

Section 2 – The Statement of the Balancing Services Use of System Charging Methodology

14.29 Principles

- 14.29.1 The Transmission Licence allows The Company to derive revenue in respect of the Balancing Services Activity through the Balancing Services Use of System (BSUoS) charges. This statement explains the methodology used in order to calculate the BSUoS charges.
- 14.29.2 The Balancing Services Activity is defined in the Transmission Licence as the activity undertaken by The Company as part of the Transmission Business including the operation of the transmission system and the procuring and using of Balancing Services for the purpose of balancing the transmission system.
- 14.29.3 The Company keeps the electricity system in balance (energy balancing) and maintains the quality and security of supply (system balancing). The Company is incentivised on the procurement and utilisation of services to maintain the energy and system balance and other costs associated with operating the system. Users pay for the cost of these services and any incentivised payment/receipts through the BSUoS charge.
- 14.29.4 All CUSC Parties acting as Generators and Suppliers (for the avoidance of doubt excluding all BMUs and Trading Units associated with either Interconnectors or Virtual Lead Parties) are liable for Balancing Services Use of System charges based on their energy taken from or supplied to the National Grid system in each half-hour Settlement Period.
- 14.29.5 BSUoS charges comprise the following costs:
- (i) The Total Costs of the Balancing Mechanism
 - (ii) Total Balancing Services Contract costs
 - (iii) Payments/Receipts from The Company's incentive schemes
 - (iv) Internal costs of operating the System
 - (v) Costs associated with contracting for and developing Balancing Services
 - (vi) Adjustments
 - (vii) Costs invoiced to The Company associated with Manifest Errors and Special Provisions.
 - (viii) BETTA implementation costs
 - ~~(viii)~~(ix) Financing costs, as agreed by The Authority, associated with the management of the Covid Support Scheme in 14.30.12

14.30 Calculation of the Daily Balancing Services Use of System charge

Calculation of the Daily Balancing Services Use of System charge

14.30.1 The BSUoS charge payable by customer *c*, on Settlement Day *d*, will be calculated in accordance with the following formula:

$$BSUoS_{TOT_{cd}} = \sum_{i \in c} \sum_{j \in d} BSUoS_{ij}$$

Where:

- i* - refers to the individual BM Unit
- j* - refers to an individual Settlement Period
- $\sum_{i \in c} \sum_{j \in d}$ - refers to the sum over all BM units '*i*', for which customer '*c*' is the Lead Party* summed over all Settlement Periods '*j*' on a Settlement Day '*d*'

14.30.2 A customer's charge is based on their proportion of BM Unit Metered Volume for each Settlement Period relative to the total BM Unit Metered Volume for each Settlement Period, adjusted for transmission losses by the application of the relevant Transmission Losses Multiplier.

For all liable importing and exporting BM Units in delivering Trading Units in a Settlement Period:

$$BSUoS_{ij} = \frac{BSUoS_{TOT_j} * QMBSUoS_{ij} * TLM_{ij}}{\left\{ \sum^+ (QMBSUoS_{ij} * TLM_{ij}) + \left| \sum^- (QMBSUoS_{ij} * TLM_{ij}) \right| \right\}}$$

For all liable importing and exporting BM Units in offtaking Trading Units in a Settlement Period:

$$BSUoS_{ij} = \frac{-1 * BSUoS_{TOT_j} * QMBSUoS_{ij} * TLM_{ij}}{\left\{ \sum^+ (QMBSUoS_{ij} * TLM_{ij}) + \left| \sum^- (QMBSUoS_{ij} * TLM_{ij}) \right| \right\}}$$

Where:

| | |
|-----------------|--|
| $BSUoS_{TOT_j}$ | Total BSUoS Charge applicable for Settlement Period <i>j</i> |
| $QMBSUoS_{ij}$ | BM Unit Metered Volume (QM_{ij})** for BSUoS Liable BM Units |
| TLM_{ij} | Transmission Loss Multiplier ** |

\sum^+ - refers to the sum over all BM Units that are in delivering Trading Units in Settlement Period '*j*'

\sum^- - refers to the sum over all BM Units that are in offtaking Trading Units in Settlement Period '*j*'

'delivering' and 'offtaking' in relation to Trading Units have the meaning set out in the Balancing and Settlement Code (excluding all Interconnector BMUs and Trading Units)

* or CUSC party associated with the BMUnits (listed in Appendix C of the BEGA) who is exempt from also being a BSC Party

** Detailed definition in Balancing and Settlement Code Annex X2 – Technical Glossary

- 14.30.3 For the avoidance of doubt, BM Units that are registered in Trading Units will be charged on a net Trading Unit basis i.e. if a BM Unit is exporting to the system and is within a Trading Unit that is offtaking from the system then the BM Unit in essence would be paid the BSUoS charge. Conversely, if a BM Unit is importing from the system in a delivering Trading Unit then the BM Unit in essence would pay the BSUoS charge.

Interconnector BM Units

- 14.30.4 BM Unit and Trading Units associated with Interconnectors, including those associated with the Interconnector Error Administrator, are not liable for BSUoS charges. BM Units, including Secondary BM Units, which are associated with Virtual Lead Parties are not liable for BSUoS charges.

Total BSUoS Charge (Internal + External) for each Settlement Period (BSUoSTOT_{jd})

- 14.30.5 The Total BSUoS charges for each Settlement Period (BSUoSTOT_{jd}) for a particular day are calculated by summing the external BSUoS charge (BSUoSEXT_{jd}) and internal BSUoS charge (BSUoSINT_{jd}) for each Settlement Period.

$$BSUoSTOT_{jd} = BSUoSEXT_{jd} + BSUoSINT_{jd}$$

External BSUoS Charge for each Settlement Period (BSUoSEXT_{jd})

- 14.30.6 The External BSUoS Charges for each Settlement Period (BSUoSEXT_{jd}) are calculated by taking each Settlement Period System Operator BM Cash Flow (CSOBM_j) and Balancing Service Variable Contract Cost (BSCCV_j) and allocating the daily elements on a MWh basis across each Settlement Period in a day.

$$\begin{aligned}
 BSUoSEXT_{jd} &= CSOBM_{jd} + BSCCV_{jd} \\
 &+ [(IncPayExt_d + BSCCA_d + ET_d - OM_d + BSC_d + SOTOC_d) \\
 &* \{ \left| \sum^+ (QMBSUoS_{ijd} * TLM_{ijd}) \right| + \left| \sum^- (QMBSUoS_{ijd} * TLM_{ijd}) \right| \} / \\
 &\sum_{j \in d} \{ \left| \sum^+ (QMBSUoS_{ij} * TLM_{ij}) \right| + \left| \sum^- (QMBSUoS_{ij} * TLM_{ij}) \right| \}]
 \end{aligned}$$

Calculation of the daily External Incentive Payment (IncPayExt_d)

- 14.30.7 IncPayExt_t is the external incentive payment for the Current **Financial Year**. This amount of this will be determined in line with Transmission Licence Special Condition 4M.
- 14.30.8 For **Financial Year** 2018/19 IncPayExt_d is calculated by dividing IncPayExt_t for **Financial Year** 2018/19 by the amount of days remaining within the current incentive scheme year. IncPayExt_d will be evenly spread and then apportioned by volume as per the current process (14.30.2).

Internal BSUoS Charge for each Settlement Period (BSUoSINT_{jd})

14.30.9 The Internal BSUoS Charges (BSUoSINT_{jd}) for each Settlement Period j for a particular day are calculated by taking the incentivised and non-incentivised SO Internal Costs for each Settlement Day allocated on a MWh basis across each Settlement Period in a day.

$$BSUoSINT_{jd} = [(SOPU_d + SOMOD_d + SOEMR_d + SOEMRCO_d + SOTRU_d) * RPIF_t] \\ * \left\{ \left| \sum^+ (QMBSUoS_{ijd} * TLM_{ijd}) \right| + \left| \sum^- (QMBSUoS_{ijd} * TLM_{ijd}) \right| \right\} \\ / \sum_{j \in d} \left\{ \left| \sum^+ (QMBSUoS_{ij} * TLM_{ij}) \right| + \left| \sum^- (QMBSUoS_{ij} * TLM_{ij}) \right| \right\}$$

Inclusion of Profiling Factors

14.30.10 Profiling factors have been included to give an effective mechanism for calculating a representative level of the incentive payments to/from The Company according to the time of year. All PFT_k are assumed to be one for the duration of the current external incentive scheme

Covid-19 specific changes

14.30.11 As a result of the Coronavirus-19 (Covid-19) pandemic, The Company will make specific and time-limited changes to the BSUoS methodology in this Section 2 to support those Users identified in 14.29.4. This will consist of deferring the BSUoS costs associated with Covid-19 ("Covid Costs"); as determined by The Company using reasonable endeavours; from the calculation in 14.30.5 to a later date as described in 14.30.13 and 14.30.14 (the "Covid Support Scheme").

14.30.12 Covid Costs shall comprise of the following:-

- i. Costs associated with the Optional Downward Flexibility Management service;
- ii. Costs associated with contracts with nuclear power stations which are related to forecast demand of less than 18GW;
- iii. Costs associated with inertia or voltage or footroom which are related to forecast demand of less than 18GW; comprising the net costs in the Balancing Mechanism of (a) offers to change dispatch BMUs at power stations or interconnectors and (b) bids to change dispatch BMUs of at power stations, demand or interconnectors;
- iv. Costs associated with the utilisation of Super SEL Contracts which are related to forecast demand of less than 18GW;
- v. Costs associated with any relevant Schedule 7A contracts to manage demand which are related to forecast demand of less than 18GW;
- vi. If relevant, any compensation arising from GC0143 emergency instructions to embedded generation; and
- vii. Financing costs, as agreed by The Authority, associated with the management of the Covid Support Scheme.

14.30.13 Between 1st May 2020 and 31st August 2020, the formula in 14.30.5 shall be updated so that Covid Costs (BSUoSCOVID_{id}) for Settlement Period j in Settlement Day d are removed as follows:

$$BSUoSTOT_{id} = BSUoSEXT_{id} + BSUoSINT_{id} - BSUoSCOVID_{id}$$

14.30.14 During the Financial Year 2021/22, the formula in 14.30.5 shall be updated so that Covid Costs (BSUoSCOVID_{id}) for Settlement Period j in Settlement Day d are added as follows:

$$BSUoSTOT_{id} = BSUoSEXT_{id} + BSUoSINT_{id} + BSUoSCOVID_{id}$$

During this period, the cumulative total Covid Cost of the Covid Support Scheme shall be recovered equally from each Settlement Period within that Financial Year. For the avoidance of doubt, this includes the costs for 14.30.12 (vii).

14.30.15 The cumulative total of the Covid Support Scheme, excluding the costs for 14.30.12 (vii), shall to be capped to a figure of £500m as follows:

$$£500m \geq \sum_{d=1}^n \sum_{j \in d} BSUoSCOVID_{jd}$$

Where:

$\sum_{d=1}^n \sum_{j \in d}$ refers to the sum over all Settlement Periods 'j' within Settlement Day 'd' summed over all Settlement Days from day 1 to day 'n'

BSUoSCOVID_{id} refers to Covid Costs (excluding the costs for 14.30.12 (vii)) in Settlement Period 'j' within Settlement Day 'd'

14.30.16 The Company shall provide weekly updates to notify industry of the total Covid Costs listed in 14.30.12. Should the cap on the Covid Support Scheme described in 14.30.15 be reached The Company shall notify industry that the Covid Support Scheme is closed and confirm that the Covid Support Scheme shall not be applied to BSUoS charges incurred from the next calendar day.

14.30.17 Outside of the date ranges listed in 14.30.13 and 14.30.14, the formula in 14.30.5 shall be unchanged and in effect unless the ESO determines, using reasonable endeavours, and The Authority agrees that the date range in 14.30.13 should be extended to a date no later than 31st March 2021 as the Coronavirus-19 (Covid-19) pandemic effects on balancing the transmission system are continuing.

14.31 Settlement of BSUoS

Settlement and Reconciliation of BSUoS charges

14.31.1 There are two stages of the reconciliation of BSUoS charges described below:

- Initial Settlement (SF)
- Final Reconciliation (RF)

Initial Settlement of BSUoS

14.31.2 The Company will calculate initial settlement (SF) BSUoS charges in accordance with the methodology set out in section 14.30 above, using the latest available data, including data from the Initial Settlement Run and the Initial Volume Allocation Run.

Reconciliation of BSUoS Charges

14.31.3 Final Reconciliation will result in the calculation of a reconciled charge for each settlement day in the scheme year. The Company will calculate Final Reconciliation (RF) BSUoS charges (with the inclusion of interest as defined in the CUSC) in accordance with the methodology set out in section 14.30 above, using the latest available data, including data from the Final Reconciliation Settlement Run and the Final Reconciliation Volume Allocation Run.

Unavailability of Data

14.31.4 If any of the elements required to calculate the BSUoS charges in respect of any Settlement Day have not been notified to The Company in time for it to do the calculations then The Company will use data for the corresponding Settlement Day in the previous week. If no such values for the previous week are available to The Company then The Company will substitute such variables as it shall, at its reasonable discretion, think fit and calculate Balancing Services Use of System charges on the basis of these values. When the actual data becomes available a reconciliation run will be undertaken.

Disputes

14.31.5 If The Company or any customer identifies any error which would affect the total Balancing Services Use of System charge on a Settlement Day then The Company will recalculate the charges following resolution of the error. Revised invoices and/or credit notes will be issued for the change in charges, plus interest as set out in the CUSC. The charge recalculation and issuing of revised invoices and/or credit notes will not take place for any day where the total change in the Balancing Services charge is less than £2000.

Relationship between the Statement of the Use of System Charging Methodology and the Transmission Licence

- 14.31.6 BSUoS charges are made on a daily basis and as such of this Statement sets out the details of the calculation of such charges on a daily basis. Customers may, when verifying charges for Balancing Services Use of System refer to the Transmission Licence which sets out the maximum allowed revenue that The Company may recover in respect of the Balancing Services Activity.
- 14.31.7 The Company has, where possible and appropriate, attempted to ensure that acronyms allocated to variables within the Balancing Services charging software, and associated reporting, match with the acronyms given to those variables used within this statement.

14.31.8

Balancing Services Use of System Acronym Definitions

For the avoidance of doubt “as defined in the BSC” relates to the Balancing and Settlement Code as published from time to time.

| EXPRESSION | ACRONYM | Unit | Definition |
|---|------------------------|-------------|--|
| BETTA Preparation Costs | BI | £ | As defined in the Transmission Licence |
| Balancing Mechanism Unit | BM Unit or BMU | | As defined in the BSC |
| Black Start Costs | BSC | £ | As defined in the Transmission Licence (means the allowed revenue from and associated with Black Start services in accordance with paragraph 4G.5 of Special Condition 4G (Black Start Allowed Revenue Cost Incentive)) |
| Balancing service contract costs – non-Settlement Period specific | BSCCA _d | £ | Non Settlement Period specific Balancing Contract Costs for settlement day d less any costs incurred within these values relating to Supplementary Balancing Reserve and Demand Side Balancing Reserve |
| Balancing Service Contract Cost | BSCC _j | £ | Balancing Service Contract Cost from purchasing Ancillary services applicable to a Settlement Period j less any costs incurred within these values relating to Supplementary Balancing Reserve and Demand Side Balancing Reserve |
| Balancing service contract costs – Settlement Period specific | BSCCV _{jd} | £ | Settlement Period j specific Balancing Contract Costs for settlement day d |
| External Balancing Services Use of System charge | BSUoSEXT _{jd} | £ | External System Operator (SO) Balancing Services Use of System charge applicable to Settlement Period j for settlement day d |
| Internal Balancing Services Use of System charge | BSUoSINT _{jd} | £ | Internal System Operator (SO) Balancing Services Use of System charge applicable to Settlement Period j for settlement day d |
| Total Balancing Services Use of System charge | BSUoSTOT _{cd} | £ | The sum determined for each customer, c, in accordance with this Statement and payable by that customer in respect of each Settlement Day d, in accordance with the terms of the Supplemental Agreement |
| Total Balancing Services Use of System charge | BSUoSTOT _j | £ | Total Balancing Services Use of System Charge applicable for Settlement Period j |
| System Operator BM Cash Flow | CSOBM _j | £ | As defined in the Balancing and Settlement Code in force immediately prior to 1 April 2001 less any costs incurred within these values relating to |

| EXPRESSION | ACRONYM | Unit | Definition |
|--|----------------|------|--|
| | | | Supplementary Balancing Reserve and Demand Side Balancing Reserve |
| Daily balancing services adjustment | ET_d | £ | Is the contribution on Settlement Day, d, to the value of ET_t where ET_t is determined pursuant to part B of Special Condition 4C of the Transmission Licence |
| Forecast incentivised Balancing Cost | FBC_d | £ | Forecast incentivised Balancing Cost for duration of the Incentive Scheme as at settlement day d |
| Allowed Income Adjustment relating to the SO-TO Code | IAT | £ | As defined in the Transmission Licence |
| External incentive payment | $IncPayExt_t$ | £ | As defined in the Transmission Licence. |
| Daily External incentive payment | $IncPayExt_d$ | £ | External Incentive payment for Settlement Day d |
| Cost associated with the Provision of Balancing Services to others | OM_d | £ | Is the contribution on Settlement Day, d, to the value of OM_t where OM_t is determined pursuant to part 2 of Condition AA5A of the Transmission Licence |
| Outage change allowance amount | ON | £ | As defined in the Transmission Licence |
| BM Unit Metered Volume | QM_{ij} | MWh | As defined in the BSC |
| BSUoS Liable BM Unit Metered Volume | $QMBSUoS_{ij}$ | MWh | QM_{ij} for all BM Units liable for BSUoS |
| Retail Price Index Adjustment Factor | RPIF | | As defined in the Transmission Licence |
| Balancing services deemed costs | RT_d | £ | Is the contribution on Settlement Day, d, to the value of RT_t where RT_t is determined pursuant to part 2 of Condition AA5A of the Transmission Licence |
| SOEMR Preparation Costs | SOEMR | £ | As defined in the Transmission Licence |
| SOEMR Preparation Costs Adjustment | SOEMRCO | £ | As defined in the Transmission Licence |
| Incremental change from SO Opening Base Revenue Allowance | SOMOD | | As defined in the Transmission Licence |

| EXPRESSION | ACRONYM | Unit | Definition |
|--|-------------------|------|---|
| SO Opening Base Revenue Allowance | SOPU | | As defined in the Transmission Licence |
| SO-TO funding allowance | SOTOC | £ | As defined in the Transmission Licence (means the SO-TO Mechanism cost allowance calculated in accordance with 4C.29 Special Condition 4J (SO-TO Mechanism)) |
| Revenue Adjustment with respect to actual and assumed RPI values | SOTRU | | As defined in the Transmission Licence |
| Tax Allowance | T | £ | As defined in the Transmission Licence |
| Transmission Loss Multiplier | TLM _{ij} | | As defined in the BSC |
| Total System Energy Imbalance Volume | TQEI _j | MWh | As defined in the Balancing and Settlement Code in force immediately prior to 1 April 2001 |
| Final Reconciliation Settlement Run | | | As defined in the BSC |
| Final Reconciliation Volume Allocation Run | | | As defined in the BSC |
| Initial Settlement Run | | | As defined in the BSC |
| Initial Volume Allocation Run | | | As defined in the BSC |
| Lead Party | | | As defined in the BSC |