








Final BSUoS Fixed Tariff Webinar

7th February 2023

Agenda

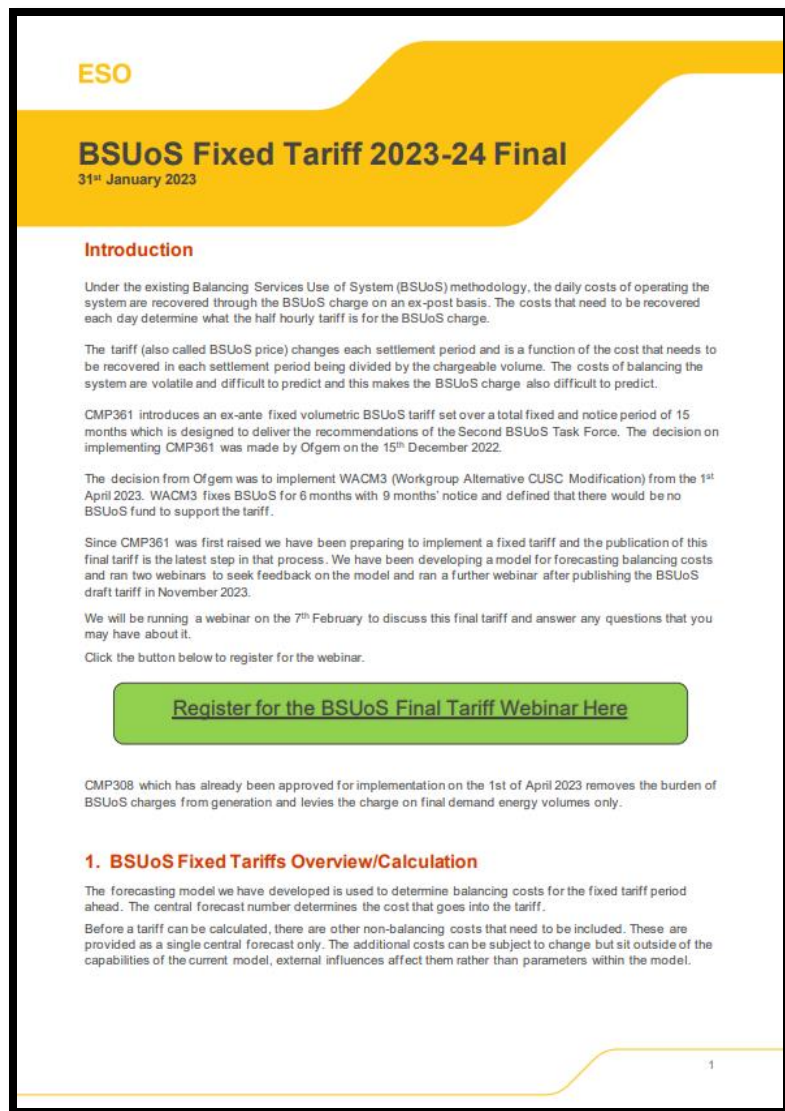
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Supporting the webinar today + others!

				
Nick Everitt	Dan Drew	Rebecca Knight	Ben Sloman	Sara Alizadeh
Revenue Manager - Tariff Setting	Modelling & Insights Team Manager	Markets Modelling Analyst	Senior Modelling Specialist	Senior Modelling Specialist

- ***We will be recording the session – to be shared on ESO website for those not able to attend***
- ***Please use teams chat to ask any questions & we will have time at the end to run through them***
- ***If you want to ask a question verbally during the Q&A session please raise your hand to be unmuted***

BSUoS Fixed Tariff Recap



Document or Webpage	Links
CMP308 – BSUoS charged on final demand only from 2023/24	Web link
BSUoS Fixed Tariff Model Methodology	Download
BSUoS Fixed Tariff Model Q&A	Download
BSUoS Fixed Tariff Model Consultation 2	Download
CMP361/362 – Ofgem minded-to 21/09/2022	Web link
CMP361/362 – Ofgem update on minded-to 15/11/2022	Web link
Draft BSUoS Fixed Tariff Published 31/10/2022	Download
CMP406/407 – Raised but rejected	Web link
Draft Tariff Webinar Held 23/11/2022	Download
Ofgem Decision CMP361	Download
CMP408 Raised – Change tariff notice period to 3 months	Web Link
Final BSUoS Fixed Tariffs Published 31/01/2023	Download

Updated Tariff Values

Financial Year 2023/24 - Tariff 1		
	Description	Final Tariff
Apr - Sep	Balancing Costs (Central) £m	1387
	Internal Costs £m	215.95
	CMP395 Recovery	Included in Balancing Costs
	Winter Security of Supply £m	87.5
	Total BSUoS £m	1690.45
	Estimated BSUoS Volume TWh	126.1
	BSUoS Tariff £/MWh	£13.41

Financial Year 2023/24 - Tariff 2		
	Description	Final Tariff
Oct - Mar	Balancing Costs (Central) £m	1803
	Internal Costs £m	215.95
	CMP395 Recovery	Included in Balancing Costs
	Winter Security of Supply £m	87.5
	Total BSUoS £m	2106.45
	Estimated BSUoS Volume TWh	150.1
	BSUoS Tariff £/MWh	£14.03

Key Changes since Draft

Tariff Period

- Draft Tariff was for a 12-month fixed period, final tariff is 2 x 6-month fixed periods. Ofgem final decision on CMP361/362 was for WACM3 which is 6 months fixed, with a 9-month notice period. Derogation for the first two fixed tariffs due to decision timescales. Assuming CMP408 isn't approved before then, the 2024/25 first tariff will be published by end of June 2023.

Balancing Costs

- Reduction in total balancing costs of £994m (£4,184m down to £3,190m) primarily due to a continued decrease in the forward market wholesale prices, further information on following slides.

Internal ESO Costs

- Small reduction of £3.7m (£435.6m down to £431.9m) as a result of latest determinations from Ofgem, BSUoS forecast shows current forecast values for 2024/25 charging year.

Winter 23/24 Security of Supply

- Inclusion of £175m across 2023/24 charging year so split across both the fixed tariffs. Limited information on this now but based on what we know from this year and engagement with stakeholders it felt prudent to include something.

CMP395 Costs

- Reduction of £117.5m (£137.5m down to £20m) as a result of latest outturn and forecast costs. Currently we have deferred just over £1m for the CMP395 scheme costs.

BSUoS Fund

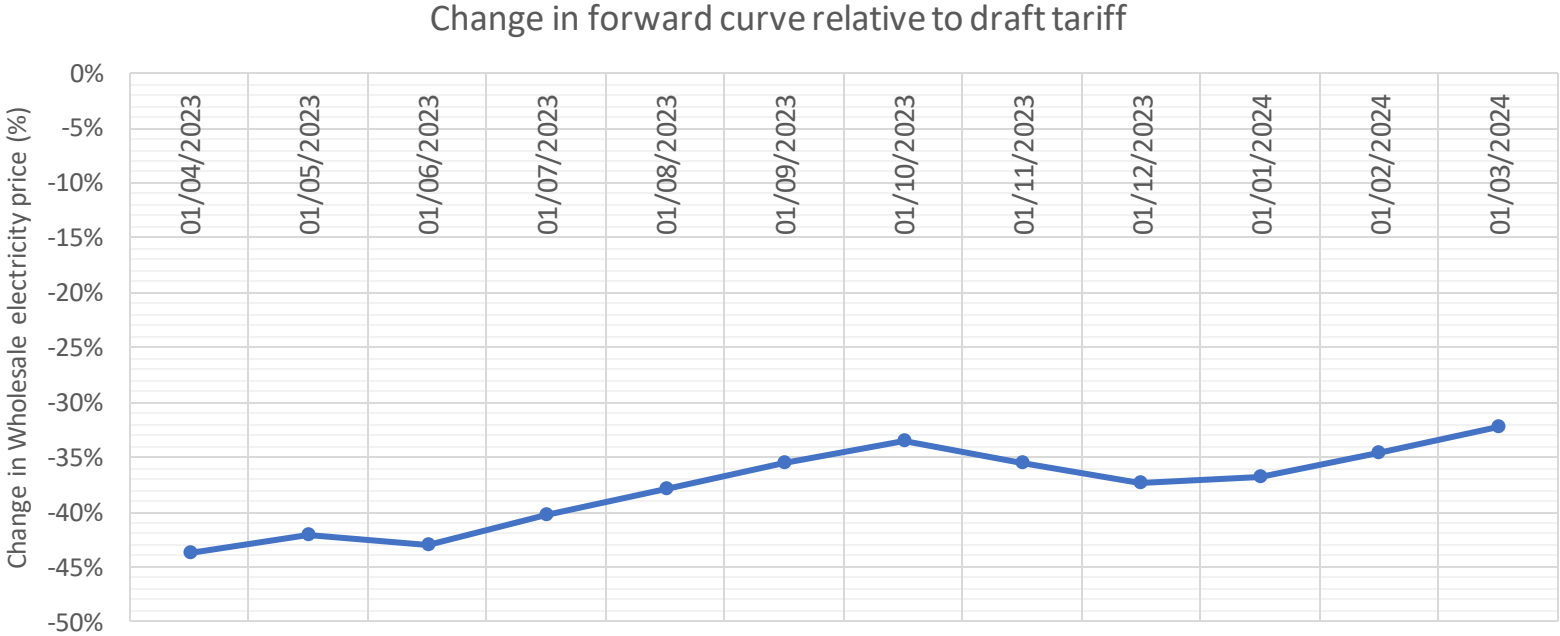
- When the draft tariff was published, we anticipated that there would be a BSUoS fund, following the Ofgem decision there is no BSUoS fund, so this has been removed.

Changes since draft: Balancing costs

Reduction in balancing cost forecast

- Draft tariff balancing cost forecast for FY23/24 = **£4.2 billion**
- Compared to **£3.2 billion** in the final tariff

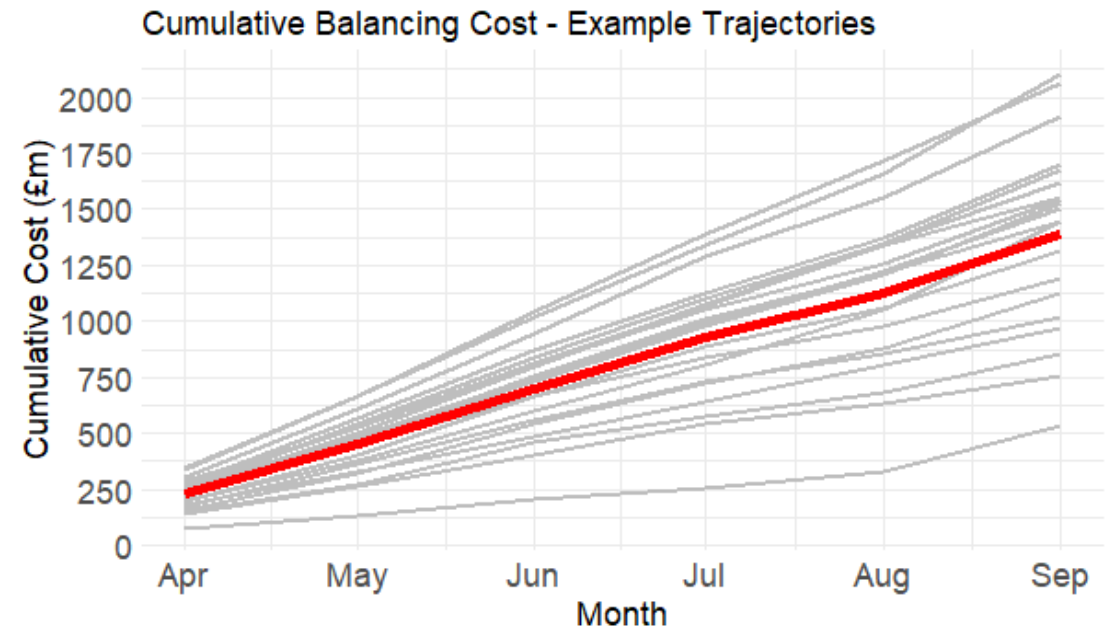
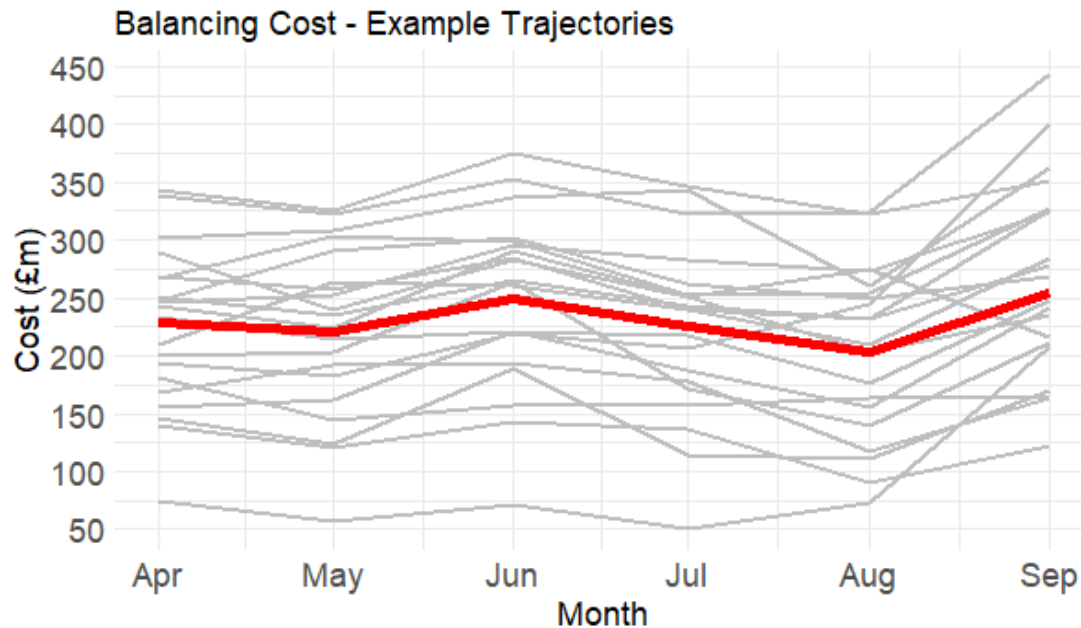
Driven by change in wholesale electricity forward curve between October (draft tariff) and January (final tariff)



Calculation of Central Cost for 6 month Tariff Period

The model produces 10,000 trajectories of possible balancing cost timeseries

- The monthly central case is calculated by taking the median within each month across the 10,000 trajectories.
- The 6 month tariff central case is calculated by
 1. Calculating the cumulative sum of each trajectory.
 2. Taking the median of the 6 month cumulative sum across the 10,000 trajectories.
- This 6 month central case is not the same as the sum of the central cases across the individual 6 months.
- The central balancing cost is combined with internal costs and winter security of supply to produce the BSUoS cost.



Monthly trajectories (left) and cumulative trajectories (right). The grey lines are 20 example trajectories out of the 10,000 simulated, and the red lines show the medians for each month with respect to the full 10,000 trajectories.

Changes since draft: CMP395

CMP395 defers costs from winter 22/23 into the 2023/24 charging year

- CMP395 caps the BSUoS price at £40/MWh for every Settlement Period from 6 October 2022 to 31 March 2023 and defers the costs associated with it to the 2023/24 charging year.
- The modification places a limit of £250m on the deferral that can be moved into the 2023/24 charging year.

Since the draft tariff, CMP395 has been built into our modelling of balancing costs

- In the draft tariff the impact of CMP395 for FY23/24 was estimated to be = **£137.5 million** (on final demand).
- Compared to **£20 million** in the final tariff (with £16 million recovered from generators via a separate charging mechanism).

Our methodology for estimating the impact of CMP395 is:

- Calculate the distribution of historic BSUoS prices by Settlement Period (based on data from Sep21 onwards).
- Map that distribution onto the level of the monthly balancing costs forecast (separately for each simulation).
- Use this to determine how many settlement periods would exceed the cap based on the forecast, and by how much.
- Each simulation has the deferral applied to this winter and 55% applied to the tariffs in the 23/24 charging year.
- The central case is based on the median of all the simulations.

The drop in impact between the draft and final tariff has two main drivers

- Wholesale electricity prices have dropped reducing the probability of hitting £40/MWh in any forecast settlement periods.
- In the January forecast we know that only just over £1m has been deferred between October and December.

CMP 408 and TCMF Subgroup

CMP408: 3 month notice period mod

- Brings the notice period in line with that of WACM5 CMP361 per industry expectation over the last several months
- Strikes the appropriate balance between providing suppliers with sufficient notice and mitigating risk of inaccuracy in a forecast set further in advance
- Voted through to workgroup at January Panel as high priority
- ToR allows consideration of the fixed period for future WACMs if necessary

TCMF Subgroup: Investigate enduring fund and P level solution

- Assess the benefits of various probability (P) levels for the creation of an industry fund, including the interactions between the P level at which the fund is set, the fixed tariff period, the notice period, and the risk of tariff reset
- Assess implications for the size of the fund and cost to consumers
- Consider future mechanisms for return of potential excess industry fund monies

Everyone who signs up to the CMP408 workgroup will be automatically invited to the TCMF subgroup.

Our plan is to hold them on the same day and encourage membership of both.

If you're interested in participating, please get in touch.

cusc.team@nationalgrideso.com

What's the same

- Invoiced daily on SF and RF settlement data
- Information provided daily on II settlement data
- 3 day payment terms for invoices
- Chargeable on volume at the BMU level at a price per MWh
- Aggregated at BSC party level for invoicing
- We will continue to provide web prices
- BPA report will see minimum changes, still delivered via SFTP
- Payment calendar will continue to drive billing run timings

What's different

- The price/tariff will be fixed rather than changing every settlement period
- BSUoS charges will be levied on final demand only
- There will be no change of cost at the RF stage, volume only adjustment
- BCR will be a new report
- We will report regularly on the variance between the recovery and the actual balancing spend
- Tariff forecasts will be produced on a quarterly basis

Next Steps

- Non Final demand declarations sent out last Friday
- Webinar recording and Q&A published this week
- CMP408 / Sub workgroup to progress
- We are continuing to work on the forecasting model
- Working with our billing system integration team to implement a solution that will be ready for April 2023 go live
- Report specifications for our changed reports will be made available as soon as we have specified them
- New methodology goes live 1st April 2023
- Final Tariff for Apr 2024 to Sep 2024 due to be published Jun 2023
- New system development and integration post go live
- Changeover from existing to new system date tbc

Q&A

- Please enter your questions in teams chat
- If you would like to ask a question verbally then please raise your hand so that you can be unmuted
- If you have any questions or feedback after this webinar please email bsuos.queries@nationalgrideso.com and put “Final BSUoS Fixed Tariff Webinar” in the subject line of your email

Thank you for your time and input today!