Fixed BSUoS Tariff Webinar

5th April 2023

A recording of this webinar is available by clicking **HERE**

ESO

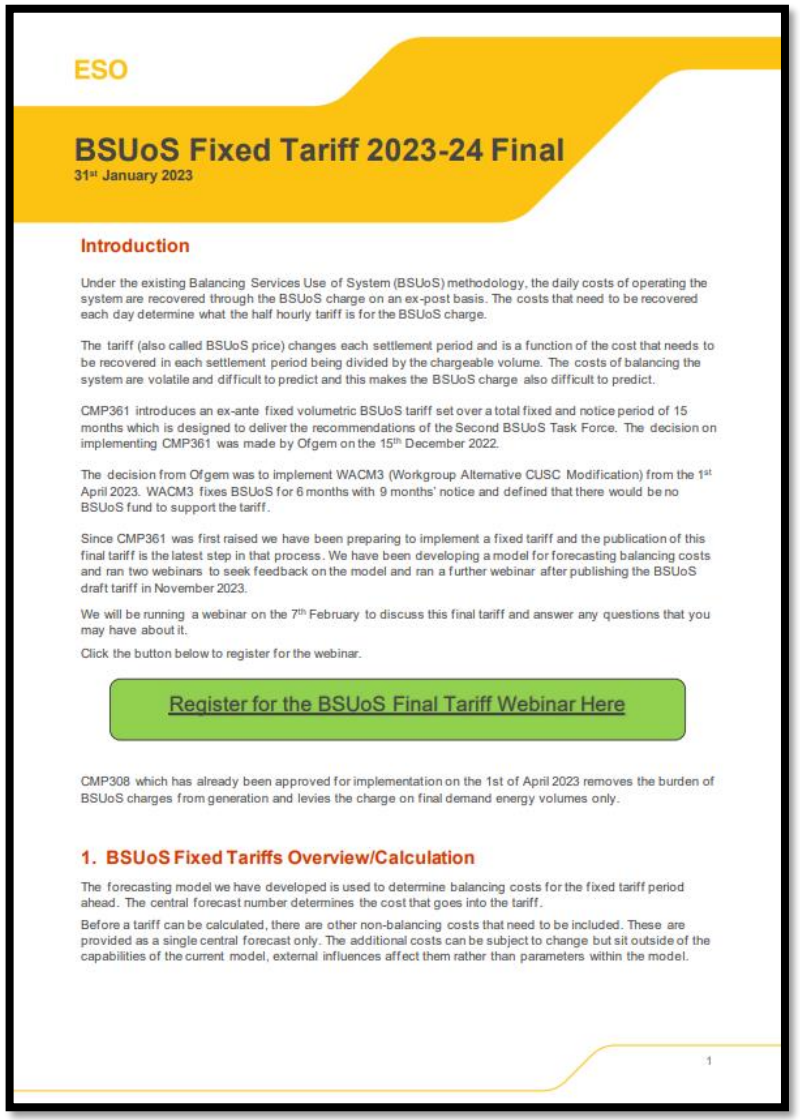
Agenda

Supporting the webinar today + others!

				
Nick Everitt Revenue Manager - Tariff Setting	**Dan Drew** Modelling & Insights Team Manager	**Rebecca Knight** Senior Modelling Specialist	**Sara Alizadeh** Senior Modelling Specialist	**Craig Bell** Finance Business Partner

- ***We will be recording the session*** *– to be shared on the ESO website for those not able to attend*
- ***Please use teams chat to ask any questions & we*** *will have time at the end to run through them*
- ***If you want to ask a question verbally*** *during the Q&A session please raise your hand to be unmuted*

BSUoS Fixed Tariff Recap



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BSUoS Fixed Tariff 2023-24 Final

31st January 2023

Introduction

Under the existing Balancing Services Use of System (BSUoS) methodology, the daily costs of operating the system are recovered through the BSUoS charge on an ex-post basis. The costs that need to be recovered each day determine what the half hourly tariff is for the BSUoS charge.

The tariff (also called BSUoS price) changes each settlement period and is a function of the cost that needs to be recovered in each settlement period being divided by the chargeable volume. The costs of balancing the system are volatile and difficult to predict and this makes the BSUoS charge also difficult to predict.

CMP361 introduces an ex-ante fixed volumetric BSUoS tariff set over a total fixed and notice period of 15 months which is designed to deliver the recommendations of the Second BSUoS Task Force. The decision on implementing CMP361 was made by Ofgem on the 15th December 2022.

The decision from Ofgem was to implement WACM3 (Workgroup Alternative CUSC Modification) from the 1st April 2023. WACM3 fixes BSUoS for 6 months with 9 months' notice and defined that there would be no BSUoS fund to support the tariff.

Since CMP361 was first raised we have been preparing to implement a fixed tariff and the publication of this final tariff is the latest step in that process. We have been developing a model for forecasting balancing costs and ran two webinars to seek feedback on the model and ran a further webinar after publishing the BSUoS draft tariff in November 2023.

We will be running a webinar on the 7th February to discuss this final tariff and answer any questions that you may have about it.

Click the button below to register for the webinar.

Register for the BSUoS Final Tariff Webinar Here

CMP308 which has already been approved for implementation on the 1st of April 2023 removes the burden of BSUoS charges from generation and levies the charge on final demand energy volumes only.

1. BSUoS Fixed Tariffs Overview/Calculation

The forecasting model we have developed is used to determine balancing costs for the fixed tariff period ahead. The central forecast number determines the cost that goes into the tariff.

Before a tariff can be calculated, there are other non-balancing costs that need to be included. These are provided as a single central forecast only. The additional costs can be subject to change but sit outside of the capabilities of the current model, external influences affect them rather than parameters within the model.

1

Step	Link/Date
Final BSUoS Fixed Tariffs Published 31/01/2023	Download
CMP408 Change tariff notice period to 3 months	16/03/2023
TCMF Sub group looking at fund + wider remit	22/03/2023
CAB change implementation	31/03/2023
Move Forecast to Revenue team	01/04/2023
Industry Webinar to discuss reporting/tariff reset methods	05/04/2023
Fixed Tariff II – First Run	12/04/2023
Fixed Tariff SF – First Run	27/04/2023
Draft Tariff for P3 - Apr 2024 to Sep 2024	30/04/2023
Final Tariff for P3 - Apr 2024 to Sep 2024	31/06/2023
Draft Tariff for P4 - Oct 2024 to Mar 2025	30/09/2023
BSUoS billing moves to STAR system	>31/05/2024
Note : Above tariff timetable could change as a result of CMP408	

What's the same

- Invoiced daily on SF and RF settlement data
- Information provided daily on II settlement data
- 3 day payment terms for invoices
- Chargeable on final demand volume at the BMU level at a price per MWh
- Aggregated at BSC party level for invoicing
- We will continue to provide web prices, additional data added to this report
- BPA report undergone minor changes
- Payment calendar will continue to drive billing run timings
- **RF Run continues to be calculated/invoiced in variable tariff methodology**

What's different

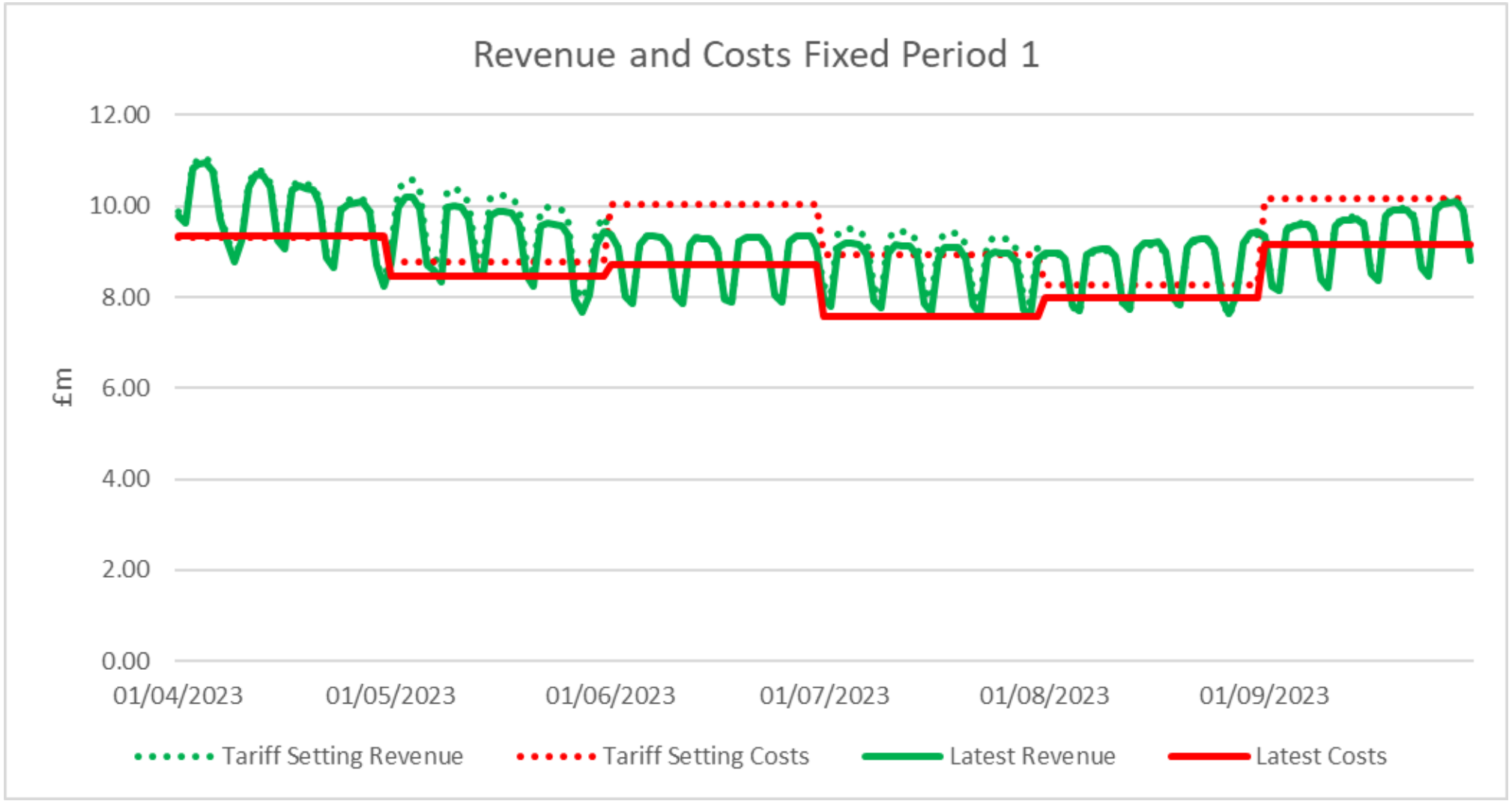
- The price/tariff is fixed rather than changing every settlement period
- BSUoS charges will be levied on final demand only
- There will be no change of cost at the RF stage, volume only adjustment
- BCR report no longer able to be produced
- We will report weekly on the variance between the recovery and the actual balancing spend
- Tariff forecasts will be produced on a quarterly basis

Final Tariff Reminder

	Financial Year 2023/24 - Tariff 1	
	Description	Final Tariff
Apr - Sep	Balancing Costs (Central) £m	1387
	Internal Costs £m	215.95
	CMP395 Recovery	Included in Balancing Costs
	Winter Security of Supply £m	87.5
	Total BSUoS £m	1690.45
	Estimated BSUoS Volume TWh	126.1
	BSUoS Tariff £/MWh	**£13.41**

	Financial Year 2023/24 - Tariff 2	
	Description	Final Tariff
Oct - Mar	Balancing Costs (Central) £m	1803
	Internal Costs £m	215.95
	CMP395 Recovery	Included in Balancing Costs
	Winter Security of Supply £m	87.5
	Total BSUoS £m	2106.45
	Estimated BSUoS Volume TWh	150.1
	BSUoS Tariff £/MWh	**£14.03**

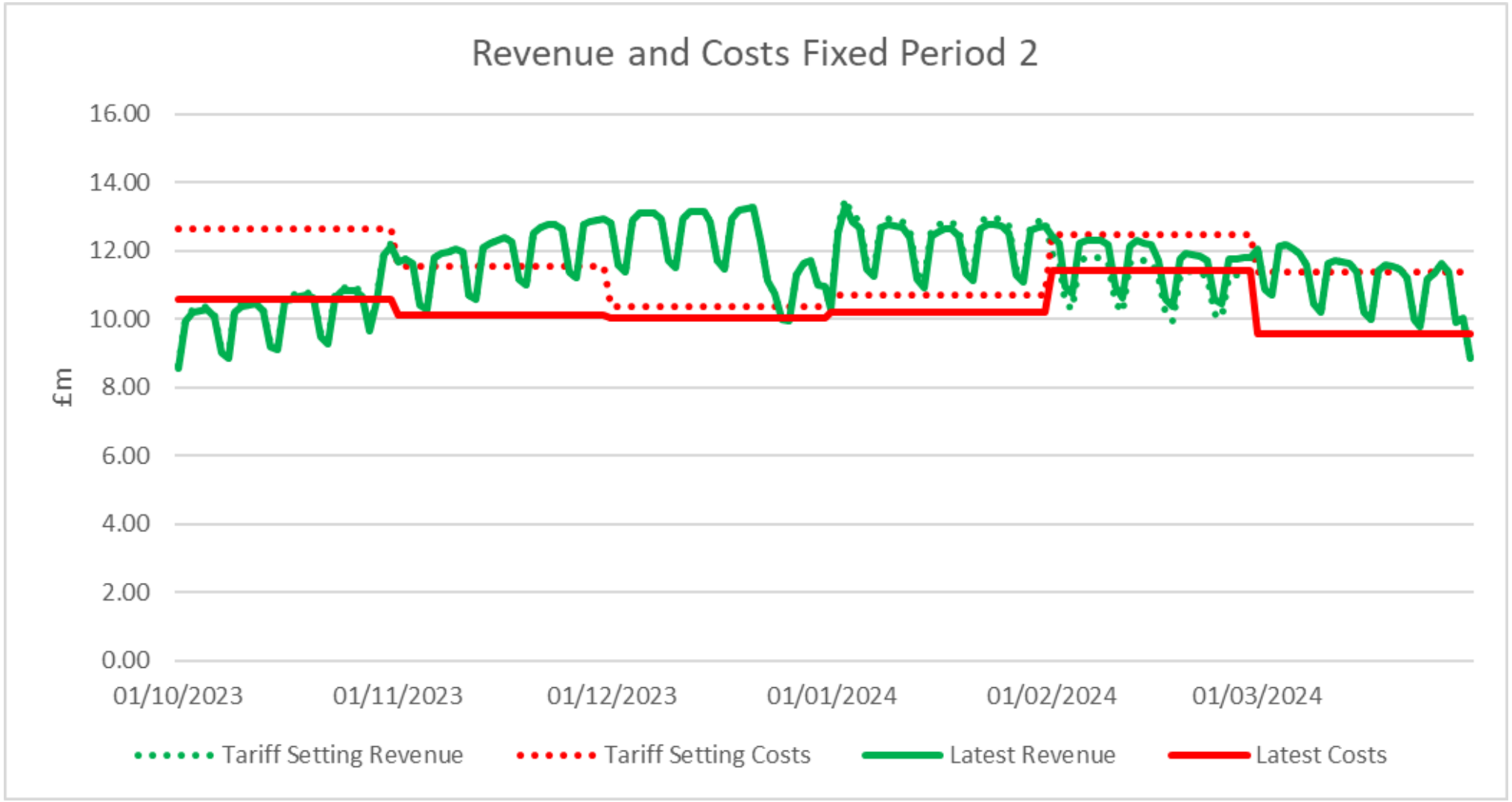
Tariff Recovery v Latest Forecast



Forecast cash position at end of fixed period 1

£131m

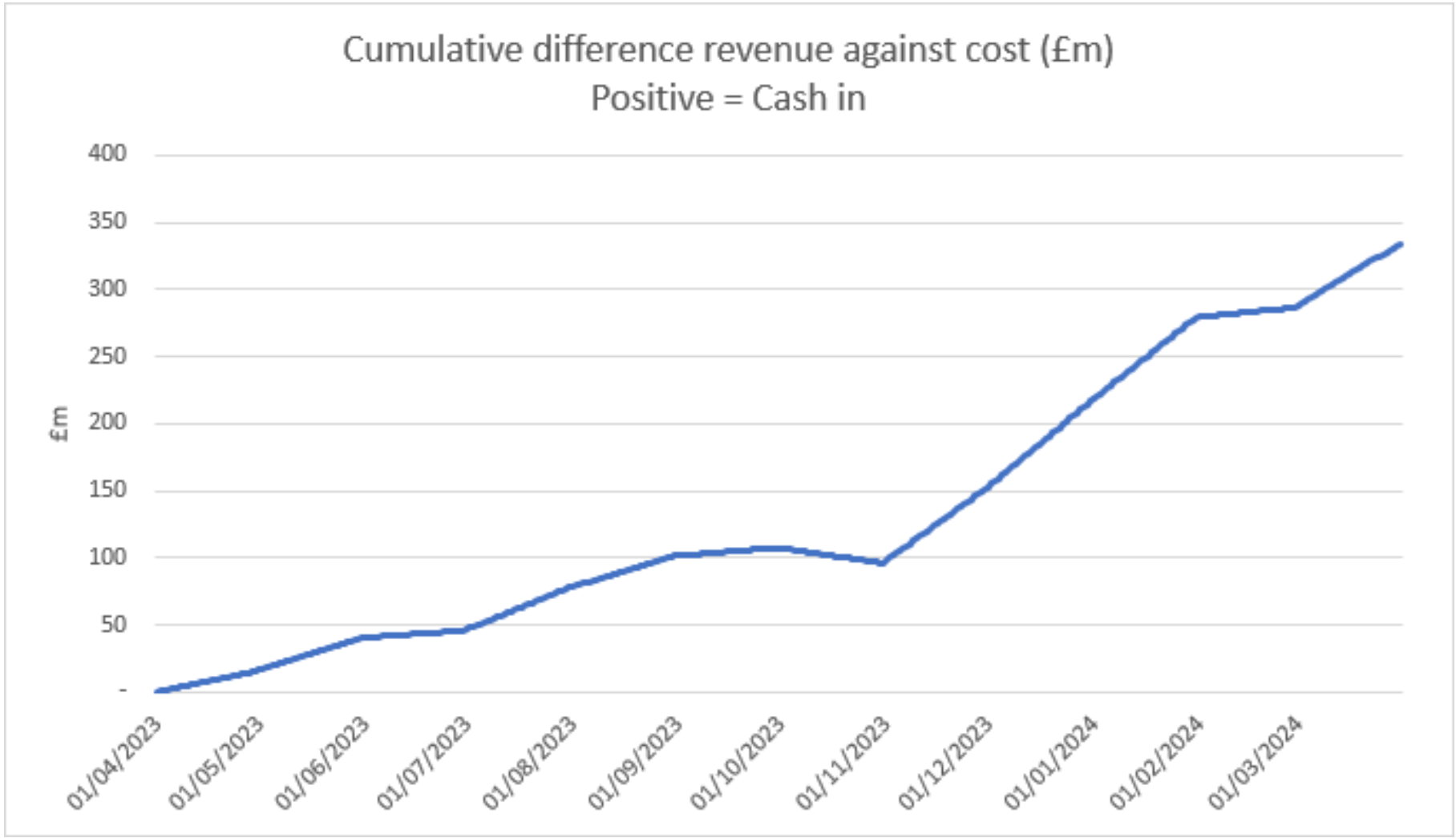
Tariff Recovery v Latest Forecast



Forecast cash position at end of fixed period 2

£334m

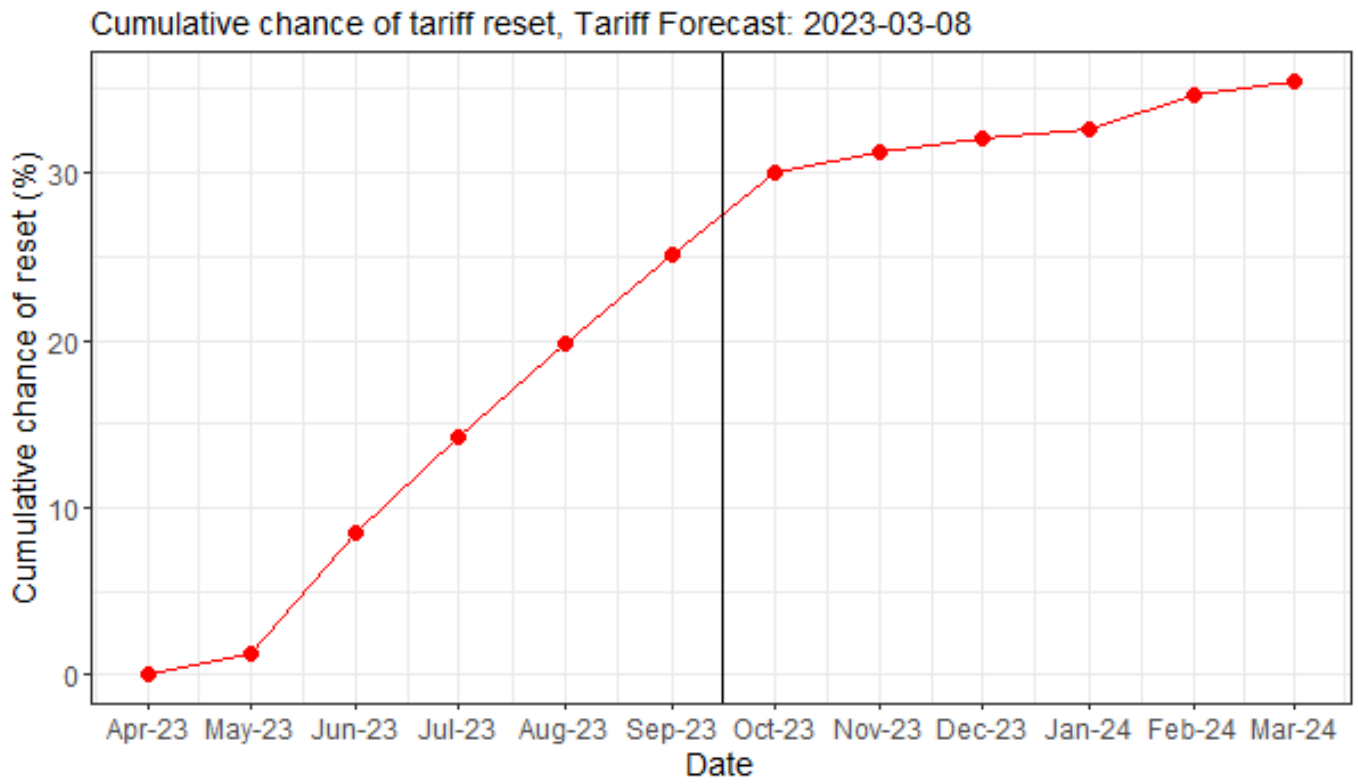
Cumulative cash position



Analysis on the probability of tariff reset

In the previous webinar we received a question on the likelihood of a mid-period tariff reset.

- Our analysis shows a **35% chance of tariff reset before the end of Mar-24**.
- A ‘reset’ is assumed if the running total of income from the tariff, plus the initial £300m working capital fund, is less than the total of the cumulative expenditure.
- The only volatility considered is in the Balancing Costs component of the BSUoS Tariff. Other elements (e.g. BSUoS volumes, internal costs, or the Winter 23/24 Security of Supply components) are assumed to outturn as forecast at final tariff setting.
- The analysis uses a simulation-based approach where each simulation is given an equal likelihood of occurring.
- The calculation is based on the forecast published in Mar-23. The probabilities will change for each forecast as the new best view of costs deviates from the set tariffs.



Model Improvements

- 2 Prior industry consultations regards the model
- Minor updates implemented based on industry feedback.

Ongoing work by Modelling and Insights team:

- Investigating new methods for deriving wholesale electricity forward curve.
- Reviewing best approach for incorporating constraint cost forecast
- Innovation project with the Hartree Centre:
    - Investigating the scope for using Machine Learning methods for forecasting monthly balancing costs
    - Short-term daily balancing cost forecast
    - Project runs until end 2023

BSUoS Cost Make Up & Monitoring

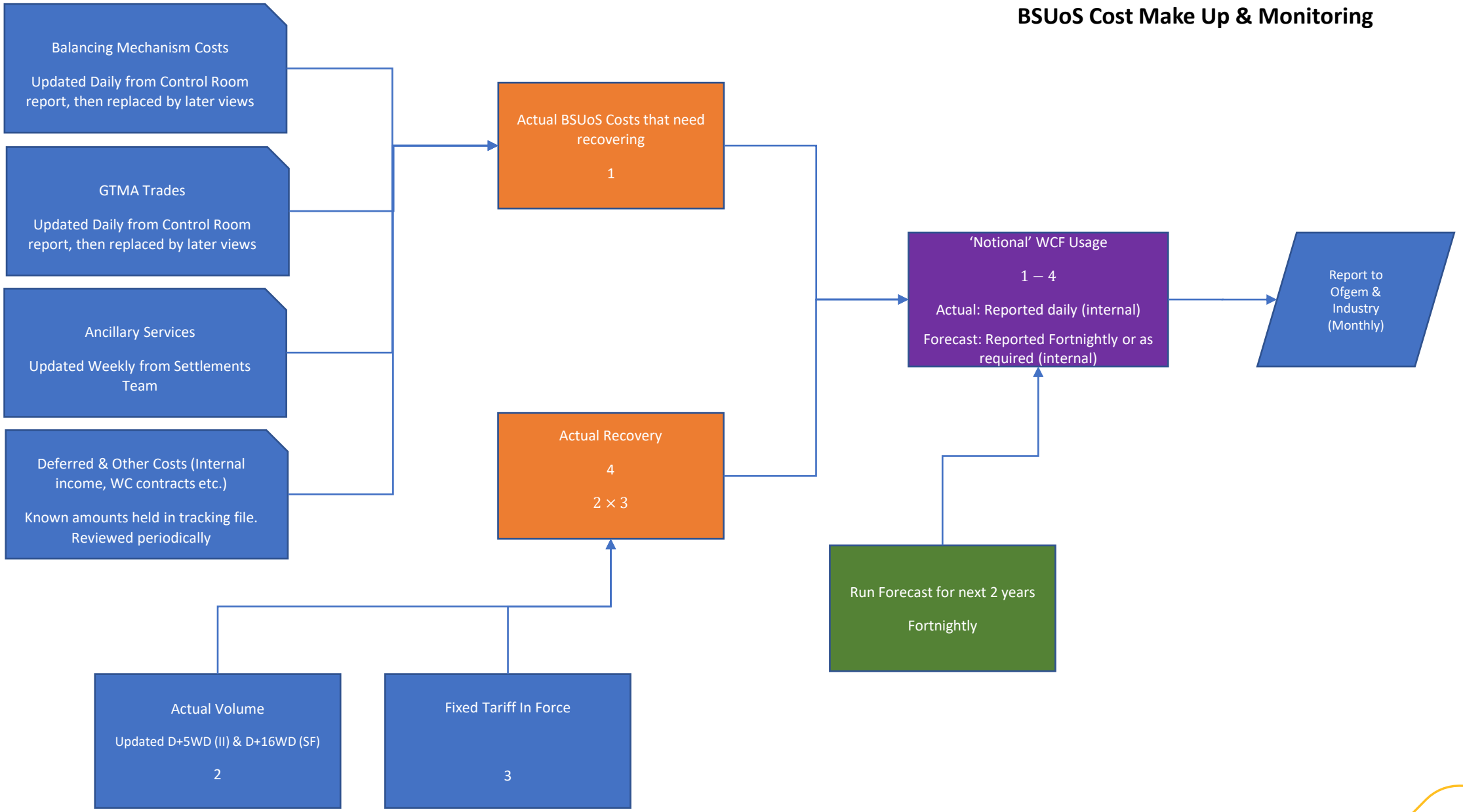


Chart 1

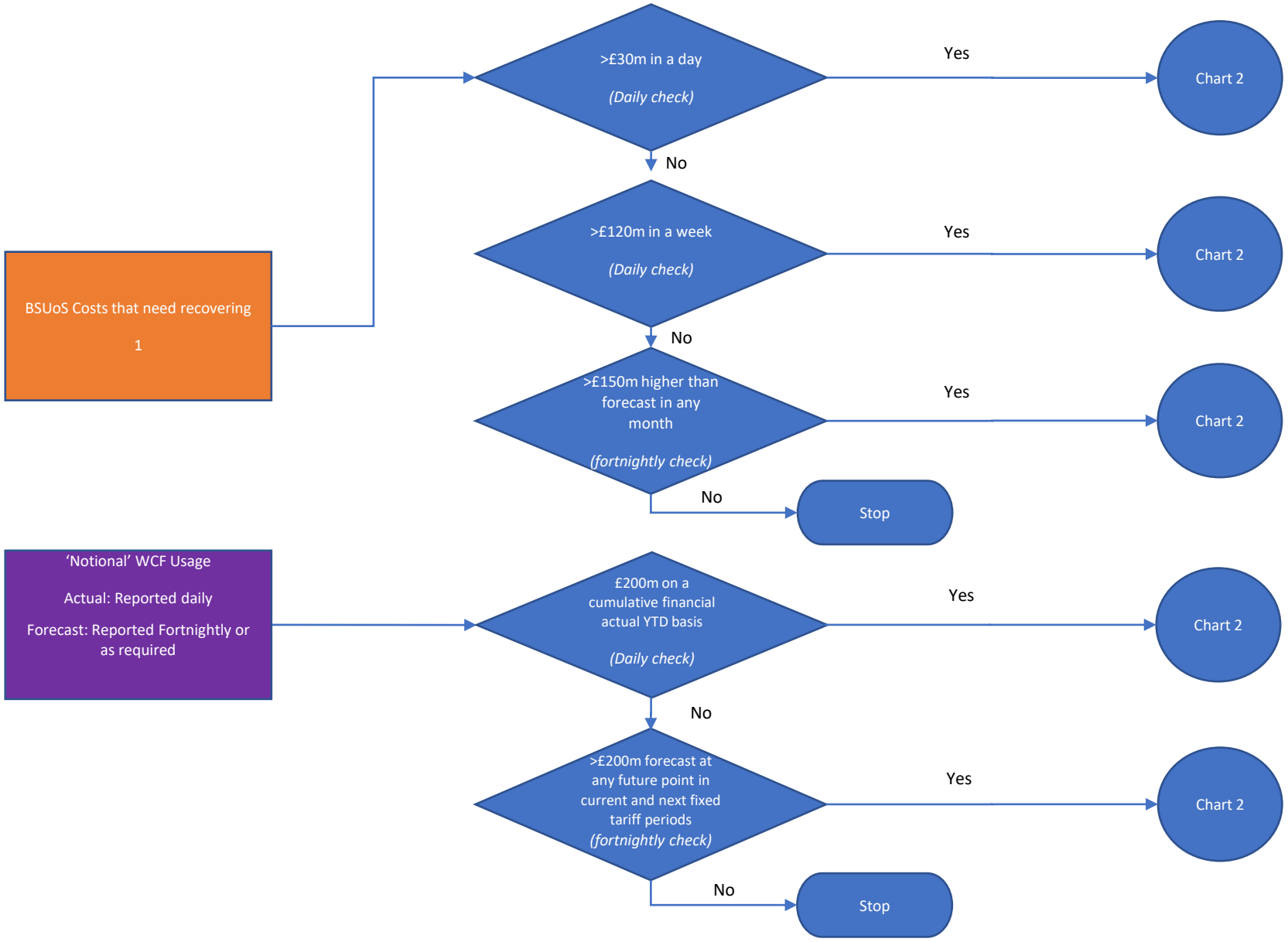
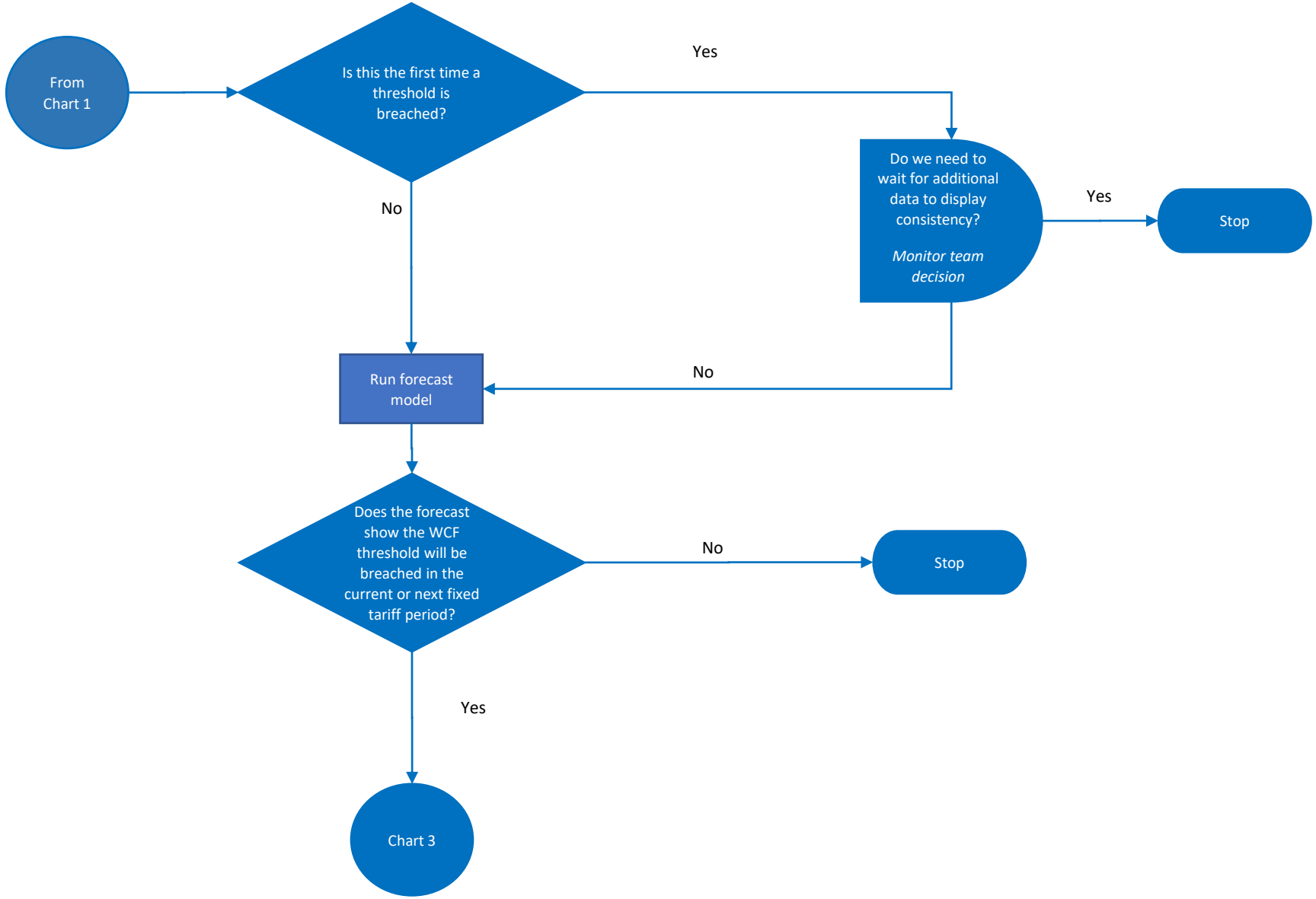
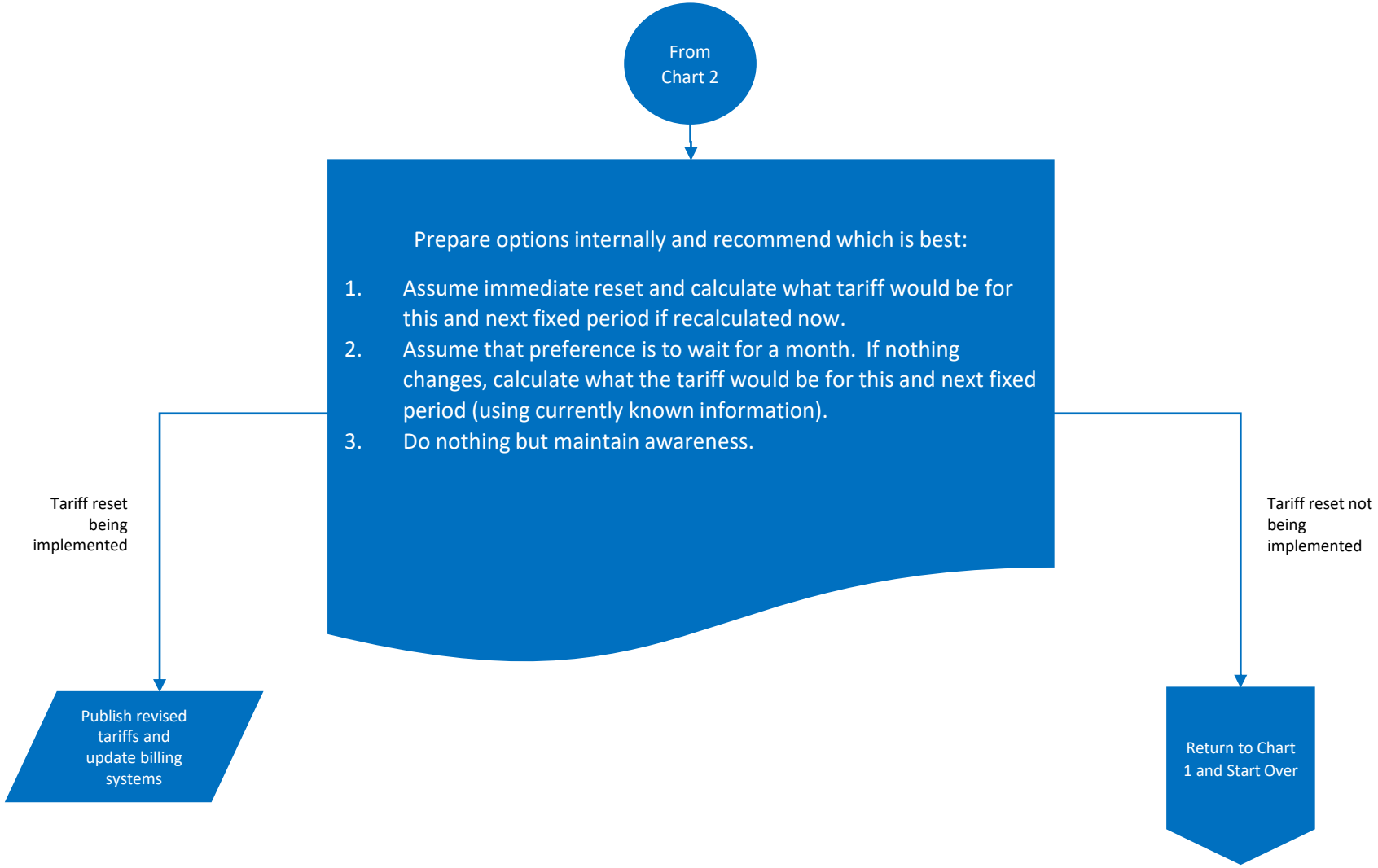

BSUoS Costs that need recovering
1
>£30m in a day
(Daily check)
Yes
Chart 2
No
>£120m in a week
(Daily check)
Yes
Chart 2
No
>£150m higher than forecast in any month
(fortnightly check)
Yes
Chart 2
No
Stop
'Notional' WCF Usage
Actual: Reported daily
Forecast: Reported Fortnightly or as required
£200m on a cumulative financial actual YTD basis
(Daily check)
Yes
Chart 2
No
>£200m forecast at any future point in current and next fixed tariff periods
(fortnightly check)
Yes
Chart 2
No
Stop

Chart 2


From Chart 1
Is this the first time a threshold is breached?
Yes
No
Do we need to wait for additional data to display consistency?
Monitor team decision
Yes
Stop
No
Run forecast model
Does the forecast show the WCF threshold will be breached in the current or next fixed tariff period?
No
Stop
Yes
Chart 3


From Chart 2
Prepare options internally and recommend which is best:
1. Assume immediate reset and calculate what tariff would be for this and next fixed period if recalculated now.
2. Assume that preference is to wait for a month. If nothing changes, calculate what the tariff would be for this and next fixed period (using currently known information).
3. Do nothing but maintain awareness.
Tariff reset being implemented
Tariff reset not being implemented
Publish revised tariffs and update billing systems
Return to Chart 1 and Start Over

Q&A

- Please enter your questions in teams chat
- If you would like to ask a question verbally then please raise your hand so that you can be unmuted
- If you have any questions or feedback after this webinar please email bsuos.queries@nationalgrideso.com and put “BSUoS Fixed Tariff April 2023 Webinar” in the subject line of your email

Thank you for your time and input today!