

## **Draft Business rules**

### **Introduction of ex-ante fixed BSUoS tariff**

- BSUoS charges are calculated and levied on a fixed price £/MWh (the “Fixed BSUoS Price”) per day for a period of twelve months (“the Fixed Price Period”) and notified to users three months in advance.
- The Fixed BSUoS Price will be applied to each BSUoS Liable User’s actual final demand metered volumes (including transmission losses) to derive that BSUoS Liable User’s BSUoS charge.
- The Fixed Price Period will begin on the 1st of the respective calendar month

### **Over / under recovery Process**

- Any over or under recovery can be reconciled through inclusion into future Fixed BSUoS tariffs, this can be both for actual and forecast values.

### **BSUoS Charge for a Liable User**

- The daily BSUoS charge for each BSUoS liable user is calculated through:  
User’s chargeable volume for the day (as reconciled through SF and RF)

#### **Multiplied by**

Fixed BSUoS Price for the fixed price period

### **Costs recoverable through BSUoS**

- The ESO can recover allowed revenue for BSUoS as per the Electricity Transmission Licence.

### **Tariff Setting Process**

- The probability of the fixed BSUoS price being valid for the fixed price period is set at a p99 level (1 in 100-year event would lead to restating tariffs)
- The ESO can calculate and collect a BSUoS Fund as an element of the Fixed BSUoS Price, this combined with the forecast of recoverable costs and the ESO WCF will result in P99 being covered.
- The same notice and fix periods that are used for the Fixed BSUoS Price apply for the BSUoS Fund. The combined ESO WCF and BSUoS fund is expected to cover the P99 risk of BSUoS cost volatility.
- The ESO WCF, and therefore liability, is capped at the size of the ESO ring fenced working capital facility. This is agreed between the ESO and Ofgem

### **To calculate whether a BSUoS fund is required**

- Every tariff setting period, the ESO produces a forecast cost variability analysis
- Should the variability value exceed that of the ESO WCF then a BSUoS fund is required
- The BSUoS fund requirement will be calculated as \*:
  - [maximum total WCF required] for the year
  - Less**
  - Currently available ESO WCF
  - Less**
  - Current BSUoS fund

\* exception to this calculation is

**IF** [maximum total WCF required] in [the year] < [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 year] = “WCF forecast horizon” = notice period + fixed period

### **BSUoS fund in year 1**

- To reduce the impact of BSUoS fund collection in the first fixed period, half of the BSUoS fund requirement will be added to the first fixed tariff. The remaining BSUoS fund requirement will be collected via the second fixed tariff
  - The remaining BSUoS fund requirement in the second tariff may be different than 50% for a number of reasons:
    - The overall BSUoS fund requirement may change if the variability changes from year 1 to year 2 (it could be higher or lower)
    - If the overall requirement remains the same, it may still not be 50% in the second period. The requirement may be higher if the fund has been used in the first fixed period. It may be less if we over recovered BSUoS in the first fixed period
- This means that in practice, P99 will not be covered in the first fixed period as only part of the fund has been collected, and therefore the likelihood of tariffs being reset in the first period will be higher.

### **BSUoS fund principles**

- The BSUoS fund will be held in a ringfenced ESO account
- Once the BSUoS fund requirement has been met, any additional over-recovery is passed back through reconciliation (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 the reconciliation process (k)
- Should the BSUoS fund requirement increase in future years, then tariffs will increase accordingly

### **To set tariffs**

- The following calculation will be used:  
Forecast of BSUoS recoverable costs for the fixed price period + reconciliation adjustment + “applicable BSUoS fund amount”

**Divided by**

Forecast of BSUoS chargeable volume for the fixed price period

### **Final measure**

- Should the ESO forecast that it will 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:

$$(\text{ESO forecast of costs for remainder of fixed period}) / \text{ESO forecast of Final Demand for remainder of fixed period}$$

There will need to be an element of a buffer included in the forecast of costs for the remainder of the fixed period, to protect from the risk that tariffs need to be re-set again in short succession. This should be assessed on a case by case basis due to the uncertainty of when in the fixed period tariffs may need to be reset, and what is happening on the system to cause the 1 in 100-year event to have taken place. An explanation will be provided in the tariff publication as to the calculation.

For clarity, such buffer would not result in the whole WCF (ESO and BSUoS fund), being refilled, due to the significant spike in prices this would have on re-set tariffs. This under-recovery would be recovered through future tariffs.

The ESO will use reasonable endeavours to consult on the re-set tariff, and level of buffer included. Note – in an emergency situation, this may be short notice engagement.

- A minimum of 5 Business Days' notice will be provided ahead of tariffs being re-set

### **Providing transparency to industry**

- If using a 3-month notice, 12-month fix approach – the ESO will provide quarterly BSUoS forecasts to industry.
  - As an example: 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 produce a calendar annually, which sets out the new tariff publication dates, and also the implementation date for the respective tariff
- The ESO will provide monthly updates to industry on the usage of the funds available (i.e. ESO WCF and BSUoS fund)
- Should 80% of total funds available be used, the ESO will begin providing updates each working day on usage to industry
- As today, balancing service cost forecasts will continue to be published over a 2-year time horizon and updated monthly.

### **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).