCP
- In early May publish indicative costs for RF run for the whole FY20/21

Q&A

Since this webinar, we have updated our recovery approach.
Please see copy of updated comms on next page

Copy of Comms issued 20/04/2021 - Under-recovery of BSUoS charge update

Hello,

Following our [communications](#) on the under-recovery of BSUoS charges, we hosted a webinar yesterday (19th April), where we provided more information on this matter and shared our updated proposal. We really appreciate that many of you were able to join us at such short notice. Your feedback and suggestions were of great help to us to further enhance our understanding of the impact of our proposal on your business.

We fully understand that there is no perfect solution to this issue and we have tried to find the right balance of different industry parties' perspective.

Taking into account your feedback, we decided to recover the £44m under recovery in the following approach:

- £34m costs associated with the trades between settlement day 30th September 2020 and 9th March 2021 will be recovered through the Reconciliation Final (RF) run for FY20/21. The majority of the cost (~£30m) will be invoiced between December 2021 and February 2022. This is in line with the CUSC methodology to ensure that costs are recovered from the correct parties over the settlement periods where the costs were incurred as well as provide a longer notice for parties to plan for this cost recovery.
- £10m costs for Accelerated loss of mains change programme will be recovered equally across all settlement periods via the Settlement Final (SF) run for FY21/22. This will be billed from settlement day 1st April 2021, which will be invoiced from 28th April 2021. This change is in response to feedback that moving some costs into the next financial year would limit the impact on some companies.

We appreciate that each option impacts companies in different ways, and therefore this provides a balance from different parties' perspective which we can deliver within the short period of time as well as within the CUSC.

We understand that EDF Energy have raised an urgent CUSC modification, CMP373, relating to this same matter, which proposes that all of the £44m of under-recovery is smeared across FY21/22. Our proposal for the recovery of the £10m loss of mains service is in line with this modification proposal, and therefore billing for this from 28th April 2021 will continue as set out above. The modification can be found [here](#). We will continue to work closely with you throughout this process.

We will confirm when the recorded webinar is available on our website soon.

Once again, we apologise for any inconvenience caused by this.

If you have any further questions in the meantime, please contact us at BSUoS.queries@nationalgrideso.com

Thank you