
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 |
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| 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. It is the most efficient route for cost recovery and facilitate competition with non-GB generation. |
| 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 | As BSUoS is currently charged on a volumetric basis, large users have some direct control over their exposure to BSUoS. Whilst I agree with the first Task Force's conclusion that BSUoS is difficult to forecast on a HH basis, there are broad trends (e.g. BSUoS is higher overnight) that allows users to take action to hedge against these charges, if they wish. Placing BSUoS cost recovery on demand |

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| 'grid defection' is a possibility and to what extent would the Task Force's recommendations impact on your answer? | without large users feeling they can control their exposure to the resulting higher charges will result in significant costs that have to be recovered, regardless of operation. When combined with the new TDR methodology, large users will face financial difficulties should operations need to be constrained (such as a result of the current global health crisis). Combined with wider implications of Brexit, 'grid defection' is most likely to be in the form of users relocating away from the UK, rather than self-supply.<br>A new methodology will create winners and losers compared to the baseline and for those large users who have invested in BTM generation (for load-shifting, flexibility and security of supply as well as BSUoS avoidance), the difference in charges will be material. Many EII sectors are already declining (steel, car manufacturing, plastics etc) in the UK and moving BSUoS to a non-volumetric charge on demand only will increase pressure to move to countries with more attractive charging arrangements.<br>The Task Force should make it clear that their recommendations are related to BSUoS only. There are other pressures on EIIs, such as increases in the Final Consumption Levy, which Ofgem will need to consider holistically in their decision. Ofgem will need to reach an appropriate balance to protect all users and not favour certain types. There are wider implications to UK economic growth that Government and the Authority should consider before making any decision. Should users move operations to other countries, which is the most likely form of grid defection, this is likely to result in job losses and harm to the UK economy. Ofgem should look at all consequences of changes together with BEIS, to ensure results do not go against the Industry Strategy. |
| 3. Do you agree with the Task Force's recommendations that an ex ante fixed charge | An ex-ante charge puts the majority of the risk on the ESO which, assuming the ESO is capable to handling that risk, will increase transparency. Discussions |

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| would deliver overall industry benefits? Please state your reasoning and evidence behind your answer. | around BSUoS (the Task Force, various CUSC Modifications) are complicated by the fact that the risk is currently being handled by many parties and their strategy to that is commercially sensitive. It is therefore nearly impossible to know quantitatively how BSUoS distorts the market. If instead the risk sits with the ESO, this information can be made available and so quantified.<br>The difficulty in forecasting BSUoS means it is likely that (at least some) parties apply premia to cover under-forecasting, meaning that consumers receive a slightly inflated final price. However, the competitive nature of the wholesale and retail markets mean that premia must be as small as possible, meaning parties will lose out when they have significantly under-forecast. An ex ante charge removes this uncertainty, risk premia and distortion in the wholesale market, allowing for more accurate price discovery. |
| 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. | The optimal notice period for each party will depend on their hedging strategy and is therefore difficult to pin down across the industry. A short notice period (below six months) will lessen the benefit of an ex ante price, as the uncertainty for parties will still remain. Since the uncertainty the ex-ante price is attempting to mitigate is largely with suppliers, the length of fixed tariffs in the market should be used as an indicator. Fixed tariffs for less than a year are rare and some domestic tariffs are available for up to five years. Yet, the longer the notice period the more inaccurate the forecast of total costs to be recovered., So 12 months would seem to be a good starting point. It would be useful if the ESO could provide analysis on how forecast accuracy changes across different notice period.<br>For the fixed period, it is also preferable to have a period that the ESO can be most confident in their forecast, to enable the most efficient cost recovery. Historic data suggests there are seasonal trends in balancing costs, so 6 months would allow |

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| | the ESO to incorporate that in their forecasts. |
| 5. Which approach discussed by the Task Force (TDR banded £/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. | A TDR-style banded approach can be considered best in terms of reducing harmful distortions, as the total amount recovered is not dependent on the level of demand. This means that the risk of over or under recovery is only due to the ESO's over or under forecasting, and not industry behaviour. The TDR bands have not been tested in practice and have proved difficult to develop, with significant questions around disputes and how to judge "similar" sites. The industry will not know whether the bands are functioning as intended until they will have been in place for a couple of years and any unintended consequences will have become visible. This makes the TDR-style approach riskier and therefore less practical and proportionate. If the bands are set correctly, they have the potential to be fairer than volumetric, but responses to the consultation for CMP343 suggest users cannot agree on which banding methodology is correct, meaning fairness is undermined.<br>The volumetric approach is the simplest for consumers to understand and to be implemented, meaning it is more practical and proportionate than TDR-style bands. Whilst the fairness of bandings is yet to be illustrated, as it is completely new, a volumetric charge will link energy services with the volume used and will naturally result in larger sites paying more. As the charge is on demand only, the materiality of any harmful distortions inherent in the current volumetric methodology would be increased. |
| 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 | It has been assumed that the bands would be defined in a similar manner to the TDR (i.e. by voltage and then consumption). There are other characteristics that could be used, such as consumer type (domestic, SME, factory, office, retail) which may better reflect the makeup of the charging base. |

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| principles and state your reasoning and evidence to support your answer. | |
| 7. Is 2years' notice of the changes prior to an implementation date appropriate? Please state your reasoning and evidence behind your answer. | 2 years is suitable for the reasons the Task Force has discussed, but it should be clear that the Task Force is recommending *2 years from an Ofgem decision* to implement a change, not 2 years from the change being raised. It is unfair to expect industry parties to make financial decisions based on potential changes, especially when there is limited quantitative analysis available. When changes are signposted through industry discussions, that allows parties to prepare to take action, it does not motivate them to actually take actions.<br>If Ofgem chooses to direct the ESO to raise a modification related to the recommendations of the Task force, the implementation date should allow time for a Modification Workgroup to do suitable analysis and fully engage with the industry. The implementation date should therefore be two years after the Modifications conclusion (i.e. the legally binding decision), not 2 years from Ofgem's Direction, as that will not leave sufficient time for a Workgroup to fulfil the Terms of Reference and industry to prepare once the details are clarified. |
| 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, the Task Force should not consider interim measures. Changes that have any significant effect will need similar preparation time as the final solution. Solutions that can be implemented safely sooner will not address the issues (as not much will change). The 2 years is not required for systems change, it is required to avoid windfall gains and losses through the wholesale market. |
| 9. Do you feel that there any interactions with the Supplier Price Cap that need to be considered? Please state your | The wholesale power price is likely to decrease by a similar amount as the cost savings by generators once BSUoS is removed. If both the wholesale price and the BSUoS price were historic, the |

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| reasoning and evidence behind your answer. | decrease in one and the increase in the other would roughly even out. But as the allowance in the Supplier Price Cap for the wholesale price is forward looking, it will take the decrease into account but not the increase in BSUoS, meaning the cap will be unrealistic compared to the charges suppliers will be facing. |
| 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, I believe so, but the Task Force should explain the mechanism as part of the final report, so the industry can understand how the new charging methodology will fit in.<br>An Ofgem IA should also include the RCRC mechanism and any consequences. The RCRC methodology needs to be in line with the Electricity Balancing Guidelines and the Imbalance Settlement Harmonisation and Ofgem should investigate that changes to BSUoS do not affect compliance. |
| 11. Is there anything further you think the Task Force needs to consider? | N/A |
| 12. Please use this box to add any further comments that you may have | N/A |