Please use this Pro-Forma when responding to the Interim Report and Consultation of the second Balancing Services Charges Task Force.

The Taskforce will take all responses into its consideration when producing the final report. When providing a response please supply a rationale, particularly in respect of any specific questions detailed below.

Please send your responses to chargingfutures@nationalgrideso.com by 5pm on **26 August 2020.** Please note that any responses received after the deadline or sent to a different email address may not be taken into account by the Taskforce.

If you have any queries on the content of this consultation, please contact us at chargingfutures@nationalgrid.com .

Question	Response
1. Do you agree with the Task Force's recommendations on who should pay Balancing Services Charges (Deliverable 1)? Please state your reasoning and evidence behind your answer.	Yes, we agree with the evidence presented by the Task Force. Following on from the first Task Force's conclusion that BSUoS is not able to send effective signals, the focus should be on the most efficient recovery of the costs incurred. Recovering costs through a convoluted route involving generators, multiple market mechanisms, suppliers and eventually to customers is hugely inefficient. The alternative of passing costs more directly to customers via suppliers is far more effective. Also, the present practice of charging transmission connected generation BSUoS creates market distortions which are well documented in the Task Force document. These affect both within GB and cross border trade and are getting worse as

	balancing costs continue to increase significantly.
2. The Task Force have discussed how the recommendation on Deliverable 1) for Final Demand only to pay Balancing Services Charges could impact on large energy users and the potential for 'grid defection'. Do you think 'grid defection' is a possibility and to what extent would the Task Force's recommendations impact on your answer?	We believe that grid defection is unlikely to be a significant issue. This is a drastic step for customers to take, as it leaves them with no backup option should their off-grid power supply fail. We believe that this might be more of a risk in respect of low load factor customers under a charging option based on capacity bands, as they may see disproportionate increases in costs compared with the present energy based charging mechanism, which may push them to more extreme measures to avoid this.
3. Do you agree with the Task Force's recommendations that an ex ante fixed charge would deliver overall industry benefits? Please state your reasoning and evidence behind your answer.	Yes. We believe that the System Operator would be best placed to manage the volatility and associated cashflow implications of balancing costs than suppliers. As long as NGESO has a suitably robust price control settlement, which de-risks the process by always ensuring cost recovery, then it should be able to access short term capital to manage cashflow at a lower cost than participants in competitive markets, who have no such assurances. Also, NGESO should be closer to understanding what its balancing requirements are, although we accept that the cost of this can be influenced by prevailing market conditions outside of its control.
4. How long do you think the fixed period should be and what in your opinion is the optimal notice period in advance of the fixed charge coming into effect? Please state your reasoning and evidence behind your answer.	We note that CMP250 proposed fixing for 12 months duration with a 12 month notice period. This would still seem to be the best option for suppliers and customers, but we accept that this might be challenging for NGESO. If a shorter 18 month combination were to be chosen a longer notice period with shorter fixing term would seem to be the optimum, such as 12 month notice period fixing for a duration of 6 months.
5. Which approach discussed by the Task Force (TDR banded	On balance the £/MWh approach should be preferable. The TDR banded approach has certain benefits as it is less

£/site/day or volumetric £/MWh) do you feel is most appropriate for Balancing Services Charges? Please consider your answer against the TCR principles and state your reasoning and evidence to support your answer.	avoidable by customers changing behaviour, but it seems less likely to meet the fairness principle. Balancing costs are fundamentally energy related and are closely associated with imbalance prices and residual cashflows. Therefore, a £/MWh charge seems appropriate from that sense. Also, it is unclear why two customers with very different demand load profiles should receive the same charge. For instance, should a baseload customer with a high load profile of over 80% have the same charge as one with the same peak capacity but a 10%-20% load factor? This would be the outcome of following the TDR banded approach. We accept that a MWh charge could be seen to provide incentives to change behaviour in consumption, but we believe that this will be greatly reduced by a fixed ex ante charge. Changes in demand behaviour tend to entail customers shifting consumption from a high cost period to one with a lower cost. If a fixed £/MWh was set for a 6 to 12 month duration, applicable equally in all periods, then the incentive to load shift is effectively removed. An incentive to reduce demand fully will be retained, but this will exist with the banded approach too. For low load factor customers, under a banded approach there would be a large incentive to remove the peak consumption periods and reduce the maximum demand of the site, as the commercial benefits of doing so will be relatively large.
6. The Task Force noted limitations of the approaches covered in Q5, what other methodologies or improvements to the ones in Q5 could you recommend to tackle them? Please consider your answer against the TCR principles and state your	There is likely to be an ongoing issue with ensuring that behind the meter generation is treated appropriately. Generally, the approach should be to account for and meter it wherever possible in the same manner as other generation. This is important as the market needs to understand the extent of generation on the system of all types in order to operate efficiently. If the appropriate metering is in place, then charging can be structured

reasoning and evidence to support your answer.	to ensure that an additional embedded benefit is not created.
7. Is 2years' notice of the changes prior to an implementation date appropriate? Please state your reasoning and evidence behind your answer.	The distortions associated with the present charging system need to be removed as a matter of priority. CMP201 was raised in December 2011 and the issue hasn't gone away. Indeed, BSUoS levels are higher than they were when CMP201 was raised, so the distortions the current mechanism creates have only become worse. We understand that suppliers may need some time in order to implement this solution, but we note that in the Targeted Charging Review SCR launch letter in August 2017, Ofgem said "*if BSUoS remains a cost-recovery charge, it would make sense to consider aligning charging for BSUoS with any reformed transmission and distribution residual charging arrangements developed as part of this SCR.* Also, on the 6 November 2017 Ofgem said in an update on the TCR "*we think that there are strong arguments to support recovering residual charges from demand, rather than from generators or a combination of demand and generators.*" We believe that a prudent operator should have at least been factoring in that there was a significant risk that residual charges, and in turn BSUoS, would not be recovered from generation in future and instead would be recovered from demand. This risk has become more apparent as the SCR and work of the BSUoS task force have progressed. Therefore, we do not accept that a significant lead time would be necessary for implementation to address any market uncertainty issues. Two years' notice for implementation should therefore be an absolute backstop date. Any notice should also be measured from when Ofgem states the direction of travel for the change and not from when any formal modification which

	is raised subsequently is implemented. The market has had sufficient notice of what is likely to be coming.
8. Should the Task Force consider any interim measures? Please provide details of any suggested interim solution including how it may deliver benefits to consumers or help to mitigate specific challenges facing market participants, whilst limiting any windfall gains or losses between industry participants.	No. We believe that one change to recover BSUoS from Final Demand only should be implemented. The focus and priority should be on achieving this in a timely manner.
9. Do you feel that there any interactions with the Supplier Price Cap that need to be considered? Please state your reasoning and evidence behind your answer.	The price cap will presumably need to be adjusted to accommodate this change.
10. The Task Force's initial recommendation is that Final Demand only will pay BSUoS. If this is the case, is the current RCRC mechanism is still appropriate? Please state your reasoning and evidence behind your answer.	Yes it is likely that this would need to change too in due course. The calculation of the Residual Cashflow Reallocation Proportion (RCRP) in T4.10.2 of the Balancing and Settlement Code would need to change to reflect the manner in which BSUoS is recovered from suppliers. This would be a relatively simple change to design, but the BSC systems implications would need to be understood. This change could be implemented after the BSUoS change however, as we do not believe that RCRC is a significant value at present. Indeed, the level of distortion that could be caused by an inconsistent treatment of RCRC is much lower than that currently being created by the present BSUoS methodology.
11. Is there anything further you think the Task Force needs to consider?	We note the recommendation that the analysis undertaken as part of the CMP201 modification should be revisited by Ofgem when considering their final position on this work. We believe that this is a fair point to make, but the Task Force should also recognise the CMP201

	analysis was limited in scope as it purely looked at energy market transactions and the effect on producer surpluses. We believe that any new analysis should consider at least two other aspects. Firstly, producer surpluses in energy only markets represent any revenues made over short run marginal costs and would be expected to contribute towards generators' fixed production costs. In GB at present Capacity Market revenues also contribute to these. Any analysis which looked at changing producer surpluses in the energy market would have to look at what that would mean for capacity market prices and the associated costs to GB consumers. Secondly, the CMP201 analysis didn't look at the impact on congestion revenues for interconnectors. Analysis undertaken by Cambridge University for Ofgem as part of the State of the Market Report 2019 ("The Value of International Electricity Trading") looked at the distortion to efficient cross border trade caused by the Carbon Price Support mechanism. This work is directly applicable to the issue of generation BSUoS as it creates an uplift in the GB supply curve in a similar manner to CPS. The conclusions of this analysis were a unilateral uplift such as a carbon tax "*distorts trade if it alters interconnector flows*" and that the effect is to "*transfer revenue abroad at a cost to the domestic economy*". It also concluded that the CPS "*raised the GB spot price, reduced the convergence of cross-border electricity prices and increased GB imports of electricity*" and "*the increase in congestion income (mostly) comes from GB electricity consumers but is equally allocated to both Transmission System Operators as owners of the interconnectors*". Finally, the report remarked that "*increased congestion income might over-incentivise*

	further investment in additional interconnectors". Clearly these issues all have potential impacts for GB consumers and should be considered as part of any new analysis.
12. Please use this box to add any further comments that you may have	None thank you.