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, for the following reasons: **Offering better value to consumers** For generators, BSUoS charges are reflected in the wholesale market price, ancillary services and Balancing Mechanism through risk premia and pass-through transaction costs from generators. Distortions arise particularly where the charges were not applied consistently to all participants competing in those markets. Distortions and inefficient passthrough occurs as generators, who are unable to predict balancing costs, will place a risk premium on BSUoS based on their own perceptions of the volatility of the charge. Levying BSUoS solely on final demand removes these distortions on charges as 100% passthrough eliminates the need to introduce a risk premium. This ultimately results in a lower wholesale price, benefitting consumers.

	BSUoS has been established as a cost recovery charge by both the first and second Balancing Task Force. To be consistent with the TCR conclusions on treatment of residual charges, the most efficient approach is for final demand only to pay for this charge. As aforementioned, this avoids the more complicated approach associated with cost passing from generators, via multiple market mechanisms, to suppliers and ultimately final demand. **Increased harmonisation and competitiveness of UK generators to interconnectors/EU generators** GB generators currently face a disproportionate level of charges as compared with EU generators, thereby producing a competitive disadvantage in cross-border trades and EU trading platforms like Project TERRE. Removing BSUoS from generation addresses this distortion to competition in the wholesale and balancing service market between GB generators and EU Interconnectors / generators where most balancing service charges are levied on final demand. The distortion in energy markets resulting from GB generators who pay BSUoS and those who do not is equally addressed. With generation not liable for BSUoS charges, a level-playing field amongst all GB generators is established, which in turn encourages effective competition.
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?	
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. BSUoS has been established as a cost recovery charge that provides limited forward-looking signal to users. Market participants are unable to accurately forecast the charge due to its volatile nature, which they seek to account for through a risk premium in tariffs. An ex-ante fixed charge provides a level of certainty to users and mitigates suppliers' commercial risks of correctly pricing BSUoS into competitive tariffs. We believe a fixed charge provides an element of de-risking to demand users by providing a more stable, predictable element to their network charges. For instance, an ex-ante fixed volumetric charge will enable users to accurately factor in the BSUoS charge into their cost of capital estimation during the development phase, and have predictable costs during the operational phase. This increase in stability and predictability would encourage users to connect and remain connected to the grid.
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	We believe that the most appropriate fixed period will the option for "6 months of fixed period with 12 months' notice" (i.e. the third option). We consider that the fixed period must align with seasonality, to reflect changes in demand and resulting charging base between seasons. In addition, it would be important to keep the "effective from" dates in line with the tradeable seasons in the market (i.e. summer and winter) to allow for suppliers to adequately hedge their exposures relating to their contracts, which for suppliers would now focus more exclusively on hedging against re-tariffing and exposure to the wholesale market.

evidence behind your answer.	Having a 12 months' notice period would allow adequate time for the market to digest the associated costs correlated to the demand side. Any shorter notice period would make it difficult for suppliers to hedge and correctly price their customer tariffs. This could have unintended impacts on market liquidity and other market dynamics. For demand-side users, fixing costs over a lengthy period, with a similarly extensive notice period is preferable. This is to enable the revenue and cost estimates of operations impacted by the BSUoS charge to be locked in, resulting in the desired cost of capital.
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.	We support the second Task Force's conclusion that the TDR capacity banding methodology may not be an appropriate approach to adopt for BSUoS charging. While it may seem logical to use the same charging methodology for BSUoS and TDR, both costs address different requirements or actions carried out within the energy network. The TDR was set to reflect the users' need of network capacity, which makes a capacity charge valid. Whereas, BSUoS costs relate to the operation of balancing markets and ancillary services contracts, not the installed capacity of a physical network. BSUoS cost remains an energy service-related rather than asset infrastructure cost like the TDR, and as such should be billed in relation to energy volumes. Therefore, it will be fairer and more appropriate to implement fixed volumetric charges based on users' consumptions, where periodic re-banding that accurately captures changes in users' consumption/operation can also be implemented. Importantly, we believe the TCR principles should incorporate UK's net zero decarbonisation agenda and the role of demand user in achieving this ambition. Innovative users will require a charging approach that facilitates optimal energy consumption and continued connection to the grid.
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.	
7. Is 2years' notice of the changes prior to an implementation date appropriate? Please state your reasoning and evidence behind your answer.	No. Substantial reforms that affect use of system charges are due to be implemented at various points in the period 2021-2023, and it will be important for changes that are being introduced to be done in an aligned manner. A 2-year notice from the date of Ofgem's decision prolongs the harmful distortions faced by generators, and further extends the competitive disadvantage currently faced by GB generators compared to EU generators. We believe there should be a close interaction between the implementation of the TCR and the decision resulting from the 2nd BSUoS Task force. A lag between both implementation periods places GB generators at a significant disadvantage, ranging from wholesale market competition to business continuity/deployment of new projects.
8. Should the Task Force consider any interim measures? Please provide details of any suggested interim solution	No. A wide range of other reforms that may have interplay effects with the work done by the Task Force are currently ongoing. As well as the arrangements under the TCR, work within the Access Rights Significant Code Review and the implementation of RIIO-2 are likely to make substantial changes to the structure of network charges. Employing an interim measure in a charging regime already undergoing numerous significant changes will introduce

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.	further complexities which in turn adversely affects investor confidence.
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.	
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	We agree in principle that RCRC is related to balancing charges and it is a cost recovery mechanism, similar to BSUoS. We would welcome further analysis on the cost & benefit of any changes to RCRC. Our current understanding is that RCRC is a very small £/MWh charge comparing to TNUoS and BSUoS, and we would welcome some analysis/evidence on whether RCRC causes any material market distortion.

your reasoning and evidence behind your answer.	
11. Is there anything further you think the Task Force needs to consider?	
12. Please use this box to add any further comments that you may have	