# Initial Draft - BSUoS Fund Model Business Rules

We have begun to develop thinking on the potential fixed BSUoS models, further work is required however feedback on the early draft is appreciated.

Key principles

* We want the chance of re-setting tariffs to be a 1 in 100 year event
* The size of the BSUoS fund (and whether it’s required) will depend on the ESO ability to manage BSUoS under recovery risk over a 2 year period
* Analysis of cost variability within year will be available once the new BSUoS forecast model is completed

**To agree the level of BSUoS fund (assuming 3 month notice 12 month fix)**

* Every tariff setting period, the ESO produces a cost variability analysis for that period and the subsequent period
* This 2-year view is essential to ensure that the fund on day 1 of the subsequent fixed period has time to build to a level which is adequate
* Should the variability value exceed that of the ESO WCF then a BSUoS fund is required
* The BSUoS fund requirement will be calculated as:

Calculation of required change in BSUoS Fund\*:

[maximum total WCF required] in [the next 2 years]

**Less**

Currently available ESO WCF

**Less**

Current BSUoS fund

\* exception to this calculation is

**IF** [maximum total WCF required] in [the next 2 years] **<** [Currently available ESO WCF]

**THEN** return existing BSUoS fund (ie. set BSUoS fund to zero)

Terms:

[maximum total WCF required] = largest cumulative difference between [forecast cumulative BSUoS recovered in a fixed period if recovered at mean cost] and the [forecast cumulative BSUoS incurred in a fixed period], based on [1-in-100 year probability of high cost and high variability]

[the next 2 years] = “WCF forecast horizon” = notice period + fixed period + period to build up required additional WCF

**To set tariffs**

* The following calculation will be used:

(ESO forecast of costs + BSUoS fund requirement + k) / ESO forecast of Final Demand

**Creation of BSUoS fund**

* The BSUoS fund will be held in a separate account
* Once the BSUoS fund requirement has been met, any additional over-recovery is passed back through k via tariffs set for the next fixed period
* Any interest accrued in the BSUoS fund account will be consolidated into the BSUoS fund
* Should the BSUoS fund requirement decrease in future years, then additional money held in the fund will be passed back through k
* Should the BSUoS fund requirement increase in future years, then tariffs will increase accordingly
* Note – consideration is needed whether this cumulative approach is fair from a consumer perspective, or whether every year all funds need to be passed back & the pot re-filled again

**Final measure**

* Should the ESO not have sufficient funds available (the 1 in 100 year event has happened), tariffs can be re-set within the fixed notice period
* When re-setting tariffs the following calculation will be used:

(ESO forecast of costs for remainder of fixed period + k) / ESO forecast of Final Demand for remainder of fixed period

* Further reflection required on how this could work in reality

**Providing transparency to industry**

* If using a 3 month notice, 12 month fix approach – the ESO will provide quarterly BSUoS forecasts to industry. The timetable for these forecasts will be published annually:
  + In March we would produce initial tariffs for the following year, which is updated in June, with draft tariffs in September ahead of final tariffs in December each year.
* The ESO will provide notifications to industry when the following combined ESO WCF and BSUoS Fund utilisation rates are reached: 50%, 75%, 95%

**Invoicing**

* It is expected that invoicing through SF and RF runs continue as today
* The only variable through these runs will be on actual demand (compared to cost also being a variant today).