

BSUOS Charges – CMP361-362 - WG3 Licence and CUSC Changes

Developing thinking - not to be
considered as formal Ofgem policy



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1. BSUOS recovers:
 1. ESO's Internal Allowed Revenue (determined ex-ante by PCFM) and External "Balancing Costs"
 2. Aggregate charge
 3. set half-hourly and ex-post
2. The licence sets out what can be recovered
3. The CUSC Section 14 Section 2 sets out how it is recovered

A sets of changes will be required:

1. Introduction of a K correction term in the licence
2. Flexibility to set charges higher than the "expected" costs?
3. Right of ESO to revise tariffs?

- The ESO licence currently does not have a K correction term
- It would need to be introduced
- Needs to be consistent with the notice period and duration
- Rate of interest and speed of recovery would also need to be set out

Special Condition 4.0 System Operator Revenue Restriction

Part A: Licensee's obligation in relation to internal costs

4.0.1 The licensee must use best endeavours to ensure that the revenue collected by the licensee from the Balancing Services Activity does not exceed SO Total Allowed Revenue.

The value of $SOTAR_t$ is derived in accordance with the following formula:

$$SOTAR_t = SOIAR_t + BXext_t + K_t$$

Special Condition 4.1 System Operator Internal Revenue Restriction

Part A: Licensee's obligation in relation to internal costs

4.1.2 The licensee must use best endeavours to ensure that the revenue collected by the licensee from the Balancing Services Activity associated with internal costs **does not exceed** SO Internal Allowed Revenue.

The value of $SOIAR_t$ is derived in accordance with the following formula:

$$SOIAR_t = ADJR_t + SOLAR_t \dots$$

Special Condition 4.2 Balancing Services Activity Revenue Restriction on External Costs

Introduction

4.2.1 The purpose of this condition is:

- (a) to establish the charging restrictions that determine the level of allowed revenue that may be recovered by the licensee, associated with its external balancing costs; and
- (b) to set out the obligations of the licensee in respect of those charging restrictions.

Part A Balancing services activity revenue restriction on external costs ($BXext_t$)

The licensee must use best endeavours to ensure that the revenue derived from and associated with procuring and using balancing services (being the external costs of the Balancing Services Activity) **does not exceed** the $BXext_t$ term, calculated in accordance with the following formula:

$$BXext_t = CSOBM_t + BSCC_t + TotAdj_t - OM_t + SOTOC_t + LOCTRU_t + BSUoSCOVID_t$$

- Charges set at the mean/median/60th percentile?
- Should the ESO build up a surplus?
- How should the obligation be defined in the licence?
- Should the licence obligation have little detail, and simply say “as per the CUSC”?
- Discussion

1. **Current approach for networks** – ESO to have the right to approach Ofgem to change tariffs, and Ofgem has a duty to “consider financeability”
2. **Automatic right set out in licence** - Explicitly state in the licence ESO can automatically revise tariffs if it expects the cap to be breached.
3. **Right set out in CUSC** - Explicitly state in the CUSC that the ESO can revise tariffs:
 1. Automatically if it expects the cap to be breached; or
 2. At the direction of Ofgem
4. Discussion

As BSUOS charge is currently “dynamic”, there does not appear to be any mention of right to amend BSUOS charges, but we could change the C4.5 wording to include changing BSUOS

Condition C4: Charges for use of system

5. The licensee:

(a) shall give, except where the Authority consents to a shorter period, 150 days notice to the Authority of any proposals to change use of system charges **other than in relation to charges to be made in respect of the balancing services activity**, together with a reasonable assessment of the effect of the proposals (if implemented) on, those charges;

(b) except in so far as the Authority otherwise directs or consents, shall not make any changes to use of system charges more frequently than once in each financial year such that any such change shall take effect on 1 April in a financial year; and

(c) where it has decided to implement any proposals to change use of system charges other than in relation to charges to be made in respect of the balancing services activity, shall give the Authority notice of its decision and the date on which the proposals will be implemented which shall not, without the consent of the Authority, be less than a month after the date on which the notice required by this sub-paragraph was given