



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
<p>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.</p>	<p>VPI Immingham LLP (VPI) own and operates a transmission connected CHP generator in North Lincolnshire.</p> <p>VPI has provided a short response to the second taskforce consultation. We strongly agree that GB consumers will benefit from BSUoS being levied directly onto final demand. On this basis, VPI is less focused on how BSUoS is actually levied however imagine a flat rate, calculated over a longer duration, would be the most manageable for Suppliers.</p> <p>For context, VPI has a must run component so is significantly penalised during low spark, high BSUoS settlement periods (e.g. overnight, high renewables, low demand) when it must continue to meet customers heat demand whilst it may not be economic to do so.</p> <p>From a commercial perspective, the uncertainty around BSUoS also means that retrospectively, the final profit/ loss on dispatch can change. During marginal periods, this means decision</p>

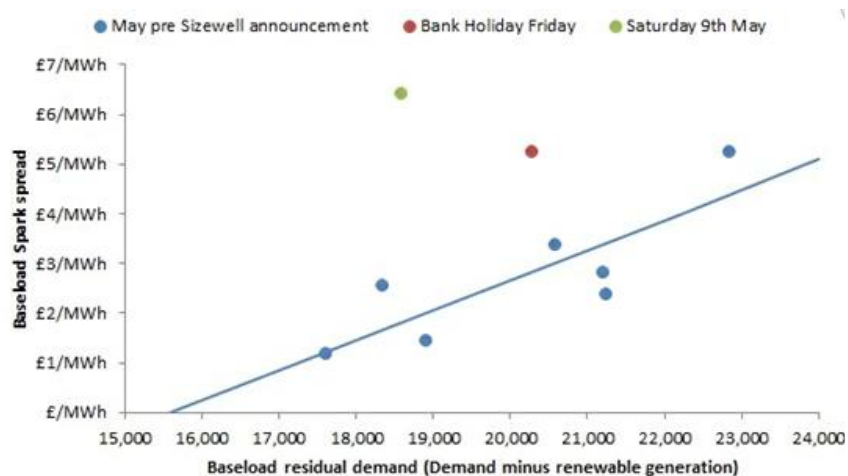
making around prudent operations is extremely difficult. As a 1.2GW generator, VPI must also shoulder a disproportionate amount of flat charges, such as the recent EDF Sizewell contract, overnight when it comprises a high percentage of the overall charging base.

Lessons from COVID

Demand conditions during COVID-19 are muted as being a “looking-glass into the future”. Ofgem has now also twice regulated that a BSUoS cap should be implemented to protect consumers from risk premia feeding through into wholesale prices, the BM and ancillary services.

VPI supported these modifications as, although National Grid is attempting to increase transparency on the system, the ESO has also entered high value, bilateral contracts that were agreed without flagging to the market – or tested for value for money. GB market participants are therefore now in the position where it is virtually impossible to accurately forecast BSUoS settlement costs, which could increase overtime to due inadequate congestion management investment. In recent years, National Grid has also been incentivised to focus on improving monthly rather than daily balancing forecasts so error margin is often high.

VPI notes the risk premia analysis discussed by the taskforce. The first weeks of May 2020 however acts as a good example of how uncertainty undoubtedly feeds through into wholesale price. The below chart shows how the market responded to uncertainty about the value of the summer 2020 Sizewell B contract (i.e. record annual sparks [at May 2020] in immediate aftermath during low demand bank holiday period).



VPI also agrees that the GB charging methodology treats generators differently to competitors in interconnected markets.

	Placing BSUoS on final demand will remove this element of disparity, as well as other distortions between transmission, behind the meter, and distributed 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 'grid defection' is a possibility and to what extent would the Task Force's recommendations impact on your answer?	<p>Ofgem should request robust evidence from large energy users (LEUs) around the risk of grid defection. VPI believe that theoretically, the risk premia on wholesale power should reduce, and therefore feed through to end users.</p> <p>VPI believes that BSUoS being placed on Final Demand is unlikely to be the tipping point for companies moving production offshore. Partial defection may be more likely as LEUs will still value being connected to the electricity system as a form of redundancy. The question is likely aimed more widely around the implications of wider charging reform (including gross supplier charging and loss of embedded benefits).</p> <p>The timing of any analysis around this issue should not detract from the ambition to regulate BSUoS reform. The limited notice provided around changes to the transmission residual and gas charging regime also demonstrates that Ofgem has the ability to implement changes quickly where it believes there is overriding value for consumers.</p>
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. An ex-ante charge will allow industry participants to accurately include this charge in their tariffs. Any associated risk premia would be better managed by National Grid, as the party responsible for minimising BSUoS costs. As stated, the ESO should be protected from default risk which is out of their 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.	VPI believes Suppliers and other final demand consumers are better placed to answer this question.
5. Which approach discussed by the Task Force (TDR banded £/site/day or volumetric £/MWh) do you feel is most appropriate for Balancing	VPI believes Suppliers and other final demand consumers are better placed to answer this question.

<p>Services Charges? Please consider your answer against the TCR principles and state your reasoning and evidence to support your answer.</p>	
<p>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 reasoning and evidence to support your answer.</p>	<p>VPI believes Suppliers and other final demand consumers are better placed to answer this question.</p>
<p>7. Is 2years' notice of the changes prior to an implementation date appropriate? Please state your reasoning and evidence behind your answer.</p>	<p>VPI believe that Ofgem should continue to be ambitious around BSUoS reform and implement by April 2022 latest. In line with changes in the TCR and SCR, Ofgem believes that notice of changes is enough, even if the final outcome is not confirmed. This should provide adequate time to develop a regulatory mechanism for the ESO, who would be charged with managing over/ under recovery for the BSUoS period. The ESO should be protected against risk of default, as well as sudden increases in BSUoS beyond business as usual.</p> <p>The workgroup discussed the opportunity for windfalls around the implementation date. The considerable uncertainty and lower liquidity/ reflective reference prices at the back of end of the curve means that these concerns are likely overdone and churn will be no higher than normal. The only benefit will be if BSUoS out-turns lower than as factored by the market (and on baseload products devoid of daily shape, there will be winners and losers anyway in this regard).</p> <p>VPI does not believe that Ofgem should implement change around the timescale of Supplier commercial contracts. The GB energy market is going through significant change, and any decision to enter into long-term agreements (by consumers or suppliers) was taken on a commercial basis which factored in the risk of regulatory change. BSUoS reform has been signposted for the last five years. The change in payment terms was also flagged in Ofgem's 2019 TCR decision document.</p> <p>As stated earlier, as a transmission generator, VPI has concerns around the continued distortion between transmission, distribution, BTM, as well as with cross-border</p>

	generation. This market distortion/ level playing field issue should be resolved in the immediate term and not left until later in the 2020s, along with an acceptance of lost consumer benefit.
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.	VPI does not support interim measures and believes Ofgem should be ambitious around its delivery timescales and deliver in April 2022 at the latest.
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.	N/A
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.	N/A
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

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