

All interested parties

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Reform to Balancing Services Use of System (BSUoS) charges - analysis of proposal to remove BSUoS from generation

The need for reform to BSUoS charges has long been recognised and when we published our decision on the Targeted Charging Review, we asked the Electricity System Operator (ESO) to launch an industry Task Force (the second BSUoS Task Force) to assess who should be liable for BSUoS charges and how these charges should be recovered.¹ In December 2020, we published an open letter that welcomed that Task Force's proposals to reform BSUoS charges.² We also committed to carry out quantitative work to assess the overall impacts of these reforms.

Ofgem's Energy Systems Management and Security directorate is developing a wide range of policies to enable the energy transition and unlock the benefits of full chain flexibility, as described in our Forward Work Programme.³ This includes consideration of the proposed reforms to BSUoS charges. This open letter accompanies the first independent report on BSUoS reform from our consultants, which we have published as an annex.

Background to proposal to remove BSUoS charges from generation

BSUoS charges are how the ESO recovers costs associated with balancing the electricity transmission system. BSUoS charges recover several costs, which include: the costs of constraints, frequency response services, provision of reserve, the costs of actions taken in the Balancing Mechanism and the ESO's internal costs.⁴ BSUoS charges are currently recovered from demand customers and generators based on the amount of energy imported from or exported onto the network (£/MWh) within each half-hour period. The

¹ [Targeted Charging Review: Decision and Impact Assessment | Ofgem](#)

² [Ofgem response to publication of the final report of the second Balancing Services Use of System \(BSUoS\) Task Force](#)

³ [Forward work programme 2021/22 | Ofgem](#)

⁴ [Balancing Services Use of System \(BSUoS\) charges | National Grid ESO](#)

value varies in each half-hourly Settlement Period reflecting the different costs incurred by the Electricity System Operator. BSUoS charges are levied on a non-locational basis. The Connection and Use of System Code (CUSC) sets out the methodology by which BSUoS charges are calculated, and the manner in which charges are levied on network users.

The second BSUoS Task Force used qualitative analysis to assess who should be liable for BSUoS charges and how these charges should be recovered.⁵ Their key conclusions were that “Final Demand” should be liable for all BSUoS charges, and that these charges should be fixed and set in advance. The analysis published with this open letter pertains only to the first of these conclusions, which is being taken forward through the CUSC code modification proposal CMP308 *Removal of BSUoS charges from Generation*.⁶

Independent analytical work

In December 2020, we committed to undertake quantitative assessment of the impacts of the reforms to BSUoS charges proposed through the second BSUoS Task Force. In February 2021, we issued an invitation to tender and, following a competitive process, commissioned Frontier Economics and Lane Clark & Peacock (LCP) to carry out this work. Their analysis will inform our final decisions on solutions brought forward through the code modification process, recognising that dynamic modelling in a complex system is inherently uncertain and that there are limitations to this analytical approach (and any others).

We commissioned consultancy support to quantify the costs and benefits of proposed reforms to BSUoS charges, covering the two key conclusions of the second BSUoS Task Force:

1. Modelling to assess the wider system and distributional impacts of reforms to who should be liable for BSUoS charges under different BSUoS forecast cost scenarios, covering:
 - Capacity market and generation investment modelling to estimate the longer-term impacts on generation mix
 - Interactions with European markets to effectively measure the effects on interconnector congestion revenues
 - Assessment of any effects of increased demand during high BSUoS cost periods on balancing costs
 - Modelling of perverse incentives and cost avoidance
 - Distributional impacts (static and dynamic)

⁵ <http://chargingfutures.com/media/1477/second-balancing-services-charges-task-force-final-report.pdf>

⁶ CMP308: Removal of BSUoS charges from Generation | National Grid ESO. The second conclusion is being examined under two further proposals: [CMP361 & CMP362 'BSUoS Reform: Introduction of an ex ante fixed BSUoS tariff & Consequential Definition Updates'](#) | National Grid ESO

- Carbon emissions
2. Quantitative analysis of different solutions using alternative combinations of fixed charges and notice periods under a new BSUoS charging framework.

The first assessment from our consultants is annexed to this letter. We plan to publish the second assessment later in the summer.

How this will inform decision making

The analytical work that we have commissioned will form part of the Impact Assessments that will inform our decisions on the related CUSC modification proposals. Further detail on our approach to Impact Assessments is set out in our published guidance.⁷ We will consider feedback from our stakeholders on this analysis and may undertake supplementary assessments, if appropriate.

As with any modelling, particularly modelling of a complex nature looking at multi-year impacts, there is a need to use caution when drawing conclusions. The uncertain nature of assumptions such as future demand and commodity prices means that modelling outputs should be treated as indicative.⁸ However, this work provides valuable insight as to the anticipated magnitude and direction of impacts and will inform our overall principles-based assessment.

Next steps

The CMP308 workgroup is aiming to implement the second BSUoS Task Force proposal to remove BSUoS from generation. On receipt of the Final Modification Report from that industry workgroup, we will evaluate the refined proposal on a holistic basis, taking into account our understanding of the potential impact on consumers, as well as different categories of market participants. This will likely form an important part of our assessment of the modification against (i) the relevant Code Objectives; and (ii) our Principal Objective of protecting the interests of existing and future energy consumers and our wider statutory duties.⁹

The second BSUoS Task Force recommended implementation of this reform two years following our response to their final report. Our open letter in December 2020 noted that “based on the information available at this time, our view is that April 2023 would be an appropriate target for this element of the reform.” This view still stands. However, for the

⁷ <https://www.ofgem.gov.uk/publications-and-updates/impact-assessment-guidance>

⁸ Section 5 of the consultants’ report detail limitations of the analysis.

⁹ The Authority’s statutory duties are wider than matters which the CUSC Panel must take into consideration and are detailed mainly in the Electricity Act 1989.

avoidance of doubt, nothing in this letter, or the attached independent report, fetters our discretion in respect of the CMP308 proposal when it comes to us for decision.

Yours faithfully,

Tom Corcut
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