

# **REPORT TO THE AUTHORITY**

**GB ECM-27**

## **BSUoS – Removing End of Scheme Year Reconciliation Process**

**Date of Issue: 29 December 2010**

## **Table of Contents**

1. Executive Summary .....	3
2. Background.....	5
2.1 Purpose of BSUoS Charging.....	5
2.2 Calculation, Billing and Settlement of BSUoS Charges.....	5
2.3 The End of Scheme Year Reconciliation.....	6
3 Terms of Original Modification Proposal .....	8
3.1 Options Considered.....	8
3.2 Initial Proposals .....	8
4. Responses.....	10
4.1 Responses to the Consultation.....	10
4.2 Summary of Responses .....	11
4.3 Changes to the Proposal as a Result of Respondents Views.....	13
5. Impact Assessment and Additional Analysis.....	14
5.1 Inclusion of Recent Data .....	14
5.2 Extending the Analysis – Removal of EoS .....	15
6. Assessment of the Proposal Against the Relevant Objectives.....	17
7. Implementation Timescales .....	19
7.1 Implementation.....	19
Appendix 1: Changes to the Methodology .....	20

# 1. Executive Summary

1.1 This conclusions report sets out National Grid's proposals for changing the BSUoS charging arrangements from processing three billable stages per settlement day to two and thereby improving process efficiency. This would involve the removal of the End of Scheme (EoS) Year Reconciliation Process through a minor change to the Statement of the Balancing Services Use of System Charging Methodology.

1.2 The Balancing Services Use of System (BSUoS) Charge, the charge through which National Grid recovers the costs of SO activities, is calculated and invoiced several times for each settlement day. BSUoS charging is currently subject to a three stage financial settlement over a period of 14 months. The current calculation and billing timescales are shown in Table 1.

Table 1: Overview of BSUoS Charge Run Types and Billable Status

Run Type	Definition	Billable Run?	Processing / Billing Timescales
II*	Interim Initial	No	Daily, Settlement Day + 5 working days
SF	Settlement Final	Yes	Daily, Settlement Day + 16 working days
EoS	End of Scheme Year Reconciliation	Yes	Consolidated reconciliation at June after financial year ahead of RF
RF	Reconciliation Final	Yes	Daily, Settlement Day + 14 months

\*The II run is for information only to provide an estimate of BSUoS Charges but does not result in an invoice

1.3 End of Scheme (EoS) is a process that has been in place since the implementation of the New Electricity Trading Arrangements (NETA) in 2001 whereby BSUoS charges for all days in a System Operator Incentive Scheme year are reconciled in bulk at the end of the scheme year. It is effectively a cost catch-up exercise and can result in a large one-off payment or credit to industry participants. Furthermore, the anticipated need for the EoS process at the time of NETA has not been apparent in the subsequent 9 years of scheme operation.

1.4 The EoS reconciliation is administratively intensive for both customers and National Grid. Whilst EoS does remove some volatility out of the RF reconciliation, it also causes invoice spikes for customers due to the consolidated nature of the reconciliation. Having daily iterative runs for reconciliations is a simpler, more efficient process smoothing cash flows over time.

1.5 In considering what could be done with the End of Scheme Year Reconciliation a number of options were considered in the original consultation:

- i) Remove the End of Scheme Year Reconciliation
- ii) Leave the process as it is currently structured
- iii) Replace the End of Scheme Year consolidated Reconciliation with an additional daily run

1.6 National Grid believes the EoS process is not wholly necessary and therefore is bringing forward these proposals to remove the process in order to reduce costs, reduce reconciliation complexity, and reduce risk by smoothing cashflows for industry participants.

1.7 The GB Use of System Charging Methodology has the following objectives as set out in Licence Condition C5 which requires:

- a) That compliance with the Use of System Charging Methodology facilitates effective competition in generation and supply of electricity and 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 reasonably practicable, the costs incurred by transmission licensees in their transmission businesses; and
- c) The Use of System Charging Methodology properly takes account of developments in transmission licensees' transmission businesses.

1.8 National Grid believes that removal of this process will better meet relevant objectives (a) and (b). Reducing process complexity facilitates effective competition by enabling the trading arrangements to be more clearly understood and hence removing a potential barrier to entry. Removal of the process will reduce costs to industry participants by eliminating the need to pay for the additional reconciliation itself (which are passed through), reducing the risk of cashflow volatility and thus ensuring that charges are more reflective of costs incurred. Long term costs are also lowered by reducing the sophistication of IS and accounting systems required to manage reconciliation.

1.9 National Grid published a consultation report to the industry on 20<sup>th</sup> August 2010. Six responses were received, a summary of which can be found in Section 3. The consultation and full non-confidential responses have been published on the National Grid Charging website<sup>1</sup>.

1.10 The responses received all favoured option (i), to remove the End of Scheme Year Reconciliation, providing sufficient notice was given to allow for system and administrative changes, leaving only the SF and RF runs as the daily iterative runs for financial settlement.

1.11 Consequently National Grid proposes to remove the End of Scheme Year Reconciliation and move to a two stage financial settlement, with only the SF and RF runs as billable iterations for settlement of BSUoS charges.

1.12 For the avoidance of doubt, the proposed change only affects the timescales of BSUoS Invoicing by removing the End of Scheme Year Annual Reconciliation process. The calculation of BSUoS and method of distribution across BSUoS customers remains unaffected by this proposal. The regulatory process for dealing with Income Adjusting Events and approach to the Incentive Scheme also remains unchanged.

1.13 This change would require the removal of the End of Scheme Year Reconciliation from the Balancing Services Use of System Charging Methodology (See Appendix 1) for the 2010/11 reconciliation cycle and from all subsequent reconciliations. This would mean that no End of Scheme Year Reconciliation will take place in June 2011 or beyond.

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<sup>1</sup> <http://www.nationalgrid.com/uk/Electricity/Charges/modifications/uscmc/>

## 2. Background

### 2.1 Purpose of BSUoS Charging

2.1.1 BSUoS Charging is the charge through which National Grid recovers the costs of System Operator (SO) activities. This covers the costs associated with the operation of the Transmission System and the procuring and using of Balancing Services for the purpose of balancing the Transmission System.

2.1.2 The method of calculation for BSUoS Charges is given in The Statement of the Balancing Services Use of System Charging Methodology which forms part of The Statement of the Use of System Charging Methodology<sup>2</sup>.

2.1.3 BSUoS is calculated at a half hourly level and is charged to BSUoS customers daily at fixed timescales, charging multiple instances for each Settlement Day to allow for any appropriate reconciliations to take place.

2.1.4 For each iteration charges are recalculated for a Settlement Day based on updated information, which for BSUoS Charging will be both metered volumes and SO costs. The reconciliations are the difference between the most recent customers charge calculated for the latest run and what has been charged and settled to date through previous runs.

2.1.5 Along with using two daily Settlement Runs (SF and RF) for BSUoS Charging purposes, there is also a consolidated reconciliation run referred to as the End of Scheme Year Reconciliation.

### 2.2 Calculation, Billing and Settlement of BSUoS Charges

2.2.1 BSUoS Charges are calculated for each Settlement Day in accordance with Chapter 9 of The Statement of the Balancing Services Use of System Charging Methodology.

2.2.2 These charges are calculated and billed at scheduled intervals for each Settlement Day in order to reconcile the charges and metered volumes for that particular Settlement Day. The calculation, billing and payment timescales for all current run types is shown in Table 2.

Table 2: Timescales for BSUoS Calculation, Billing and Payment for all Run Types

Run Type	Definition	Frequency	Calculation	Notification	Payment
II*	Interim Initial	Daily	+5 WD's	-	-
SF	Settlement Final	Daily	+16 WD's	+17 WD's	+20WD's
EoS	End of Scheme Year Reconciliation	Annual Consolidated reconciliation	May/June <sup>#</sup>	June <sup>#</sup>	June/July <sup>#</sup>
RF	Reconciliation Final	Daily	+288 WD's	+289 WD's	+292 WD's

\*The II run is for information only to provide an estimate of BSUoS Charges but does not result in an invoice

<sup>#</sup> These take place in May/June/July following the end of the Scheme Year

2.2.3 With the current arrangements for BSUoS Charging, the End of Scheme Year Reconciliation takes place during June after the end of the Scheme Year.

<sup>2</sup> <http://www.nationalgrid.com/NR/ronlyres/590ACE8D-01BE-4ED9-A028-3736D28A7CCE/41181/UoSCMI6R0v10Final.pdf>

## 2.3 The End of Scheme Year Reconciliation

2.3.1 For each day within a Balancing Services Incentive Scheme (BSIS) year, the Settlement Day BSUoS Charges are calculated using the formula specific to that BSIS year for all run types. The RF run serves as the final reconciliation that will be seen for a settlement day for any BSUoS Charge reconciliation. The RF calculations, when complete for all applicable Settlement Days, also provides the final performance of the incentives included into the calculation for that BSIS Period.

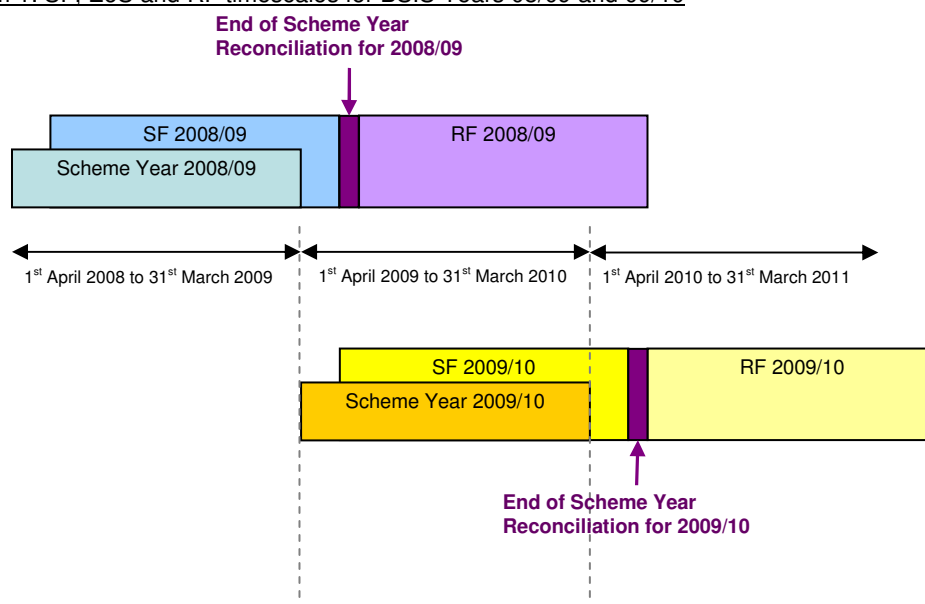
2.3.2 Completion of SF Runs is achieved around June after the end of the Scheme Year. At this point the RF run will commence, processing final reconciliations on a daily basis for 1<sup>st</sup> April of the previous scheme year (14 months previous). Between the SF finishing and the RF run commencing, there is a period where an additional process takes place. This process is the **End of Scheme Year Reconciliation**.

2.3.3 The End of Scheme Year Reconciliation is a process whereby all days in a scheme year are recalculated based on the best view of the costs at that moment in time and reconciliations back to SF runs are invoiced in a consolidated reconciliation (plus any applicable interest charges) ahead of the daily RF runs.

2.3.4 The End of Scheme Year Reconciliation serves as a cost catch up exercise that better reflects the costs when known. This, in-turn, aims to minimise the reconciliation for all subsequent RF runs taking some, but not all, of the volatility out of the RF runs and consolidating these changes into one run.

2.3.5 To show how the EoS process fits into the overall timescales of BSUoS Processing, Diagram 1 shows the BSIS Years 2008/09 and 2009/10 and when their SF, EoS and RF takes place.

Diagram 1: SF, EoS and RF timescales for BSIS Years 08/09 and 09/10



2.3.6 In a review of total BSUoS Charges per run type since 2002, with the exception of 2005/06 when there was an additional income adjusting event (IAE) to cover BETTA costs, reconciliations are relatively small compared to the value initially billed out through SF runs. EoS and RF reconciliations can work in both directions either charging or returning monies to BSUoS customers. Between 2002/03 and 2007/08, following EoS, additional monies have been charged out between EoS and RF for the overall reconciliations for any given year. The detail of the total BSUoS Charges

by Scheme Year and run type along with reconciliation values showing percentage differences is shown in Table 3.

Table 3: BSUoS Charges by Run Type for BSIS Years 2002/2003 to 2007/2008

Scheme Year	SF	EoS	RF	Difference (from SF to EoS) (£)		Difference (from EoS to RF) (£)	
				(£)	%	(£)	%
2002/2003	£384,301,052.45	£373,096,105.96	£377,033,393.49	-£11,204,946.49	-2.92%	£3,937,287.53	1.02%
2003/2004	£380,028,238.59	£385,687,880.47	£388,867,912.00	£5,659,641.87	1.49%	£3,180,031.53	0.84%
2004/2005	£381,187,531.01	£389,081,991.26	£391,322,072.81	£7,894,460.25	2.07%	£2,240,081.55	0.59%
2005/2006	£553,733,752.32	£632,260,466.20	£641,639,592.76	£78,526,713.88	14.18%	£9,379,126.57	1.69%
2006/2007	£656,676,330.17	£658,131,964.13	£658,964,258.69	£1,455,633.97	0.22%	£832,294.56	0.13%
2007/2008	£684,956,269.93	£681,981,768.60	£683,180,650.37	-£2,974,501.33	-0.43%	£1,198,881.77	0.18%

2.3.7 Taking the same history of total BSUoS Charges from 2002 onwards the impact of removing the End of Scheme Reconciliation can be done by assuming the End of Scheme Year Reconciliation never took place and rolling the reconciliations into the RF BSUoS Charges.

2.3.8 In Table 4 these values now represent the same SF and RF values as seen in Table 3 but removing the EoS Calculation leaving the only reconciliation between SF and RF. As can be seen the reconciliation values as percentages of the total charges, again excluding 2005/06 due to the IAE, do not exceed +2.66% or -1.89%.

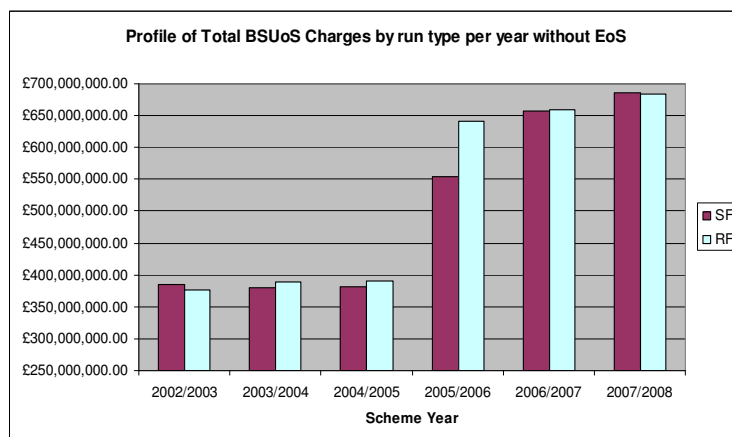
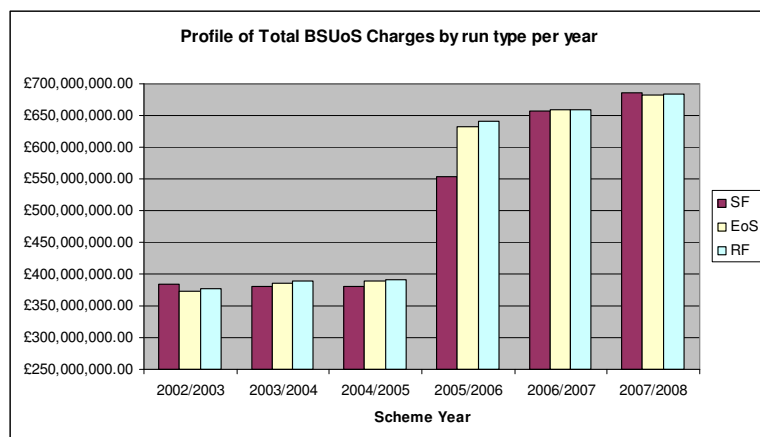
Table 4: Total BSUoS Charges for SF and RF with reconciliation totals excluding EoS

Scheme Year	SF	RF	Difference (from SF to RF) (£)	Difference (from SF to RF) %
2002/2003	£384,301,052.45	£377,033,393.49	-£7,267,658.96	-1.89%
2003/2004	£380,028,238.59	£388,867,912.00	£8,839,673.40	2.33%
2004/2005	£381,187,531.01	£391,322,072.81	£10,134,541.80	2.66%
2005/2006	£553,733,752.32	£641,639,592.76	£87,905,840.44	15.88%
2006/2007	£656,676,330.17	£658,964,258.69	£2,287,928.52	0.35%
2007/2008	£684,956,269.93	£683,180,650.37	-£1,775,619.55	-0.26%

2.3.9 Chart 1 plots the values for SF, EoS and RF from Table 3 showing, with the exception of 05/06, reconciliations are small for EoS and RF Totals. Chart 2 shows the impact of removing EoS, showing reconciliations as small totals compared to initial SF values.

Chart 1: SF, EoS and RF for BSUoS from 2002

Chart 2: BSUoS Charges from 2002 without EoS



## 3 Terms of Original Modification Proposal

### 3.1 Options Considered

3.1.1 A number of options were considered in the August 2010 consultation as alternatives to the End of Scheme Year Reconciliation. These, along with the key points on each are shown below.

Option	Description	Summary of Analysis
Option i	Remove the End of Scheme Year Reconciliation	<p>Removes an administratively intensive process for both customers and National Grid. Leaving only II, SF &amp; RF simplifies the operational and billing process for all involved.</p> <p>Spreads reconciliations over the RF rather than having the consolidated reconciliation which runs the risk of causing cash spikes on customers in addition to the daily reconciliations.</p> <p>From the analysis, and from the values involved in reconciliations, it adds little value as the reconciliations would be better spread over the RF period keeping the daily nature of BSUoS Charges consistent.</p>
Option ii	Leave the process as it is currently structured	<p>The single consolidated reconciliation reduces some, not all, of the volatility from the RF reconciliations</p> <p>This does leave the potential for a single large reconciliation at End of Scheme.</p> <p>Leaving the current system in place would allow customers to have any charge validation systems unchanged if they are set up to receive End of Scheme Reconciliation files</p>
Option iii	Replace the End of Scheme Year consolidated Reconciliation with an additional daily run	<p>Introducing another daily run instead of a consolidated run would incur a major change to the Charging Systems for BSUoS Charges, the costs of which could be significant.</p> <p>There could be potential significant costs to customers for those that use systems or processes to process or validate BSUoS Charges</p> <p>An extra daily BSUoS charge would introduce more invoicing to customers adding extra processing, more invoices and backing sheets to what can be seen as a cluttered process</p>

3.1.2 Whilst this is a review of what could be done with End of Scheme Year Reconciliation, this does not change the method of calculation of BSUoS Charges and allocation across customers. It also does not change the Regulatory Approach to BSUoS with regard to such items as Income Adjusting Events and changes to BSIS, all of which would be required to follow the same process as they do now.

### 3.2 Initial Proposals

3.2.1 Option (iii) is not an option that has many benefits. Whilst it would smooth reconciliations into additional daily runs, adding an additional run to the process will increase the administrative operation of calculating, invoicing, validating and payment of BSUoS Charges for customers. Customers would be receiving additional invoices

each day adding to an already volume intensive process for the receipt of not only the invoices for BSUoS charges but the supplemental information such as backing sheets to both charge calculations and invoice supporting information. This would also add to the administrative process for customers in validating EoS. This could involve the manually intensive process of additional validations and / or significant costs to modify IT systems without adding sufficient benefit to be cost effective.

3.2.2 Whilst Option (i) and Option (ii) appear reasonably balanced, National Grid considers Option (i) best meets the relevant objectives because:

- Removing the process of EoS removes the consolidated run from the process, keeping invoicing on an iterative daily basis;
- Whilst it does move some small volatility to the RF runs than would have been experienced in the aggregated reconciliation of EoS, this has the benefit of smoothing cash flows over a longer period;
- It provides greater transparency of charges as having only the two billable run types, supported by the supplemental information shows more clearly the changes to BSUoS Charges over time. With EoS the daily volatility of reconciliations is slightly masked through the aggregation process;
- It simplifies the calculation process, and invoicing and validation processes for customers would be simpler as there would just be two daily runs. customers would therefore not have to consider this inclusion of this consolidated run into systems / planning arrangements for BSUoS Charges.

3.2.3 Therefore, National Grid's view is that removing the End of Scheme Year Reconciliation would represent an improvement on the current methodology and would better facilitate the relevant charging objectives.

3.2.4 The GB Use of System Charging Methodology has the following objectives as set out in Licence Condition C5 which requires:

- a) That compliance with the Use of System Charging Methodology facilitates effective competition in generation and supply of electricity and 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 reasonably practicable, the costs incurred by transmission licensees in their transmission businesses; and
- c.) The Use of System Charging Methodology properly takes account of developments in transmission licensees' transmission businesses.

3.2.5 National Grid believes that removal of this process will better meet relevant objectives (a) and (b). Reducing process complexity facilitates effective competition by enabling the trading arrangements to be more clearly understood and hence removing a potential barrier to entry. Removal of the process will reduce costs to industry participants by eliminating the need to pay for the additional reconciliation itself (which are passed through), reducing the risk of cashflow volatility and thus ensuring that charges are more reflective of costs incurred. Costs are also lowered by reducing the sophistication of IS and accounting systems required to manage the reconciliations.

## 4. Responses

### 4.1 Responses to the Consultation

4.1.1 The six responses received to the consultation all supported National Grid's initial preference for Option (i). The responses supported the removal of End of Scheme Reconciliation to enable the process to be simpler and more efficient, removing additional manual checking and validation processes required at the time of End of Scheme and not at other times.

4.1.2 Whilst some of the responses noted the reduction in volatility offered by the introduction of an additional daily run in place of EoS was attractive, it would not be cost effective to introduce for both customers and National Grid and the preferred option by all respondents was to remove End of Scheme.

4.1.3 The analysis shows that the reconciliations as proportions of the initially billed values at the SF stage are not large. Customers welcome the removal of EoS but with sufficient notice to enable changes to IT Systems and processes. This period is at least three months.

4.1.4 Some specific comments on the issues raised in the proposal have been reproduced below:

#### Volatility

4.1.5 Removing EoS does introduce volatility that would otherwise have been consolidated into one run, into the daily RF Runs. Sometimes daily reconciliations can be quite high. These are typically caused by specific events that have the potential to happen. For 2008/09 for example, there were two large daily reconciliations due to Intertrip payments across the Cheviot boundary. Whilst rare to see such significant spikes, these can happen. However these are still relatively small compared with the initial settlement amounts and when distributed across all customers the proportions each customer pays / receives is also relatively small.

4.1.6 Whilst EoS does remove some volatility out of the RF reconciliation, it also can cause invoice spikes for customers due to the consolidated nature of the reconciliation. One response said that the changes between SF and EoS and between EoS and RF are not significant enough to have a major effect on cashflow should EoS be removed.

4.1.7 National Grid agrees that volatility of reconciliation of RF runs will increase, but notes that such volatility will be significantly smaller than the large one-off reconciliation that arises at EoS, and therefore should be more easily manageable for industry participants.

#### Administration and IT Systems

4.1.8 Comments were received on the area of administration of EoS for customers, highlighting that whilst the EoS did reduce volatility, the benefit of the early reconciliation is small compared to its administrative costs. Another response noted that removal of EoS would reduce the significant workload in validating, processing and paying the EoS reconciliation invoice against a tight payment timetable. Another response noted that the processing of the EoS reconciliation is very manually intensive and whilst the reconciliation does require changes to IT systems the cost of the change is not too significant.

4.1.9 National Grid agrees that EoS can be viewed as an unnecessary burden on industry participants and is a process that does not add value to the functioning of the trading arrangements.

Change to Methodology

4.1.10 One response noted that the removal of the next EoS would constitute a revision of the 2010/11 charging methodology, but only in relation to settlement of charges, not the amount of the charges. This would mean that the EoS currently written into the 2010/11 methodology would not take place and the existing methodology would need to be updated to reflect its removal and also stresses that the method of calculation remains unchanged.

4.1.11 National Grid agrees with this observation and that the methodology for the current year would also need to include the revised wording outlined in Appendix 1.

**4.2 Summary of Responses**

Reference	Company	Support	Summary of Response
GBECM27-01	Centrica Plc	✓	<p>Supports option to remove EoS moving reconciliations into the RF Settlement Run.</p> <p>Notes that the outcome of TransmiT could introduce further change.</p> <p>Does not believe EoS adds significant value for Users</p> <p>EoS, as a consolidated reconciliation can in some cases have a negative effect on Users cashflow</p> <p>Welcome the removal of EoS and spreading charges over the daily settlements, thereby avoiding the annual reconciliation</p>
GBECM27-02	Scottish Power	✓	<p>Supports option to remove EoS moving reconciliations into the RF Settlement Run.</p> <p>Removal of EoS would smooth cashflow throughout the year by removing the single large reconciliation payment associated with EoS</p> <p>Removal of EoS would reduce the significant workload in validating, processing and paying the EoS reconciliation invoice against a tight payment timetable</p> <p>The proposed change delivers efficiency benefits for the industry, agree that it should be implemented at the earliest opportunity with no EOS Reconciliation for charging year 2010/11 in June 2011.</p>

GBECM27-03	RWE npower	✓	<p>Supports option to remove EoS moving reconciliations into the RF Settlement Run.</p> <p>End of Scheme Year Reconciliation is an unnecessary element of the BSUoS charging regime and removing it will reduce the work of loading the End of Scheme files into systems</p> <p>Agree with the suggested timescales of removing the End of Scheme Year Reconciliation in time for the scheme year 2010/11 in June 2011. An early decision on this would be helpful in order to allow a lead time for systems to be changed as a result.</p>
GBECM27-04	Scottish & Southern Energy	✓	<p>Supports option to remove EoS moving reconciliations into the RF Settlement Run.</p> <p>The changes between SF and EoS and between EoS and RF are not significant enough to have a major affect on the cashflow of the company should the EoS be removed</p> <p>The removal of the End of Scheme Year reconciliation from the BSUoS invoicing process as the best option for future BSUoS charging as it requires minimal system change and removes a manually intensive process that does not have a significant affect on cashflow</p> <p>Comfortable with the removal of EoS for the scheme year 2010-2011. We require a minimum of three months notice in order to implement the required system changes</p>
GBECM27-05	EDF	✓	<p>Supports option to remove EoS moving reconciliations into the RF Settlement Run.</p> <p>Removal of the next EOS would constitute a revision of the 2010/11 charging methodology, but only in relation to settlement of charges, not the amount of the charges</p> <p>Provided confirmation is received with at least 3 months notice, no objection to removal of the process so that it does not occur next June, 2011</p>

GBECM27-06	E.ON	✓	<p>Do not believe that removal of the EOS Reconciliation Run presents us with any particular issues.</p> <p>Content for it to be removed, starting with the run planned for charging year 2010/11 as proposed.</p>
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### ***4.3 Changes to the Proposal as a Result of Respondents Views***

4.3.1 Based on views provided by respondents to the August 2010 consultation, National Grid has altered the initial modification proposal to affect the proposed removal of EoS in 2010/11.

4.3.2 As noted above in Section 4.1, the removal of the next EoS would constitute a revision of the 2010/11 reconciliation cycle. However, this change would only be in relation to settlement, not the amount, of charges. This means that the EoS currently written into the 2010/11 Methodology would not take place and the existing methodology would need to be updated to reflect its removal. The methodology for the current year should include the revised wording outlined in Appendix 1.

## 5. Impact Assessment and Additional Analysis

5.1 This section builds on the analysis that was provided in the August 2010 Consultation Report.

### 5.1 Inclusion of Recent Data

5.1.1 In order to add some more data to the analysis, the most recent BSUoS Charge data has been added for all completed runs for any Charge Year. The most recent completed run is the EoS for 2009/10.

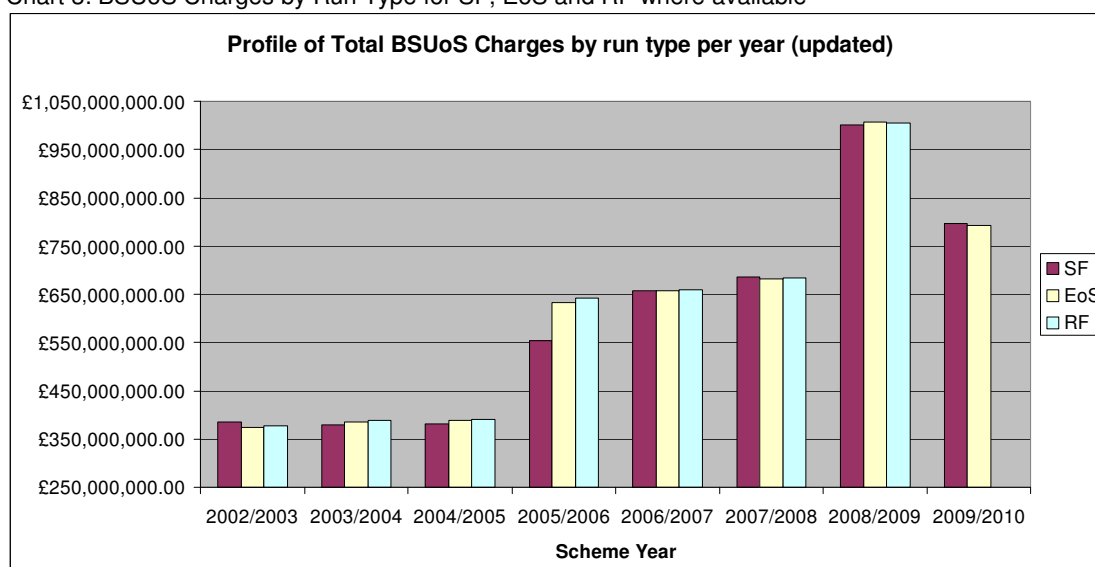
5.1.2 The inclusion of an additional complete suite of run types for 2008/09 along with the SF and EoS for 2009/10. The additional values can be seen in Table 5. The differences between run types as percentages still do not exceed +2.66% or -1.89%, excluding 2005/06 due to the Income Adjusting Event that took place. The reconciliation values for 2008/09 and 2009/10 fall well within the previous maximum differences with SF to EoS reconciliations at 0.58% for 08/09 and -0.35% for 09/10. The EoS to RF for 08/09 is only -0.16% different. These show the low values in comparison to the amounts initially billed out at the SF run.

Table 5: Total BSUoS Charges by Run Type for BSIS Years 2002/2003 to 2009/2010

Scheme Year	SF	EoS	RF	Difference		Difference	
				(from SF to EoS) (£)		(from EoS to RF) (£)	
				(£)	%	(£)	%
2002/2003	£384,301,052.45	£373,096,105.96	£377,033,393.49	-£11,204,946.49	-2.92%	£3,937,287.53	1.02%
2003/2004	£380,028,238.59	£385,687,880.47	£388,867,912.00	£5,659,641.87	1.49%	£3,180,031.53	0.84%
2004/2005	£381,187,531.01	£389,081,991.26	£391,322,072.81	£7,894,460.25	2.07%	£2,240,081.55	0.59%
2005/2006	£553,733,752.32	£632,260,466.20	£641,639,592.76	£78,526,713.88	14.18%	£9,379,126.57	1.69%
2006/2007	£656,676,330.17	£658,131,964.13	£658,964,258.69	£1,455,633.97	0.22%	£832,294.56	0.13%
2007/2008	£684,956,269.93	£681,981,768.60	£683,180,650.37	-£2,974,501.33	-0.43%	£1,198,881.77	0.18%
2008/2009	£1,001,143,983.22	£1,006,940,921.16	£1,005,339,945.98	£5,796,937.93	0.58%	-£1,600,975.18	-0.16%
2009/2010	£796,413,481.29	£793,637,137.06	Not Complete	-£2,776,344.23	-0.35%	n/a	n/a

5.1.3 Chart 3 plots these values for SF, EoS and RF from Table 5. Following the trend of the previous analysis the reconciliation values between run types are very small when compared to the initial billed values.

Chart 3: BSUoS Charges by Run Type for SF, EoS and RF where available



## 5.2 Extending the Analysis – Removal of EoS

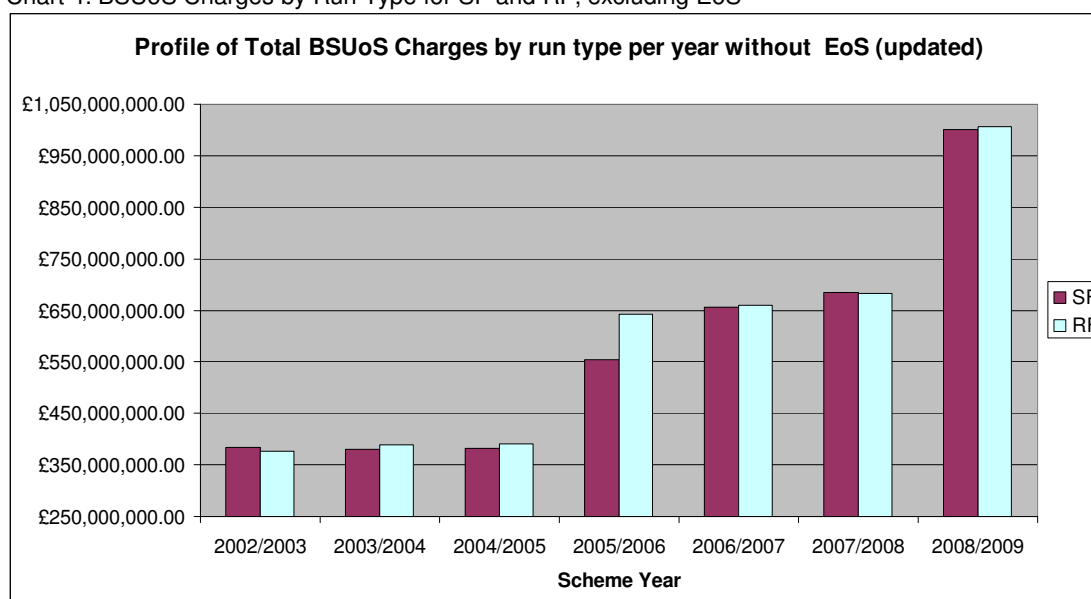
5.2.1 Table 6 shows the impact of removing EoS, and moving reconciliations into the RF run. This has been extended to include 2008/09. The reconciliation for 08/09 of 0.42% falls well within the previous maximum levels of 2.33% and -1.89%. Looking at post 05/06, reconciliations only vary from -0.26% to 0.42% highlighting the relatively small values when compared to the initial SF values.

Table 6: Total BSUoS Charges for SF and RF, excluding EoS Reconciliations

Scheme Year	SF	RF	Difference	Difference
			(from SF to RF) (£)	(from SF to RF) %
2002/2003	£384,301,052.45	£377,033,393.49	-£7,267,658.96	-1.89%
2003/2004	£380,028,238.59	£388,867,912.00	£8,839,673.40	2.33%
2004/2005	£381,187,531.01	£391,322,072.81	£10,134,541.80	2.66%
2005/2006	£553,733,752.32	£641,639,592.76	£87,905,840.44	15.88%
2006/2007	£656,676,330.17	£658,964,258.69	£2,287,928.52	0.35%
2007/2008	£684,956,269.93	£683,180,650.37	-£1,775,619.55	-0.26%
2008/2009	£1,001,143,983.22	£1,005,339,945.98	£4,195,962.76	0.42%
2009/2010	£796,413,481.29	Not Complete	n/a	n/a

5.2.2 Chart 4 plots the values shown in Table 6 to show the impact of removing EoS from years where the RF is also complete to show the impact of reconciling through RF only. What can be seen is, again excluding 05/06, is that the SF is the main billable value and the RF would have relatively small total reconciliation values.

Chart 4: BSUoS Charges by Run Type for SF and RF, excluding EoS



5.2.3 Whilst the overall reconciliation values would be quite small as percentages of the initially billed values, this would mean the introduction of the potential for additional volatility into the RF runs that would otherwise have been consolidated into the EoS. However this volatility would remain small as percentages of the SF run and the daily fluctuations in the context of Total BSUoS Charges is a small contribution. Charts 5 and 6 below illustrate cashflow implications for Total BSUoS charges with EoS and without EoS.

Chart 5: Displaying the timing of EoS and RF for 2007/8 for total BSUoS charges

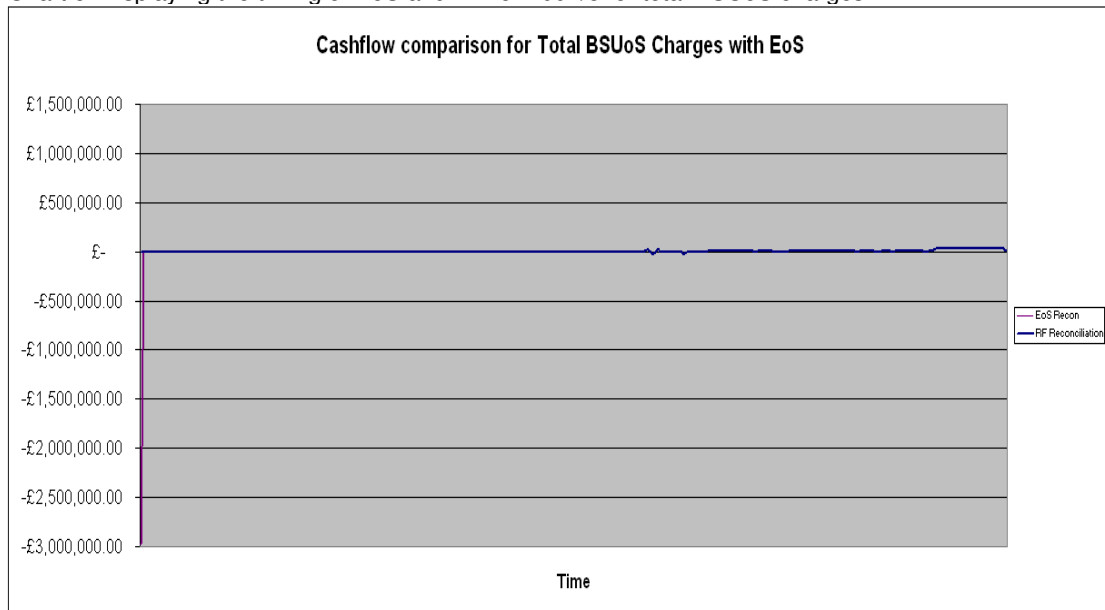
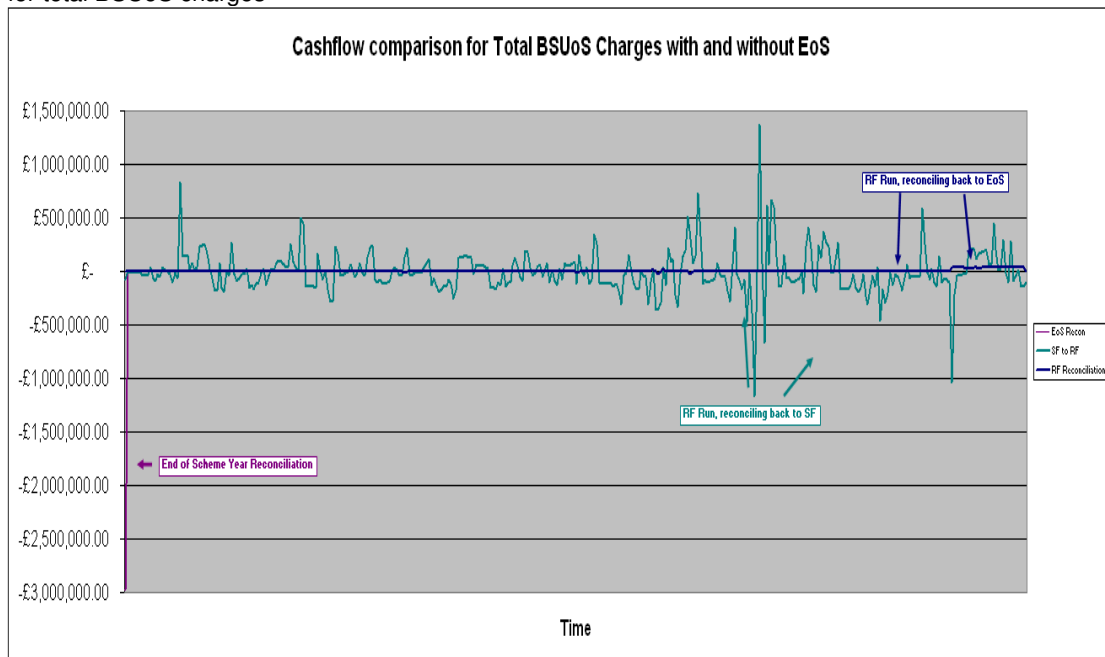


Chart 6: Displaying the difference between EoS and RF for 2007/8 versus RF only as reconciliation run for total BSUoS charges



5.2.4 It can be seen that volatility across the year is always lower than the total end of scheme reconciliation and hence should be more manageable for industry participants. In 2007/8 where spikes between SF and RF are larger, these are not more than 35% of the total end of scheme reconciliation.

## 6. Assessment of the Proposal Against the Relevant Objectives

6.1 The GB Use of System Charging Methodology has the following objectives as set out in Licence Condition C5 which requires:

- a.) That compliance with the Use of System Charging Methodology facilitates effective competition in generation and supply of electricity and 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 reasonably practicable, the costs incurred by transmission licensees in their transmission businesses; and
- c.) The Use of System Charging Methodology properly takes account of developments in transmission licensees' transmission businesses.

6.2 In setting and reviewing Use of System charges, National Grid has a number of further objectives contained in the Statement of Use of System Charging Methodology. These are to:

- offer clarity of principles and transparency in the methodology;
- inform existing customers and potential new entrants with accurate and stable cost messages;
- promote the optimal use of, and investment in, the transmission system by charging on the basis of services provided and incremental rather than average costs; and
- be implementable within practical cost and time-scales.

6.3 National Grid considers Option (i), the removal of EoS, best meets the relevant objectives (a) and (b) as:

- Removing the process of EoS removes the consolidated run from the process, keeping invoicing on an iterative daily basis and therefore improving the transparency of the methodology;
- Whilst it does introduce slightly more volatility to the RF runs than would have been in the EoS, this is countered by the removal of volatility caused by the EoS itself. This also has the benefit of smoothing cash flows over a longer period;
- It provides greater transparency of charges as having only two billable run types, supported by the all the supplemental information, shows more clearly the changes to BSUoS Charges over time. With EoS the daily volatility of reconciliations is slightly masked through the aggregation process;
- It simplifies the calculation process for National Grid and customers with the added benefit of reducing costs associated to the process.
- Receipt of Invoices, validation and payment processes for customers would be simpler as there would just be two daily runs, and they would not have to consider the inclusion of this consolidated run into systems / planning arrangements for BSUoS Charges.

6.4 Taking the above into account, and with specific reference to the licence objectives, National Grid believes that removal of this process will better meet relevant objectives (a) and (b). Reducing process complexity facilitates effective competition by enabling the trading arrangements to be more clearly understood and hence removing a potential barrier to entry. Removal of the process will reduce costs to industry participants by eliminating the need to pay for the additional reconciliation itself (which are passed through), reducing the risk of cashflow volatility and thus ensuring that charges are more reflective of costs incurred. Long term costs are also lowered by reducing the sophistication of IS and accounting systems required to manage reconciliation.

6.5 Therefore, after a period of consultation National Grid continues to believe that the change proposed for the removal of the End of Scheme Year Reconciliation is an improvement on the current methodology.

## **7. Implementation Timescales**

### ***7.1 Implementation***

7.1.1 Besides The Statement of the Balancing Services Use of System Methodology, no amendments to any other industry documents will be required. The changes proposed are detailed in Appendix 1.

7.1.2 The implementation would be effective from a decision by Ofgem, however the proposal considers that End of Scheme for BSIS Year 2009/10 take place, but not for the 2010/11 scheme year. This would mean that there would be no End of Scheme Year Reconciliation for the scheme year 2010/11 that would otherwise have been scheduled to take place in June 2011.

7.1.3 The implementation date of this proposed change would be 01/04/2010, applicable from the charging year beginning 1<sup>st</sup> April 2010. This would require a change to the Statement of the Balancing Services Use of System Charging Methodology for the 2010/11 reconciliation cycle.

7.1.4 In order to allow customers sufficient time to make the necessary system and process changes to accommodate the removal of the End of Scheme Year Reconciliation an Authority decision is required no later than 31<sup>st</sup> January 2011.

## Appendix 1: Changes to the Methodology

Changes proposed to the Statement of the Balancing Services Use of System Charging Methodology would be changing Chapter 10 as shown below. Changes are marked in red.

### Chapter 10: Settlement of BSUoS

#### Settlement and Reconciliation of BSUoS charges

10.1 There are ~~three~~ two stages of the reconciliation of BSUoS charges described below:

- Initial Settlement (SF)
- ~~End of Scheme Year Reconciliation~~
- Final Reconciliation (RF)

#### Initial Settlement of BSUoS

10.2 National Grid will calculate initial settlement (SF) BSUoS charges in accordance with the methodology set out in Chapter 9 using the latest available data, including data from the Initial Settlement Run and the Initial Volume Allocation Run.

#### Reconciliation of BSUoS Charges

~~10.3 The End of Scheme Year Reconciliation will be performed after the completion of Initial Settlement for all days in the scheme year, and prior to the commencement of Final Reconciliation. Charges for each settlement day will be recalculated in accordance with the methodology set out in Chapter 9, using the latest information available to National Grid at the time (with the inclusion of interest as defined in the CUSC). These revised daily charges will form the basis of a single reconciled charge aggregated over all settlement days in the scheme year.~~

~~10.4~~ 10.3 Final Reconciliation will result in the calculation of a reconciled charge for each settlement day in the scheme year. National Grid will calculate Final Reconciliation (RF) BSUoS charges (with the inclusion of interest as defined in the CUSC) in accordance with the methodology set out in Chapter 9 using the latest available data, including data from the Final Reconciliation Settlement Run and the Final Reconciliation Volume Allocation Run.