Appendix: Responses to the consultation of the Balancing Services Charges Draft Report

Background

The draft report of the Balancing Services Charges Task Force has been published for consultation on 2nd May 2019 as the Task Force welcomes industry views on the draft report.

The objective of the consultation on the draft report was for the Task Force to ensure the wider industry has the opportunity to review and provide feedback on the work and draft conclusions of the Task Force ahead of the final report being sent to Ofgem. The report does not propose any change to frameworks.

The five consultations questions are stated below. The Task Force highlighted it welcomes all available rationale and evidence to support responses, in particular if respondents didn't agree with the Task Force draft conclusions.

1. Do you agree with the draft conclusion of the Task Force regarding Deliverable 1 (Y/N)? Please explain your rationale and provide evidence where possible.
2. Do you agree with the draft conclusion of the Task Force regarding Deliverable 2 (Y/N)? Please explain your rationale and provide evidence where possible.
3. Do you agree with the draft conclusion of the Task Force regarding Deliverable 3 (Y/N)? Please explain your rationale and provide evidence where possible.
4. Do you agree with the overall draft conclusion of the Task Force (Y/N)? Please explain your rationale and provide evidence where possible.
5. Do you have any other comments in relation to the draft report or draft conclusions of the Task Force?

This document contains all the 24 non-confidential responses received by the Task Force. An overview of the feedback as well as a detailed summary of the responses for each of the five consultation questions is available in the final report published on the Charging Website here.

The Task Force would like to thank all the respondents for their thoughtful answers and input.

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Balancing Services Charges Draft Report Consultation: Response Proforma

Response Pro-forma

The Balancing Services Charges Task Force invites responses to this consultation by **17th May 2019 at 17:00**. The responses to the specific consultation questions (below) or any other aspect of this consultation can be provided by completing the following proforma.

We appreciate that 10 working days is a relatively short consultation period, but this will enable us to publish our final report on the 31st May 2019 as per our Terms of Reference. The objective of the consultation on the draft report is for the Task Force to ensure the wider industry has the opportunity to review and provide feedback on the work and draft conclusion of the Task Force ahead of the final report being sent to Ofgem. The draft report does not propose any change to frameworks at this stage.

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The Task Force welcomes all available rationale and evidence to support your responses, in particular if you don't agree with the Task Force draft conclusions.

Respondent Name: Joshua Logan (01757 612736)
Company Name: Drax Group Plc

Consultation Questions

Question 1	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 1? Please explain your rationale and provide evidence where possible.**
Yes	
We agree that BSUoS charges do not currently provide any forward-looking signals which influence user behaviour in a way that reduces whole system costs. This is because: • BSUoS is an ex-post charge which is difficult to accurately forecast. • BSUoS charges are an aggregation of many different costs with different drivers. • The cost drivers themselves are increasingly volatile as they depend upon market conditions in the given period.	

- There are existing market signals that are more material.
- BSUoS charges are applied on an equal £/MWh basis to all chargeable users.

We agree with the impact on the market and end consumers, which is highlighted in the report. Market participants are finding it increasingly difficult to accurately forecast BSUoS charges in the most volatile periods. To mitigate this, market participants must apply a risk premium, which further impacts the market and end consumers.

As identified by the Task Force, BSUoS is typically higher overnight and in periods of high wind generation. However, we agree that BSUoS charges do not provide a meaningful signal to reduce whole system costs. Interactions between demand behaviour and generation outturn/technology utilisation are influenced by other external factors, independent of BSUoS pricing. Furthermore, power is traded over timescales ranging from the year ahead up to real time, with no meaningful foresight of likely wind output at the point of delivery for the majority of the trading window.

Question 2	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 2? Please explain your rationale and provide evidence where possible.**

Yes

The four options identified by the Task Force appear to cover an adequate range of proposals to explore.

We note that the explanation accompanying each option was very short. There would have been merit in providing additional detail and practical examples.

Question 3	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 3? Please explain your rationale and provide evidence where possible.**

Yes

We support the Deliverable 3 conclusion of the Task Force. Theoretically, it may be possible to deliver whole system benefits by making BSUoS more cost-reflective and forward-looking. However, the assessment clearly identifies the practical difficulties in achieving meaningful forward-looking, cost reflective charges that can be acted upon by market participants. We agree with the rationale in the report:

- An effective forward-looking signal should be built from marginal, rather than total, costs. A forward-looking signal based on short-run marginal costs may be achievable through market splitting, although this was outside the scope of the taskforce.
- Any forward-looking and cost-reflective charge is highly unlikely to be compatible with existing charging signals. TNUoS provides an investment signal using long-run marginal costs. Economic theory suggests it's not efficient to have multiple long-run marginal cost and short-run marginal cost signals which are not compatible with each other (e.g. they provide contrasting signals between short-term dispatch and long-term investment). There would also be a risk of double-counting.
- Under the options identified, it's likely the existing issues (hard to forecast, volatile, complex, etc.) with BSUoS would be exacerbated. This is likely to result in parties applying increased risk premiums in wholesale and retail market prices.
- Allocating BSUoS costs to parties that are "responsible" for causing them will be very complex in practice. "Responsible" can be subjective, depending upon market conditions, and the examples provided in the report illustrate this would distort the market.

Question 4	**Do you agree with the overall draft conclusion of the Task Force? Please explain your rationale and provide evidence where possible.**

Yes
Through consideration of the options identified, we agree it's not feasible charge any BSUoS components in a meaningful cost-reflective and forward-looking manner – it would not effectively influence user behaviour. The costs within BSUoS should all be treated on a cost-recovery basis.

Question 5	**Do you have any other comments in relation to the draft report or draft conclusions of the Task Force?**
Yes.	
The Task Force has met its Terms of Reference (ToR) and concluded BSUoS charging should be a cost-recovery process. Addressing the existing issues with BSUoS (volatile, distorts cross-border trading etc.) are outside the taskforce ToR and it's critical these are now dealt with through code modifications. The conclusion of the taskforce should now guide necessary changes to BSUoS to implement an appropriate cost-recovery methodology. **Which parties should be liable for BSUoS charges?** Ofgem's TCR minded to decision suggests that residual cost-recovery charges should be placed on demand. CUSC modifications CMP308 and CMP281 seek to address market distortions caused by the existing BSUoS charging methodology. We support placing 100% of BSUoS on demand (excluding storage demand) and note that CMP308 and CMP281 would achieve this outcome, should both be approved. **How should the BSUoS charge be structured?** The issue of volatility and applied risk premiums must be addressed to reduce costs for end consumers. This can be achieved by fixing BSUoS ahead of time and can be done in multiple ways. Drax raised CMP250 in 2015 which sought to fix the £/MWh value of BSUoS for the charging year with a twelve-month notice period. Another approach would be to mirror the treatment of TNUoS residual charges in Ofgem's TCR minded to decision. Should BSUoS be levied 100% on demand there needs be consideration given to the method of recovery, this could be a fixed £/MWh or daily charge. Either way, there will be a cost associated with implementing such changes and this must be considered by Ofgem to ensure the most economic and efficient methodology is established. It's essential there is engagement with suppliers throughout the process. We expect modifications to be raised following Ofgem's assessment of this report and believe the conclusion of the Task Force strongly supports the fixing of BSUoS with an appropriate ex-ante notice period. Any modifications must have a sufficient lead time to implementation, this will ensure system/IT changes can be made at the lowest cost to consumers and minimise any unintended consequences.	

Balancing Services Charges Draft Report Consultation: Response Proforma

Response Pro-forma

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Respondent Name:	Laurence Barrett
Company Name:	E.ON UK

Consultation Questions

Question 1	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 1? Please explain your rationale and provide evidence where possible.**
Yes/No	Yes, E.ON agrees with this conclusion.
Rationale	As we have indicated in previous responses on this topic, E.ON believes the current BSUoS charge does not provide a forward-looking signal. E.ON agrees with the issues outlined in the draft report with regards to the current BSUoS charge. It is difficult to forecast and increasingly volatile. E.ON agrees that the uncertainty in the BSUoS charge creates risk for market parties which inevitably has to be mitigated through risk premiums.

Question 2	Do you agree with the draft conclusion of the Task Force regarding Deliverable 2? Please explain your rationale and provide evidence where possible.
Yes/No	Yes, E.ON agrees with this conclusion.
Rationale	E.ON agrees that there are several components of BSUoS that have no scope to be reformed into a forward-looking charge. Black Start, ESO Internal Costs, Energy Imbalance and certain elements of Response and Reserve are all clear cost-recovery components. These costs will be incurred regardless of any potential signal sent through BSUoS. This means that there is no marginal cost basis on which to create a forward-looking charge. E.ON agrees in principle that the four options outlined in Deliverable 2 describe components of BSUoS that could potentially be reformed into a forward-looking charge if all the limitations, of which there are many, could be overcome.

Question 3	Do you agree with the draft conclusion of the Task Force regarding Deliverable 3? Please explain your rationale and provide evidence where possible.
Yes/No	Yes, E.ON agrees with this conclusion.
Rationale	E.ON agrees with the overarching economic theory that is described within the report around forward-looking signals being based upon marginal costs and ensuring that there is no double-counting of signals in this area. These are fundamental limitations that E.ON does not believe can be overcome to create forward-looking signals for BSUoS. In addition, E.ON agrees that many of the limitations that exist with the current BSUoS charge would continue to apply in terms of complexity, volatility and difficulty to forecast. Given these issues, E.ON does not believe that any of the options would be able to induce effective and efficient behaviour to reduce the overall system costs.

Question 4	Do you agree with the overall draft conclusion of the Task Force? Please explain your rationale and provide evidence where possible.
Yes/No	Yes, E.ON agrees with this conclusion.
Rationale	E.ON believes that the overall draft conclusion is the result of a comprehensive assessment of the options based upon evidence, economic theory and practicality/proportionality considerations. As per our answers to Q1-3, we therefore support the conclusion that BSUoS cannot be reformed into a forward-looking charge and should therefore be treated as cost-recovery.

Question 5	Do you have any other comments in relation to the draft report or draft conclusions of the Task Force?
Yes/No	Yes
Rationale	E.ON agrees with the principle that Ofgem has outlined in its TCR that cost-recovery charges should not be avoidable by Users, once it has been comprehensively determined that there is the correct balance between cost-reflectivity and cost-recovery. Given that BSUoS is entirely a cost-recovery charge, it now appears that there is a clear action to reform BSUoS to conform to this principle. However, a thorough assessment needs to be made, as was done for the reform to the TNUoS and DUoS residual charges, as to the best way of achieving this. This needs to include analysis as to the best way to reform the charge to not only meet the principle of non-avoidable, but also to address the issue that the Task Force identified around risk premiums. E.ON would expect a robust process in this area with clear opportunity for industry to engage throughout and to respond to further consultations.

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Respondent Name:	Paul Mott
Company Name:	EDF Energy

Consultation Questions

Question 1	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 1? Please explain your rationale and provide evidence where possible.**
Yes	
Rationale	We agree with the draft conclusion of the Task Force regarding Deliverable 1 - BSUoS charges do not (leaving aside for this deliverable, the matter of whether they *could* do so) currently provide useful forward-looking signals. We agree that BSUoS charges are hard to forecast, complex, increasingly volatile, and that other market signals are more material and so take precedence. The volatility and inability to forecast BSUoS is, as the report notes, likely to be adding some risk premia costs into the market.

Question 2	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 2? Please explain your rationale and provide evidence where possible.**
Yes	
	We agree with the draft conclusion of the Task Force regarding Deliverable 2, which was to assess the potential for BSUoS to be more cost-reflective. The four potential options that were identified by the Task Force as warranting further investigation (via Deliverable 3) regarding their potential to be charged in a more cost-reflective manner and provide forward-looking signals, appear to be comprehensive and their identification was by a thorough and transparent process, which included a webinar to gather views from wider industry. The four options were fed into the deliverable 3 for an assessment process; that was the purpose of deliverable 2.

Question 3	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 3? Please explain your rationale and provide evidence where possible.**
Yes	
	We agree with the draft conclusion of the Task Force regarding Deliverable 3 (assessing the *feasibility* of charging potentially cost-reflective elements of BSUoS on a forward-looking basis to influence user behaviour). Looking at the four potential options/areas for possible reform identified via deliverable 2, we agree that none of the potential options could feasibly provide a cost-reflective and forward-looking signal that drives efficient market behaviour to the benefit of consumers. We agree with the limitations that drove this conclusion, that are identified and very well-documented by the Task Force's account of its assessment of each of the potential options. BSUoS is based on total costs incurred by the ESO which can vary significantly. The input from Frontier Economics helps highlight the risks of double-counting with regard to signals that are already in place through other market and charging arrangements (e.g. TNUoS, BM, cash-out). The task force has found no evidence, and we have none either, that the issues that exist currently with BSUoS (the charge being hard to forecast, complex, and volatile) would cease to apply under any of the potential options. We agree that attempting to allocate BSUoS costs differentially would be highly complex as each service is procured and used based on complex assessments of the whole system, and the paid procurement by the ESO of a given action from a generator may have value in several different ways, against several different balancing services. The seminar that was held indicated that a fairly marked majority support the task force's draft conclusion.

Question 4	**Do you agree with the overall draft conclusion of the Task Force? Please explain your rationale and provide evidence where possible.**
Yes	
Rationale	The logic flows through perfectly, is well documented, and every possibility for differential treatment within the BSUoS charge components is considered logically and comprehensively. The conclusion in all its parts is, in consequence, well-founded and irrefutable. We agree with the conclusion that all of BSUoS is cost recovery.

Question 5	**Do you have any other comments in relation to the draft report or draft conclusions of the Task Force?**

Yes	
Rationale	In the minded-to decision document on TCR, Ofgem reminds us that when it originally launched the review, it indicated that it would consider the applicability of applying any wider TCR reform options to balancing changes. It also notes that levying residual charges from generators can distort outcomes between GB generators compared to interconnected generators, for whom residual charges are not levied, which was documented under the heading, TGR principles – reducing distortions. In line with this, there is a proposal in the minded-to decision to "Set the Transmission Generation Residual to zero, subject to maintaining compliance with the current cap on overall transmission charges to generators". We agree with this view of Ofgem, expressed in the TCR, that cost recovery charges are best recovered from demand, and would like to see that applied to BSUoS. The draft conclusion that BSUoS should remain intact, and that it is a cost-recovery charge, doesn't necessarily mean that the task force's work points to or supports a conclusion of no change. Although the task force made no recommendation for change in these areas, that not being within its remit, it did seem apparent through the task force's work that there was support from a majority task force members for recovery of BSUoS from demand, in line with the TCR approach to cost recovery type charges, and for moving away from charging some charge elements on a half-hourly basis, as so many parties believe that the half-hourly-varying nature of BSUoS may add to volatility and forecasting difficulty. It would seem that CMP308 offers a good route, already well in train, to make some beneficial changes in the BSUoS area to follow on from the task force's work

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Respondent Name:	Adam Morrison
Company Name:	EDPR

Consultation Questions

Question 1	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 1? Please explain your rationale and provide evidence where possible.**
Yes/No	Yes
Rationale	We agree with the draft conclusion. In respect to the addition of risk premium by generators and/or suppliers to account for uncertainty, it is worth noting that this has been mitigated in certain cases (for example in the case of the "balancing system charge" strike price adjustment mechanism in the current contract for difference). Such mitigation measures are also a consideration when assessing the best means to reduce risk premiums and ultimately achieve a benefit in terms of overall cost to consumer.

Question 2	Do you agree with the draft conclusion of the Task Force regarding Deliverable 2? Please explain your rationale and provide evidence where possible.
Yes/No	Yes
Rationale	

Question 3	Do you agree with the draft conclusion of the Task Force regarding Deliverable 3? Please explain your rationale and provide evidence where possible.
Yes/No	Yes
Rationale	We agree with the draft conclusion. Section 4.4.7.2 acknowledges the potential for increased volatility (which would likely result in additional risk premium cost being introduced) if a locational transmission constraint model were adopted. A further consideration in this regard is that market participants in a particular location/region may be exposed to significant changes in their cost base due to actions of other market participants*, for example investment in new generation capacity in the location/region or closure of a facility providing substantive demand. As these actions (and their impacts) would be extremely difficult to forecast, the uncertainty that would be introduced would be significant and could be expected to result in materially increased risk premiums being applied. * This exposure exists already via the existing locational charges/costs presented through TNUoS and the application of locational transmission losses.

Question 4	Do you agree with the overall draft conclusion of the Task Force? Please explain your rationale and provide evidence where possible.
Yes/No	Yes
Rationale	

Question 5	Do you have any other comments in relation to the draft report or draft conclusions of the Task Force?
Yes/No	Yes
Rationale	The task force should be commended for the clear and concise presentation of its findings in the draft report.

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Respondent Name:	James Brown
Company Name:	Enercon GmbH – UK

Consultation Questions

Question 1	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 1? Please explain your rationale and provide evidence where possible.**
Yes/No	Yes
Rationale	We agree that currently BSUoS charging does not provide an effective forward-looking signal. This is for several reasons, including the complex, and constantly changing make-up of the charge, information asymmetry of the actions making up the charge on a half-hourly basis, and the relative size of the BSUoS charge relative to other signals (e.g. wholesale price). The fact that BSUoS is currently levied on both load and generation also limits its ability to provide any meaningful signal as different types of parties may respond in opposite ways to a price signal.

Question 2	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 2? Please explain your rationale and provide evidence where possible.**
Yes/No	Yes
Rationale	We agree with the 4 options that you selected as having the most potential out of the 15 possible BSUoS elements. However one issue around response and reserve bands is how these would be levied correctly if the largest loss on the network was an interconnector, given that they are not liable to pay BSUoS?

Question 3	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 3? Please explain your rationale and provide evidence where possible.**
Yes/No	Yes
Rationale	We wholeheartedly agree with the conclusion of the Taskforce, that there is no easy of beneficial means to make any element of BSUoS into an effective forward-looking signal, in particular the risks of duplicating the signals in TNUoS.

Question 4	**Do you agree with the overall draft conclusion of the Task Force? Please explain your rationale and provide evidence where possible.**
Yes/No	Yes
Rationale	It makes sense that BSUoS should be treated solely as a cost-recovery charge, given all the well-documented issues in the report with attempting to make any part of it into an effective forward-looking signal. We feel that this conclusion aligns well with Ofgem's TCR view that residual charges levied on generation are a distortion. Removing BSUoS from generators would also improve market efficiency by bringing the UK into line with Continental markets, and removing an unfair benefit that interconnectors currently enjoy over UK generators. This should increase efficiency of cross-border flows.

Question 5	Do you have any other comments in relation to the draft report or draft conclusions of the Task Force?
Yes/No	Yes
Rationale	The analysis of the correlation between wind generation and constraint costs (and demand and constraint costs) was very interesting. It would be great to know how Western Link impacts the analysis (i.e. would the correlation become even weaker in future?)

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Respondent Name:	Frank Aaskov
Company Name:	Energy Intensive Users Group (EIUG)

Consultation Questions

Question 1	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 1? Please explain your rationale and provide evidence where possible.**
Yes/No	Yes
Rationale	We agree that although BSUoS does not provide a clear forwards-looking signal, it does tend to be highest at times of low demand and/or high wind. As such, it currently dampens the DSR signal at these times and does not encourage demand-side behaviour, which would be beneficial to the system. If the BSUoS charge is to be converted to a cost recovery charge, it could be converted to a flat charge across the year to avoid this.

Question 2	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 2? Please explain your rationale and provide evidence where possible.**
Yes/No	No opinion
Rationale	

Question 3	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 3? Please explain your rationale and provide evidence where possible.**
Yes/No	No opinion
Rationale	

Question 4	**Do you agree with the overall draft conclusion of the Task Force? Please explain your rationale and provide evidence where possible.**
Yes/No	No opinion
Rationale	

Question 5	**Do you have any other comments in relation to the draft report or draft conclusions of the Task Force?**
Yes/No	Yes
Rationale	We welcome the report and the analysis from the Balancing Services Charges Task Force. EIIs pay some of the highest electricity prices in Europe, which is illustrated by UK Steel's recently published price comparison report (The Energy Price Scandal - A Fair Power Deal for UK Steel) on electricity prices faced by UK steelmakers and their EU competitors. This showed that the UK steel industry is facing an average price of £65 per megawatt hour (MWh) compared to an estimated German price of £43/MWh and French price of £31/MWh. UK production sites are therefore paying 51% and 110% more, respectively, than their main competitors. Part of the cause behind the disparity is the differences in network costs. What Ofgem chooses to do on the basis of this report and the next steps are thus very important to the EIUG members and Energy Intensive Industries (EIIs), and it is vital that balancing services charges are not increased for EIIs.

The voice of the energy industry

Energy UK response to the Balancing Services Charges Task Force Report Consultation

17th May 2019

About Energy UK

Energy UK is the trade association for the GB energy industry with a membership of over 100 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership covers over 90% of both UK power generation and the energy supply market for UK homes. We represent the diverse nature of the UK's energy industry – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

Our members turn renewable energy sources as well as nuclear, gas and coal into electricity for over 27 million homes and every business in Britain. Over 730,000 people in every corner of the country rely on the sector for their jobs, with many of our members providing long-term employment as well as quality apprenticeships and training for those starting their careers. The energy industry invests £12bn annually, delivers £88bn in economic activity through its supply chain and interaction with other sectors, and pays £6bn in tax to HM Treasury.

Response

Energy UK welcomes the opportunity to respond to the Balancing Services Charges Task Force Report Consultation.

Energy UK agrees with the draft conclusion of the Task Force in regards to Deliverables 1, 2 and 3. In addition, Energy UK is satisfied that the Task Force has met its Terms of Reference and supports the overall conclusion that costs included within Balancing Services Use of System (BSUoS) charges should all be treated on a cost-recovery basis. As noted in our response to the *Targeted Charging Review: Minded to decision and draft impact assessment*[1], Ofgem has acknowledged that the principles of network residual charging may be similarly applied to BSUoS charging. Given the findings of the Task Force, we encourage Ofgem to pursue this as an option for collecting balancing charges.

The Task Force notes the volatility of the charges and the inability of all parties, including the Electricity System Operator (ESO), to accurately forecast the level of charges. It is therefore important that, if BSUoS is collected on a cost-recovery basis, the costs are fixed and known in advance.

A timetable should be developed by Ofgem highlighting their next steps and the accompanying timescales. In particular, Energy UK encourages Ofgem to set out when a decision on the status of balancing services charges is expected. To ease uncertainty throughout the industry, we note that a decision should be made sooner rather than later, with the appropriate implementation timescales. Energy UK also notes that Ofgem needs to make clear the interaction of all balancing services related work streams with the Targeted Charging Review (TCR) (i.e. current code modifications). There should be one route to progress all changes to balancing services charges – Ofgem need to make a clear decision on this route as a number of routes with partial solutions will only serve to confuse the issue.

Ofgem should ensure that any decisions made toward changing the balancing services charging arrangements should be considered against the conclusions of the Access Significant Code Review and the TCR. All work streams should have a coordinated approach to implementation in order to cause the least distortion to industry parties.

Should Ofgem direct changes to be made through the code modification process, Ofgem should provide clear, well-defined guidance and expectations on what is anticipated from the code modifications which industry raise.

[1] https://www.energy-uk.org.uk/publication.html?task=file.download&id=7021

Energy UK believes the process has been conducted over a short timeframe given the importance of the issue. In addition to this, the ten working days given for responses to the consultation is short given then length of the report. We accept that this was necessary for the Task Force to meet its Terms of Reference, but note that parties, particularly those with less resources, will not have been able to fully the review the document and conduct their own internal research.

Should you have any questions on the above response, please do not hesitate to get in touch.

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Balancing Services Charges Draft Report Consultation: Response Proforma

Response Pro-forma

The Balancing Services Charges Task Force invites responses to this consultation by **17th May 2019 at 17:00**. The responses to the specific consultation questions (below) or any other aspect of this consultation can be provided by completing the following proforma.

We appreciate that 10 working days is a relatively short consultation period, but this will enable us to publish our final report on the 31st May 2019 as per our Terms of Reference. The objective of the consultation on the draft report is for the Task Force to ensure the wider industry has the opportunity to review and provide feedback on the work and draft conclusion of the Task Force ahead of the final report being sent to Ofgem. The draft report does not propose any change to frameworks at this stage.

Please return the completed proforma to chargingfutures@nationalgrideso.com noting that any responses will be viewed to be non-confidential responses. So, any confidential responses should be provided to Ofgem via TCR@ofgem.gov.uk.

Following receipt of responses to this consultation, the Task Force will review and publish a final report 31st May 2019, according to the Terms of References of the Task Force as above. The outcome of the consultation will be considered in the final report and submitted to Ofgem for further consideration.

The Task Force welcomes all available rationale and evidence to support your responses, in particular if you don't agree with the Task Force draft conclusions.

Respondent Name:	**Simon Lord**
Company Name:	**Engie**

Consultation Questions

Question 1	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 1? Please explain your rationale and provide evidence where possible.**
Yes/No	Yes:-we agree
Rationale	Does BSUoS currently provide a useful forward-looking signal? We do not believe that BSUoS provides a useful forward-looking signal. The current makeup of BSUoS is a relatively "flat" system cost plus a large cost made up principally of BM costs used to manage constraints, both are then divided by net demand. We agree with the report that a few days ahead of time these costs are hard to forecast, complex and volatile. The principle driver of the volatility is output of generation (typically wind) sited behind constraints. We also agree that the nature of the net demand denominator combined with the increased need to manage constraints during low demand periods

	(overnight) leads to a significant incentive for demand users overnight to reduce demand. The attached note (Appendix A written for CMP 308) provides an in-depth analysis of this effect.

Question 2	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 2? Please explain your rationale and provide evidence where possible.**
Yes	Yes
Rationale	In what areas are there potential options for charging BSUoS differently, to be cost-reflective and provide a forward-looking signal. The taskforce has identified the key areas that have historically been looked at within BSUoS that could drive constraint costs: - locational transmission constraints; locational reactive and voltage constraints; response and reserve bands; and response and reserve utilisation We would add three others 1. Low inertia plant (typically wind and solar) leads to additional BM and other costs as actions are taken to maintain system operability. The reduction in inertia drives additional cost of frequency response as the system is now faster moving in the event of plant loss and is a major theme in the FES reports. 2. Embedded generation located behind transmission constraints. Where embedded generation is located behind transmission constraints (e.g. Scottish wind) this leads to an increase in the constraint cost and hence BSUoS. In addition, there has been a reduction in the size of the BSUoS demand denominator driven by an increase in embedded generation. This reduction in transmission connected generation has increased the £/MWh BSUoS rate. 3. Fault and planned outages of transmission circuit. The loss of the western link in autumn 2018 led to a significant increase in BSUOS cost. The cost of this was met collectively through BSUoS by industry with only a small cost being born by the TO.

Question 3	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 3? Please explain your rationale and provide evidence where possible.**
Yes	Yes
Rationale	What is the feasibility of charging potentially cost reflective elements of BSUoS to provide a forward-looking signal. **locational transmission constraints;** Whilst we believe that it would be possible to provide a short run signal to manage real time constraints this is not compatible with the current LRMC methodology used to derive TNUoS prices. Appendix B contains a subset of BSUoS analysis that was performed in parallel with the taskforce based on a 2018 hh data set. This confirms a strong correlation between bids behind constraints and BSUoS. Whist this correlation is strong we do not believe it would be possible to create a meaningful signal to those parties behind the constraints as they typically have low or negative variable cost (wind). The transmission connected parties are already subject to a LRMC cost through TNUoS and the minded to position of the TCR will also potentially ensure that embedded generation in these zones are subject to a similar LRMC. The SQSS determines the level of transmission investment and assumes an optimal level of constraint compared to investment from the customers perspective. Constraint can be driven by several factors. 1. Fault or planned outages on the network,

2. Areas where the network is not SQSS compliant (typically derogations are in place) driven principally by the connect and manage process.
3. Constraint on an intact system as designed by the SQSS.

Any short run charge would have to establish the driver of the constraint as well as the effect on the current TNUoS model possibly leading to market splitting.

locational reactive and voltage constraints;

The reduction in the number and output from transmission connected large generation stations combined with the growth in embedded generation has driven the need for increased quantities of reactive producing plant and apparatus. Reactive power is needed at a very local level and, as such, without a zonal BSUoS methodology it will not be practical to charge for the "lack of capability" in a zone. The transmission system was designed at a time when large volumes of plant was available to provide this type of service. Additional investment by the various TOs or industry can provide MVArs from static compensation equipment is seen as a solution to this issue.

response and reserve bands;

The ESO manages the system for the largest loss. In the vast majority of cases this is driven by either an interconnector (at 1000 MW) or a transmission line where a maximum plant loss of 1320 MW is set in the SQSS. The maximum loss is rarely (if ever) driven by an individual generator on a line as the SQSS effectively precludes this eventuality. Given this we do not believe that it is practical to charge on this basis and the effect would not drive a change in operation as the largest loss is in the vast majority of cases is not related physical capacity (MW) of individual generators on the system but rather the transmission capacity that connects a group of demand or generation users.

response and reserve utilisation

Imbalance cash out currently penalises generation for shortfalls in plant output against forecast so to charge plant for response and reserve utilisation would be to double charge for plant failure.

embedded generation & low inertia plant: -

The Ofgem minded-to position will go some way to supporting this driver by including embedded generation in the BSUoS charging base. If further evidence comes forward that plant with no or low inertia is driving additional BSUoS costs then an option to charge at a higher rate for this type of plant could be considered. We do not believe it is appropriate to charge differential BSUoS on the basis of plant characteristics unless a link between plant type and BSUoS cost is firmly identified.

Fault and planned outages of transmission circuit:-

This should be picked up under RIIO-2 but it seems that some BSUoS costs should be faced by the TO or interconnector owner for fault outages on circuits where it drives a significant increase in BSUoS cost for all users.

Question 4	**Do you agree with the overall draft conclusion of the Task Force?** **Please explain your rationale and provide evidence where possible.**
Yes	Yes
Rationale	It is not feasible to charge any of the components of BSUoS in a more cost-reflective and forward-looking manner that would effectively influence user behaviour that would help the system and/or lower costs to customers. Therefore, the costs included within BSUoS should all be treated on a cost-recovery basis.

	Yes we agree with this conclusion.

Question 5	**Do you have any other comments in relation to the draft report or draft conclusions of the Task Force?**
Yes	No
Rationale	**No further comments .**

Appendix A

CMP308 'Removal of BSUoS charges from Generation'

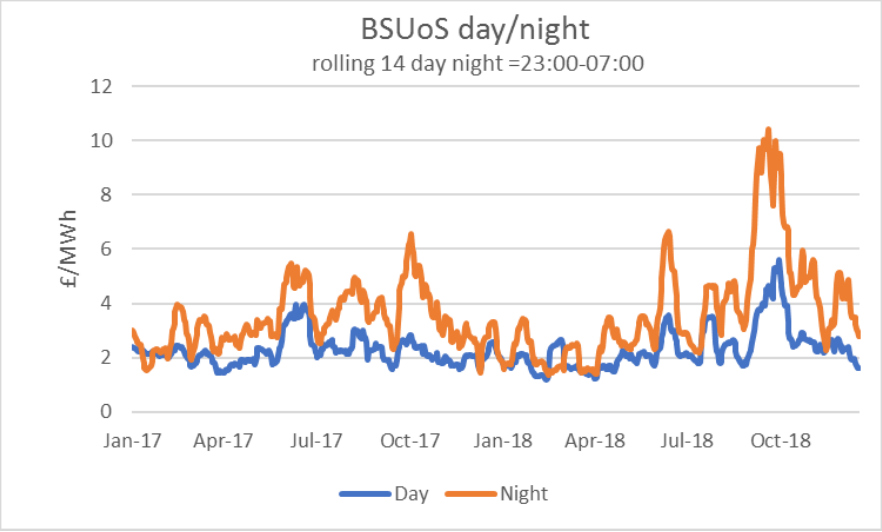
The CMP308 proposal will potentially increase the BSUoS cost for storage providers and other overnight demand users and is likely to increase the relative cost of energy overnight compared to the baseline today.

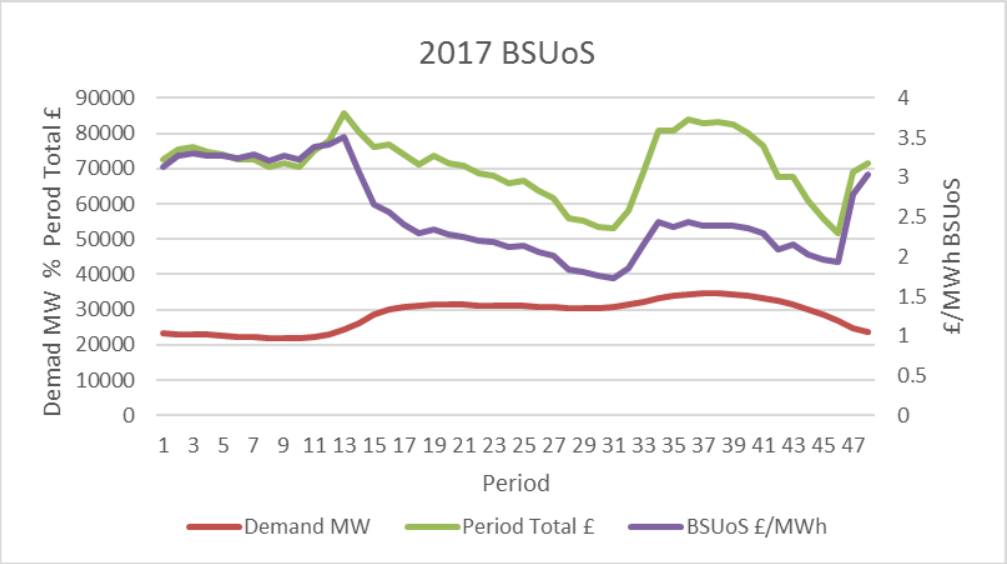
In theory power prices should adjust as BSUoS rates vary, so power prices should reduce under CMP308 as this removes BSUoS from generation. Unfortunately, there is little evidence to show that this will occur in the short term markets (especially in the spot markets) although we believe that over the longer term this is correct. It is likely that storage will be in a less competitive position going forward given the current design of BSUoS leads to a "non-cost reflective charge " being applied to overnight demand, absent changes envisaged by CMP281. The two issues associated with this are: -

1. BSUoS is higher overnight than during the daytime driven by a number of factors but principally the lower demand levels over night that are used as a denominator for BSUoS and the significant actions that the ESO needs to take to manage lower demand periods to create foot room and provide dynamic response and inertia. CMP 308 will lead to a doubling of the current effect that will materially affect parties that take power over night.
2. The hh volatility of BSUoS is currently not identifiably reflected in power price it would be expected that power price would rise in the short term on high BSUoS days but this is not observed. Whilst the long run average BSUoS is reflected in power the hh volatility is not. Applying BSUoS to generation (as now) effectively smooths BSUoS during the overnight periods this effect will be removed if BSUoS is applied to only to demand.

CMP281 that is currently processing through the CUSC process and will resolve this position for storage but as the proposal is assessed against the current baseline CMP308 will make the position worse for storage and demand users that take power overnight. This note explains the situation against the current base line and provides examples for discussion by the group.

The charts below shows the average shape of BSUoS for 2017/19 split into day night whilst the second chart shows this on an aggregated basis.

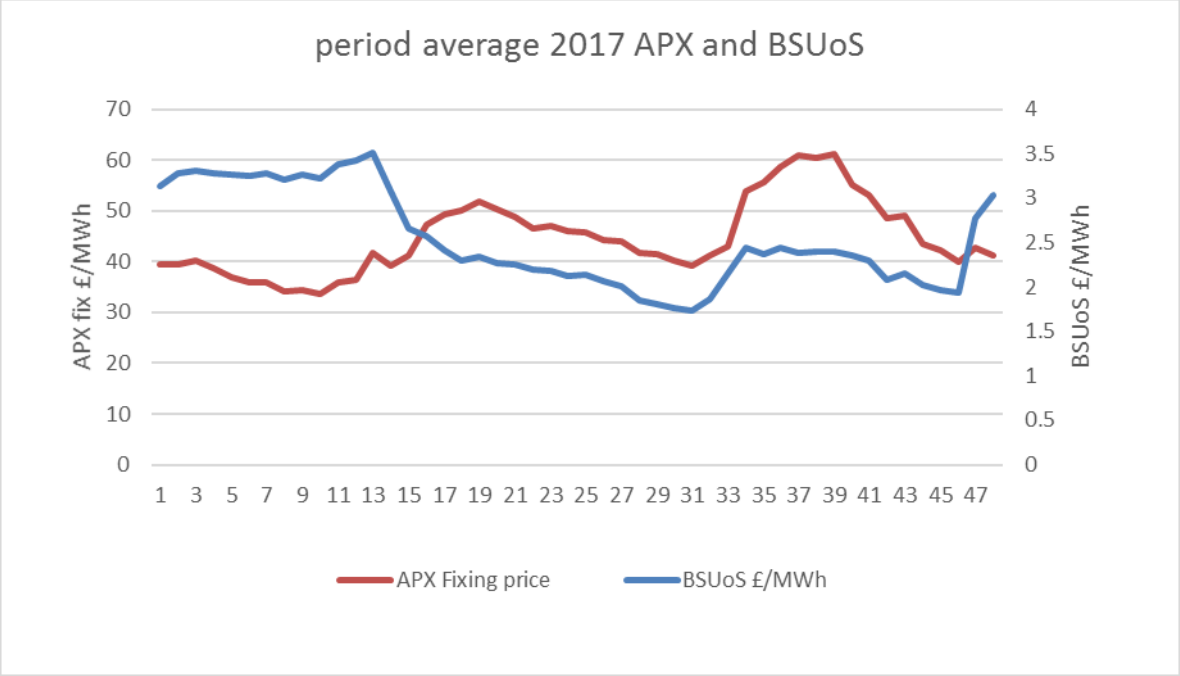




As can be seen, lower demand periods correspond in general to periods of higher BSUoS - this is driven by the requirement to recover a period total BSUoS (£) over a lower demand volume leading to a higher BSUoS cost where costs are fixed (e.g constraints and the significant actions that the ESO needs to take to manage lower demand periods to create foot room and provide dynamic response and inertia) . Removing the generation portion of BSUoS would be expected to lead to a reduction in the power price and any “risk premium” associated with it. We believe that in the current market the average long run BSUoS price is factored into the long-term energy price but the short-term (hh to week ahead) do not appear to be factored in.

Power prices are traded in a predominately number of standard products typically baseload, peak extended peak there is little liquidity for overnight products. Baseload has an estimate of the value of generation BSUoS included by the seller as will the other products.

There are number of supplemental products available in the shorter term such as a daily shape auction and in close to real time APX trades. The volume of APX half hourly trades (where BSUoS can be reflected in a single hh price is small thus the majority of traded products effectively “smooth” BSUoS over a multiple time periods over a number of weeks and months as such current exposure to individual hh BSUoS is small.

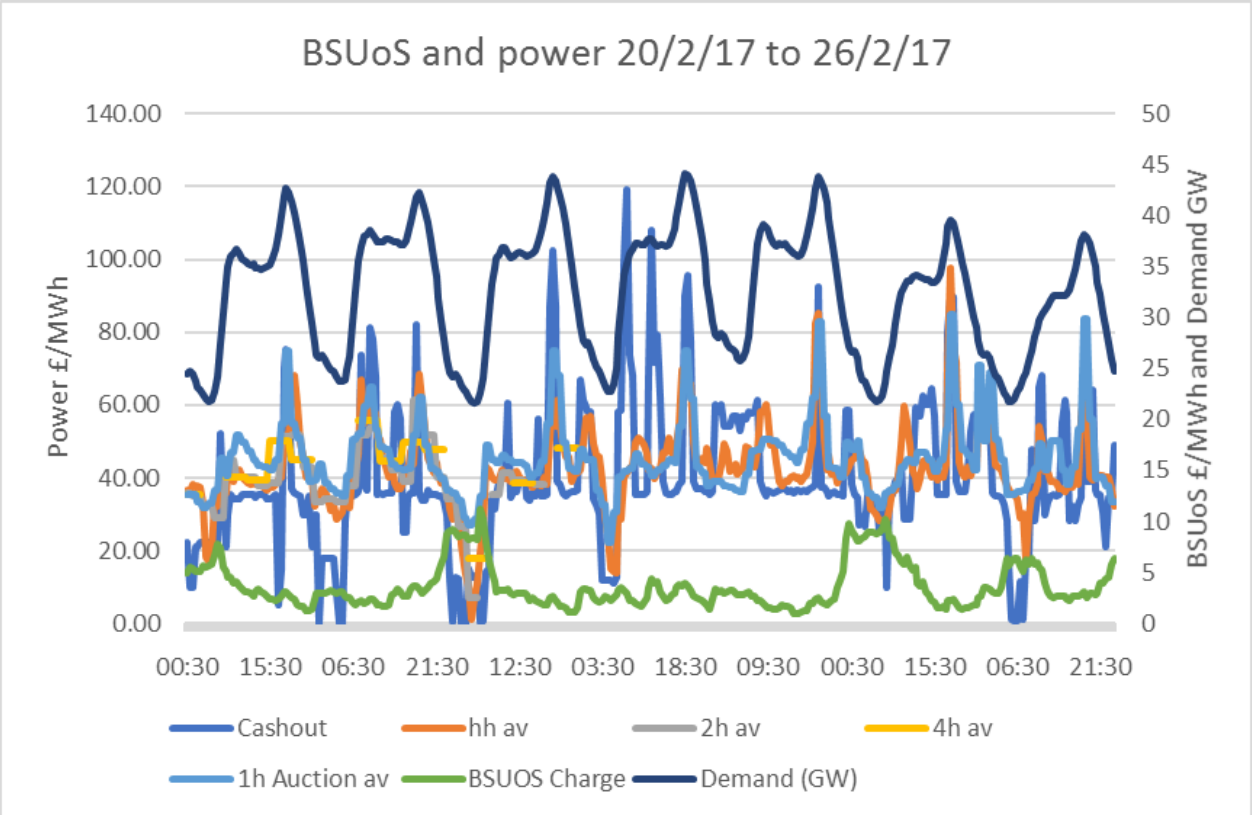


A key ingredient in the overnight short term power price is the cost of part loading or de-synchronising larger units. Overnight plant types tend to be less flexible that peak but and have lower marginal costs. To reduce load often

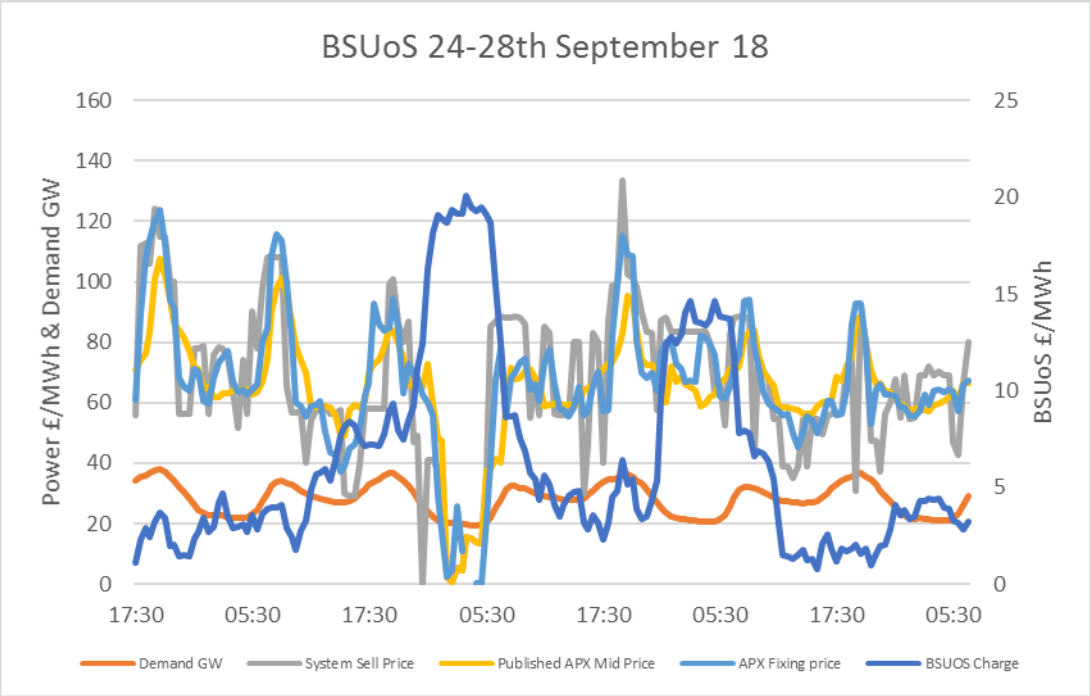
required de-synchronisation and this effectively uses up maintenance starts and a fuel cost to start up. Once these factors are included in trading decisions the effect is to lower the price where these units will run through depressing power prices and requiring the ESO to take action in the BM to maintain system security as plant running at minimum loads is often unable to provide any form of response or reserve.

In the short term there seems to be little if any correlation between power prices and high BSUoS periods. It would be expected that high BSUoS on generation would lead to higher energy prices as these costs are reflected in the required energy the opposite effect is actually seen where power prices in general reduce during higher BSUoS periods this give support to the theory that the generator portion of BSUoS is not a significant driver to short term power prices.

The charts below picks out some high BSUoS days from 2017 and 2018 these show various market related short term traded prices as well as BSUoS and demand. . As can be seen as BSUoS rises power prices fall during low demand periods. This is counter intuitive, but it is believed to be driven by the short-term effects of SO actions to resolve constraint provide foot room and ensure the largest loss can be catered for. It can also be seen that , on days of low BSUoS there is little or no energy price movement in the short term to reflect the change in BSUoS. Correlation for the variables across the time line are also shown.



	20/2/17 to 26/2/17
Correlations	BSUoS
Cashout	-30.5%
hh av	-40.3%
2h av	-60.8%
4h av	-78.2%
1h Auction av	-37.3%
BSUOS Charge	100.0%
Demand (GW)	-60.5%



24/9/18 - 28/9/18	
Correlation	BSUoS
Demand GW	-49.8%
System Sell Price	-26.4%
Published APX Mid Price	-57.3%
APX Fixing price	-44.0%

The combined effect of these factors is that CMP308 will potentially have an impact on consumers who take power overnight and will exacerbate an existing issue where BSUoS is not cost reflective overnight and drives a reduction in consumption overnight that has a feedback effect to increase BSUoS.

Appendix B sample data set

	data set 2018 by hh	Correlation coefficient	Settlements BSUoS £/period	Settlements BSUoS Demand	Settlements BSUoS £/MWh
	National Grid	Energy Imb	0.42	0.10	0.29
		Freq Control	0.28	-0.13	0.32
		Pos Reserve	0.36	0.27	0.18
		Neg Reserve	0.07	-0.08	0.08
		Constraints	0.84	-0.30	0.90
		Other	0.23	-0.11	0.26
		Total	0.96	-0.18	0.93
	Settlements BSUoS	Cost	1.00	-0.07	0.94
		Demand	-0.07	1.00	-0.32
		£/MWh	0.94	-0.32	1.00
	How was the money	Trades Sys	0.38	-0.01	0.37
		Trades En	0.11	0.14	0.05
		Sys BM	0.79	-0.23	0.86
		En BM	0.80	-0.13	0.72
		BM STOR	0.20	0.03	0.13
		nonBM STOR	0.09	0.21	0.01
		Other	0.00	0.51	-0.15
		Total	1.00	-0.07	0.94
	METERING BY FUEL	NUCLEAR	-0.19	-0.06	-0.14
		WIND	0.38	0.17	0.30
		CCGT	-0.27	0.81	-0.44
		COAL	0.04	0.69	-0.13
		BIOMASS	-0.04	0.13	-0.10
		INT	-0.21	-0.24	-0.17
		HYDRO	0.16	0.52	0.01
		PS	0.00	0.61	-0.17
		OTHER	-0.06	-0.15	-0.01
	Cashout	NIV	0.34	0.11	0.23
		Cashout	0.30	0.26	0.12
	TradedPrice	Av HH	0.25	0.35	0.04
WIND BM BY SYS ZONE - BID COSTS	SCOTLAND	1	0.74	-0.19	0.80
		2	0.48	-0.13	0.54
		3	0.62	-0.19	0.72
		4	0.63	-0.16	0.67
		5	0.00	0.00	0.00
		6	0.77	-0.24	0.84
	ENGLAND and WALES	7	0.39	-0.12	0.47
		8	0.04	-0.10	0.07
		9	0.42	-0.13	0.51
		10	0.00	0.00	0.00
		11	0.00	0.00	0.00
		12	0.08	-0.04	0.09
		13	0.14	-0.09	0.17
		14	0.00	0.00	0.00
		15	0.08	-0.06	0.10
		16	0.01	-0.01	0.01
		17	0.00	0.00	0.00

Balancing Services Charges Draft Report Consultation: Response Proforma

Response Pro-forma

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The Task Force welcomes all available rationale and evidence to support your responses, in particular if you don't agree with the Task Force draft conclusions.

Respondent Name:	Kamila Nugumanova
Company Name:	ESB

Consultation Questions

Question 1	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 1? Please explain your rationale and provide evidence where possible.**
Yes	
Rationale	We agree with the conclusion of the Task Force that the existing elements of BSUoS do not currently provide any forward-looking signal which influences user behaviour to improve the economic and efficient operation of the market.

BSUoS is an ex-post aggregation of costs for balancing actions, with very volatile, unpredictable drivers and costs

- Due to the varied nature of drivers and determinants of underlying elements that make up the BSUoS charge, the outturn price in any given HH settlement period is very difficult to predict and forecast. Therefore, it is not possible for users to identify whether there are any signals in the BSUoS charge. Additionally, technical and market drivers of various balancing actions can often be unforeseeable and difficult to envisage. It has been discussed at length that there are no fixed patterns or correlations in most of the balancing actions that make up the BSUoS charge. For example, it has been concluded that constraint costs, the biggest element of the BSUoS charges, show very insignificant correlation with wind generation or demand. Instead, constraint management needs are difficult to understand and forecast as they can be triggered by a range of events.

- Since the total BSUoS charge is an aggregation of these services and their costs, it would take significant efforts to identify each element's contribution to the BSUoS charge in any given period. The duration and extent of balancing actions to be procured is difficult to predict and service despatch is usually opaque with instructions given very close to delivery.

- Supposing an estimated proportion of each element's contribution to the overall BSUoS charge could be calculated, it would still be difficult to forecast the actual cost of running each service in that period. The cost of services procured is not fixed and will depend on a number of market and commercial factors. In addition, services are procured in a varied manner with contracts and commercial arrangements differing in payment terms and delivery requirements.

Potential signal would still be immaterial and unlikely to trigger any response from the industry

- It is also our view that, were it possible to incorporate some predictability of the costs and extent of balancing actions to the process in order to try and forecast the outturn BSuoS charge, the signal would still be insufficient to provide commercially meaningful incentives to stimulate a response. Taking into account the cost of reducing or increasing loads as well as the value of other available signals in the market, the BSUoS price signal is likely to be relatively low in comparison to other commercial routes. It would take a combination of technical, market and commercial factors for the underlying balancing actions of the BSUoS charge to be triggered all at once. Yet, even with the combination of factors driving the need for all the actions, the actual costs associated with them may be spread across a number of SPs, hence will not result in a noticeable peak in any given settlement period. Moreover, if such a combination of factors were to occur, it can be assumed that other market mechanisms will react in a similar way and will provide a stronger, more competitive incentive for parties to respond.

- Finally, the BSUoS charge is highly volatile. We agree with the analysis that shows the divergence of the 75% and 25% quartiles of BSUoS charges. With that in mind, we emphasise that the BSUoS signal forecast would have to be highly accurate for a party to take a decision to react. Alternatively, users would take a high degree of risk or add a risk premium to the assumed price signal in order to avoid over-exposure to a highly volatile outturn.

- To summarise all of the above arguments, we believe the costs of trying to unpick the elements and forecast BSUoS would outweigh any material benefit that can be identified. This is due to the efforts involved in prediction, the dilution of the signals coming from multiple actions and the wide range of commercial and technical conditions. Even then, there would be no guarantee that the outturn price will align with the forecast.

	Inefficient night time signal With regards to night time signal, we agree with the conclusions of the Task Force that those signals are not sufficiently adequate to create an efficient response. We also note Task Force's observation that higher BSUoS charges during the night may instead perversely increase costs to consumers by providing a signal to alter behaviour in a way which is unhelpful to network requirements e.g. by providing a signal for demand to turn-down which leads to reduction in the denominator (volume available for cost recovery to be spread over). While there is no immediate solution to this issue, we would highlight that some non-final demand assets can choose when to offtake power from the grid and can play a significant role in providing adequate night time demand, no financial disincentive for them to do so need to be present. For example, while battery storage assets can provide the needed demand by charging overnight, they are currently exposed to BSUoS charges both on export and import. As such, higher night time BSUoS charges may make it less attractive for battery storage sites to charge during night SPs. The proposal to remove the BSUoS levy from storage assets on import set out in CMP281 could ensure an economically viable rationale for battery storage sites to continue charging overnight.

Question 2	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 2?** **Please explain your rationale and provide evidence where possible.**
Yes	
Rationale	We agree with the Task Force's conclusions that the four components identified (locational transmission constraints; locational reactive and voltage constraints; response and reserve bands; and response and reserve utilisation) are the most likely options that could potentially provide a better forward-looking basis to positively influence user behaviour. We agree with the criteria used for the selection of those options and agree that the remaining elements of the charge should be discounted from further analysis since they do not appear to provide a better forward-looking signal.

Question 3	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 3?** **Please explain your rationale and provide evidence where possible.**
Yes	
Rationale	We agree with the conclusion of the Task Force that whilst there are some theoretical advantages to all four potential options identified, none of the potential options could feasibly provide a cost-reflective and forward-looking signal that drives efficient market behaviour to the benefit of consumers. At a high-level, we do not think it would be possible to identify the exact polluter or party causing the need for a balancing action, such as constraint management. It could be a combination of factors that triggers the need to procure a service. Additionally, it would be difficult to allocate costs associated with running the balancing action to the exact responsible party or area of the network. Provided locational differentiators could be identified and system constraints could be associated with any particular part of the network, it would still be difficult to allocate costs to that specific area. Firstly, system balancing is currently done at a national level rather than regional or zonal. Secondly, as per our arguments above, it is likely to be a combination of factors, possibly across the whole system, causing the constraint or congestion. Some triggers may also be addressed by other balancing actions or system operations. Splitting the system into explicit or implicit locational zones would create further complexities and may result in a less cost-efficient solution or over-investment in grid capacity. As stated above in our response to Q.1, we believe that hypothetical signals that could be provided by any individual component of the BSUoS charge are unlikely to be strong enough to provide an adequate incentive for market players to react and change behaviour.

	Lastly, we note that any unintended consequences on technical parameters of the network, as well as commercial markets and frameworks, needs to be considered carefully. Not only can drastic changes lead to unnecessary uncertainty and increased volatility in charges, they may also result in a surge in the overall spend on balancing actions and an increase in the capex of reinforcement options. More importantly, moving to more granular charging may not be future proof to the ever-changing energy market, hence a more holistic approach would be required to reflect how changes driven by policies in decarbonisation of power, heat and transport will shape the future of those balancing actions. It already becomes clear from NG ESO analysis that characteristics of services requirements are changing significantly with the changing energy landscape and planned additions to network infrastructure, such as interconnectors, more intermittent generation, electrification of heat and transport. Therefore, it would only be prudent to complete a review of future balancing services and network development options in a more holistic and enduring approach.

Question 4	**Do you agree with the overall draft conclusion of the Task Force? Please explain your rationale and provide evidence where possible.**
Yes	
Rationale	We are fully supportive of the Task Force's overall draft conclusions. We believe the Task Force has identified the right areas for review and has focused on the most relevant parts of the analysis. • It is evident from the Task Force's analysis, as well as from numerous industry discussions and workshops on this topic, that there is very little forward-looking element in the total BSUoS charge. As stated previously, the sheer number of components and their underlying drivers make the total BSUoS charge extremely volatile and difficult to forecast. • Furthermore, it is not possible to accurately identify the triggers or polluters causing the need for a balancing service. Therefore, it would be hard to allocate the costs on a more cost-reflective basis. • We further agree with the arguments about marginal vs total price, in particular that BSUoS charges are based on total costs and not marginal costs. The theoretical concept of forward-looking charges would entail marginal cost changing in response to a specific action by a user. In the BSUoS charge, costs are ex-post and are not triggered by any specific user, rather by a mixture of factors or unforeseen circumstances, therefore they are difficult to allocate to any individual party. Thus, it is difficult to apply the concept of cost-reflectivity to the total BSUoS charge. • Finally, in line with our statement above, assuming any forward-looking signal could be identified in the total or marginal elements of the BSUoS charge, it is our view that the signal would be immaterial and unlikely to prompt any industry reaction.

Question 5	**Do you have any other comments in relation to the draft report or draft conclusions of the Task Force?**
Yes	
Rationale	We acknowledge the extensive work and stakeholder engagement carried out by the BSUoS Task Force. We believe that this report can provide a significant advancement in the on-going industry discussion around BSUoS, as well as Ofgem's minded-to position on that subject. We believe that there is sufficient evidence indicating that BSUoS charges should be treated as cost-recovery and should fall under the same treatment of residual charges as outlined in Ofgem's TCR work. While the findings and conclusions of the report bring out this message clearly, we note that 'Next steps'

and other considerations could be somewhat more conclusive. Our detailed observations and suggestions are outlined below.

Comments on Section 5: Other Considerations

In relation to potential market splitting analysis, we agree that the implementation of market splitting "should be assessed carefully as other advantages and limitations might arise as well as unintended consequences". We would additionally reinforce this statement by noting that efforts required to implement market splitting are likely to significantly outweigh the benefits and would require a holistic and thorough review of all of the market arrangements, including TNUoS, BSUoS and DUoS charging regimes, trading and commercial arrangements, connection and network reinforcement criteria and requirements.

With regards to a possibility of constraint costs being recovered through TNUoS, we agree with the conclusion of the analysis that licence and methodology changes would be required to effect this. In addition to the extra effort required to implement this potential solution, we disagree that this is an appropriate measure and would note that the fundamental objective of the TNUoS charge is different to that of recovering constraint costs. As a general observation, TNUoS charges recover costs of installing and maintaining the transmission system with underlying factors that are associated with each party's individual contribution to the system and marginal costs triggered by the party's actions. Whereas, system issues addressed by the balancing services that form BSUoS, such as constraint costs, are outside of any individual party's control, are not dependent on any specific party's demand or generation profile, location or load factor, and are mainly triggered by a mixture of system factors. Additionally, TNUoS is an ex-ante charge which provides a relatively predictable calculation for system users, whereas constraint costs are ex-post and are largely uncertain. Therefore, we do not believe that TNUoS is an appropriate mechanism for recovery of constraint costs.

We also echo the conclusion that due to the current EU €2.50/MWh cap, the additional revenue recovery would not fall on generators since the cap has already been exceeded. This means that demand would ultimately pick up the charge via the demand TNUoS. This raises questions on the combined impact of this and BSUoS charges being levied on demand only, in line with Ofgem's minded-to position on residual charges. In both instances the charge would be recovered from demand, however, the additional cost of introducing the constraint cost into the TNUoS methodology would exacerbate the effect and result in an increased charge.

Comments on Section 5: Conclusion and recommended next steps

Where the report recommends that BSUoS should be treated as a cost-recovery charge (paragraph 5.1.16.), it could be more conclusive in its comments and highlight that levying BSUoS on demand would be in line with Ofgem's position as stated in their **TCR Update on approach to reviewing residual charging arrangements**: "*Based on our principles-driven assessment of this issue, we think that there are strong arguments to support recovering residual charges from demand, rather than from generators or a combination of demand and generation.*"

Ofgem's TCR position also notes that "*it may be in consumers' longer-term interests to recover residual charges from suppliers only, as they ultimately pay all system costs. As such, this is a more transparent approach*". Hence, some of the issues discussed in the Task Force report could be addressed by Ofgem's application of TCR principles to the BSUoS framework.

In relation to the exact recommendations and 'next steps' suggestions summarised in the report, we believe the section could bring out the key points more clearly and shed light on the practical steps that could be taken immediately to effect the findings of the report. In particular:

- Recommendation could be made for Ofgem to act on the findings of the Task Force report and provide a decision on how these conclusions will be incorporated into its current TCR position.

This decision would have to be provided separately or as part of the wider TCR direction expected in May 2019.

- Linked to the above, the recommendation could also urge Ofgem to review its remaining TCR recommendations should the BSUoS minded-to position change as a result of the outcomes of the Task Force report. As per our arguments above, it would only be reasonable for the BSUoS charge to fall under Ofgem's key principles set out in the TCR consultation. This would entail changing the proposals to levy BSUoS on a wider charging base and, instead, directing to levy BSUoS on demand only. As a result of this amendment to the TCR proposals, the overall balance of impacts, broadly equalised under various streams of the TCR, may change significantly. Therefore, an updated Impact Assessment would be required to justify any direction issued under the TCR.
- In light of the identified impact and inefficiencies of the current BSUoS arrangements, the Recommendations section could also provide a more concrete example of actions that would enable positive changes to the charging framework and lead to a more efficient outcome for consumers. As such, the recommendation could specifically mention the various code modifications that have been put forward by industry and are running in parallel to this review. A more practical recommendation could be for Ofgem to capitalise on the comprehensive and detailed work already done to date and refer to CMP308 and CMP281 as potential quick win solutions to address some of the issues identified by the Task Force analysis. Although future arrangement for BSUoS recovery falls outside the scope of the Task Force, we believe raising relevant industry developments for consideration of the reader is in line with the Task Force's ToR, specifically Section 6 which notes that: "*The TF will need to remain mindful throughout of other work which may interact with the reporting and output of the TF, as well as applicable code objectives and any wider statutory obligations*."

We also note the recommendation in paragraph 5.1.18 which advises that ''*the conclusion of the Task Force and above considerations should be considered by Ofgem and the industry in the future design of an effective cost-recovery mechanism for BSUoS.*'' Whilst we agree with the message of this recommendation, we would urge the Task Force to provide more practical suggestion in its support. As such, Ofgem could be asked to provide a clear overview of:

- decisions on next steps and further actions with regards to BSUoS review
- a statement setting out the interaction between the Task Force conclusions, Ofgem's SCR and TCR reviews, other on-going industry initiatives, such as CMP308 and CMP281, and any updated timelines for all of the listed changes.

We agree with the Task Force observation that the structure of a BSUoS cost-recovery charge is out of scope of this Task Force. The recommendation itself could note that changes to the structure of BSUoS cost-recovery should be subject to a separate review as it would require a more detailed and comprehensive analysis.

Flexible Generation Group
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Colm Murphy
National Grid ESO
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Gallows Hill
Warwick
CV34 6DA

Sent by email: chargingfutures@nationalgrid.com

17 May 2019

Dear Colm

Balancing Services Charges Task Force

The Flexible Generation Group (FGG) represents the owners of and investors in small scale, flexible generation. These power stations are embedded in distribution networks and provide a variety of vital services to the system operator to help it deliver secure, economic supplies to electricity customers. They have therefore not been exposed to BSUoS charges, but note that Ofgem has suggested that in future we may face BSUoS bills.

We have not used the pro-forma as we have nothing to add on the way the Task Force has worked and the issues that it considered. It would appear that the work has been robust and the main issues have, in our view, been covered. In particular we concur with the view that BSUoS is difficult to forecast and volatile, so for any generators facing BSUoS it is a risk they will have to hedge by increasing their energy prices.

The FGG agree with the Task Force's conclusions that BSUoS is a cost recovery mechanism, and as such the BSUoS costs should be recouped directly from customers in a similar manner to residual charges (also classified by Ofgem as cost recovery). Like the residuals, we expect that the suppliers and customers would rather have a more stable and forecastable charge to pay. We therefore believe it will be necessary to change the structure of BSUoS charges and consider how the ESO is incentivised and regulated to forecast, control and smooth BSUoS costs over the year.

We note the report suggests that some charging elements, such as constraints, may be dealt with in other ways. However, we cannot see an easy way to recharge these costs without creating additional issues, such as market splitting impacting competition. There may be a good case for considering charging some of the constraint costs to the

transmission companies in order to allow them to better asses the costs of any constraints against the costs of investments. However, this would need to be considered as part of their price controls.

FGG appreciates that the Task Force was not asked to look at how the costs could be recharged (per meter, per MWh, etc.), but note that CMP308 and CMP281 would allow the charges to be moved to demand and address the issues around the treatment of storage. In order to achieve timely change, and add market certainty, it would seem beneficial to see these mods progressed to Ofgem as soon as possible. This may only be a stepping stone towards a longer term solution, but would be a move in the right direction.

In order for the market to make timely progress, we would hope that Ofgem will give its views on both the Task Force's work and their proposed way forward as quickly as possible. With so much market uncertainty there is a need for Ofgem to signal to the market its intentions as soon as it can.

We hope that these comments are helpful and would be happy to discuss any of the details with you and your team.

Yours sincerely

Mark Draper
Chairman, FGG

Flexible Generation Group members:
PeakGen Power
Welsh Power
Infinis
Forsa Energy
Stag Energy
UK Power Reserve
Noriker Power
VPI Distributed Generation
Oxford Capital
Plutus Powergen
Conrad Energy

BSUoS Task Force
National Grid ESO
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0800 254 0000

17th May 2019

Dear Sir/Madam,

Thank you for the invitation to respond to the Balancing Services Charges Taskforce Draft Report. Good Energy supplies 100% renewable electricity and carbon-neutral gas to homes and businesses across the UK. Good Energy is working towards a 100% renewable future, helping to support technologies including wind, solar, biofuel, hydro and tidal. Our purpose is to power the choice of a cleaner, greener future together.

Overview

- It is not clear that sufficient time has been given to the taskforce to develop the views set out in the report, or for industry stakeholders to consider and respond to the report.
- The piecemeal approach taken to charging reform risks undermining the transition to a low-carbon energy system.
- The BSUoS taskforce appears to have departed both from the objectives of the CUSC, and the traditional economic doctrine on which they are based. This is likely to lead to unintended consequence, and present challenges in implementing eventual solutions.

Insufficient time for the taskforce to develop views

There are a number of areas within the paper which imply that the tight timescales have limited the level of due diligence that the taskforce was able to undertake.

1. The assertion that the signals that BSUoS sends always result in adverse behavioural responses is flawed. For example, BSUoS prices currently lead transmission-connected generators to ramp up and down to generate at peak. Without the BSUoS price, there is increased incentive to run at baseload throughout the night (rather than facing start-up costs) – this would further increase BSUoS.

2. The paper asserts that blackstart costs cannot be collected in a cost-reflective way that provides a forward-looking signal. This overlooks the fact that the probability of needing to call on blackstart is increased more by large generation plant, than small. This is because a short-notice shut-down by a small plant is very unlikely to have a significant impact on system stability, whereas a short-notice shutdown by a large plant is likely to have a large impact. Therefore it would be logical to suggest that

blackstart could be collected on a cost-reflective basis – sending a signal to support investment in plant which is less likely to risk the need for calling on blackstart. The issue of focus here is less the charging base for blackstart, so much as a demonstration that the taskforce may not have fully considered all options for BSUoS reform.

3. The report also contains some assertions, which are demonstrably untrue such as "The majority of demand customers currently do not have the ability to react to BSUoS as a signal. This is mainly because demand usually does not have the visibility of BSUoS as a separate cost and therefore cannot react to it." Given the majority of demand users are charged on a Non-half-hourly basis – even access to BSUoS prices would not create an incentive for them to react to it. Therefore, this is not an issue of information, but settlement. This again implies a lack of time to fully consider BSUoS' implications for consumers.

Insufficient time to respond

The BSUoS taskforce is not giving adequate opportunity for industry stakeholders to comment on the report – allowing only ten working days for stakeholders to read, digest, and respond to a 92-page report. At a time of such significant system change, that is likely to limit stakeholders' ability to participate.
Whilst we understand the desire to meet the Terms of Reference, meeting Terms of Reference should not take precedence over ensuring the right outcomes from the BSUoS review process. Although this report does not make recommendations around eventual outcomes, the implications for direction of policy development are clear. It is important therefore that stakeholders have proper opportunity to review and respond to the paper.

Piecemeal approach

This BSUoS paper once again demonstrates the risks associated with the piecemeal approach to change being taken in the network charging space - the BSUoS taskforce, the TCR, the access and forward-looking work stream, and a number of code modifications will all affect the transition to a low-carbon energy system. Approaching in this piecemeal fashion (both in terms of the nature and timing of changes) makes it significantly harder for key stakeholders, including both investors and OFGEM, to fully assess the long-term impacts of reform on the low-carbon transition, and other system impacts.

Delivering a sustainable transition to a decarbonised energy economy requires continuous and consistent focus, and for policy-makers and regulators to be able take a holistic perspective on changes. The current approach to network charge reform creates a significant barrier to such a view being taken, and so risks undermining the transition to a sustainable energy system.

Departure from economic best practice

The assertion that BSUoS costs are smaller than wholesale prices, and therefore should not operate as a price signal, is not consistent with widely-accepted economic principles for driving behaviour. Best economic outcomes occur when charges are cost-reflective, to allow economically rational actors to respond to each of these signals. The current framing also ignores that as more zero-marginal cost plant comes onto the system, and wholesale prices fall, BSUoS may become the marginal price signal in decision-making in future.

The BSUoS taskforce seems to have departed from the objectives of the CUSC. This is potentially problematic, as changes will almost certainly have to be enacted through CUSC modifications:

1 The CUSC requires changes to positively support competition in supply, however the BSUoS report highlights the differences in sophistication between those suppliers that are able to identify the flaws in National Grid's BSUOS forecast, as a problem, rather than a sign that competition is functioning as it should be. Those best-able to forecast their own costs should gain competitive advantage.

2 Another objective of the CUSC is focused on delivering cost-reflective charges. This objective is not contingent upon participants' ability to respond to such signals. However, the BSUoS taskforce takes the need for cost-reflective charging to be contingent upon current users' ability to respond. This overlooks the fact that economic signals which cannot currently be responded to drives innovation, as users seek ways to respond to them, in order to minimise costs.

Overall, we would suggest that more time should be given to the taskforce to fully consider the wider implications of current and future BSUoS charges, in light of a rapidly changing electricity system.

I hope you find this response useful. If you have any questions, please do not hesitate to contact me.

Kind regards,

Dr. Tom Steward
Regulation and Compliance Manager

Balancing Services Charges Draft Report Consultation: Response Proforma

Response Pro-forma

The Balancing Services Charges Task Force invites responses to this consultation by **17th May 2019 at 17:00**. The responses to the specific consultation questions (below) or any other aspect of this consultation can be provided by completing the following proforma.

We appreciate that 10 working days is a relatively short consultation period, but this will enable us to publish our final report on the 31st May 2019 as per our Terms of Reference. The objective of the consultation on the draft report is for the Task Force to ensure the wider industry has the opportunity to review and provide feedback on the work and draft conclusion of the Task Force ahead of the final report being sent to Ofgem. The draft report does not propose any change to frameworks at this stage.

Please return the completed proforma to chargingfutures@nationalgrideso.com noting that any responses will be viewed to be non-confidential responses. So, any confidential responses should be provided to Ofgem via TCR@ofgem.gov.uk.

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The Task Force welcomes all available rationale and evidence to support your responses, in particular if you don't agree with the Task Force draft conclusions.

Respondent Name:	Graz Macdonald
Company Name:	Green Frog Power

Consultation Questions

Question 1	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 1? Please explain your rationale and provide evidence where possible.**
Yes/No	Yes
Rationale	For the reasons outlined in the draft report, but particularly in terms of the realistic assessment of whether a BSUoS charge will have a material impact on any moment-by-moment decision, and if it does impact a decision (i.e., to run or not run) that decision has any impact on charges. It is clear on both counts that the BSUoS charge is not providing an effective forward-looking signal to market participants.

Question 2	Do you agree with the draft conclusion of the Task Force regarding Deliverable 2? Please explain your rationale and provide evidence where possible.
Yes/No	Yes
Rationale	The task force has done a good job of developing reasonable alternative charging options and have engaged with and been receptive to feedback in doing so.

Question 3	Do you agree with the draft conclusion of the Task Force regarding Deliverable 3? Please explain your rationale and provide evidence where possible.
Yes/No	Yes
Rationale	The task force has come to the very reasonable conclusion that there is no clear way to charge a cost reflective forward looking BSUoS charge in such a way that would either reduce current distortions or avoid future distortions, most particularly on the latter point.

Question 4	Do you agree with the overall draft conclusion of the Task Force? Please explain your rationale and provide evidence where possible.
Yes/No	Yes
Rationale	Not only in terms of the reasons drawn out in the deliverables, but also just in terms of welcome simplicity in terms of approaching these charges in a cost recovery way and charging the consumer directly (via the supplier). This is the best way to the most efficient outcome, the least distortionary, and, a bit of simplification as a side effect!

Question 5	Do you have any other comments in relation to the draft report or draft conclusions of the Task Force?
Yes/No	No
Rationale	

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Respondent Name:	Jenny Garcia
Company Name:	Highview power

Consultation Questions

Question 1	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 1? Please explain your rationale and provide evidence where possible.**
Yes/No	Yes
Rationale	It is extremely complex to forecast a system based on 30 minutes intervals therefore a limited forward-looking signal to forecast the aggregation of various services with different commercial arrangements. Actual ESO day ahead forecast may not harmonized with BSUoS charges, therefore deviations may cause charges distortions. In general, in agreement with the 5 reasons given by the TF.

Question 2	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 2? Please explain your rationale and provide evidence where possible.**
Yes/No	Partially
Rationale	The feasibility of the 4 options was not looked at. Examples needed.

Question 3	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 3? Please explain your rationale and provide evidence where possible.**
Yes/No	Yes
Rationale	In agreement with the double counting issue with signals (SRMC & LRMC) that could cause deviations to charges. Perhaps a broader group in the TF is needed to come up with a solution.

Question 4	**Do you agree with the overall draft conclusion of the Task Force? Please explain your rationale and provide evidence where possible.**
Yes/No	Partially
Rationale	For Delivery 2, the feasibility was not assessed so difficult to conclude that " It is Not Feasible to charge any component of the BSUoS in a more cost reflective manner" But I agreement with D1 and D3

Question 5	**Do you have any other comments in relation to the draft report or draft conclusions of the Task Force?**
Yes/No	No
Rationale	

nationalgridESO

Balancing Services Charges Draft Report Consultation: Response Proforma

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The Task Force welcomes all available rationale and evidence to support your responses, in particular if you don't agree with the Task Force draft conclusions.

Respondent Name: Kate Garth
Company Name: innogy Renewables UK

Consultation Questions

Question 1	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 1? Please explain your rationale and provide evidence where possible.**
Yes/No - YES – we agree Rationale –We agree the main reasons as stated, as to why BSUOS doesn't provide a useful forward looking signal that can be used to positively influence a market participant's behaviour that could lead to lower consumer costs.	

Question 2	Do you agree with the draft conclusion of the Task Force regarding Deliverable 2? Please explain your rationale and provide evidence where possible.
Yes/No	Yes
Rationale - Agree with the rationale behind the exclusion of black start and elements of response and reserve which concludes these are insurance costs (and therefore don't provide any forward looking signals), similar ESO internal costs are fixed and not forward looking. "Energy imbalance costs seen as too low to be a priority compared to other costs"- it might be helpful to confirm the materiality of those costs within the report.	

Question 3	Do you agree with the draft conclusion of the Task Force regarding Deliverable 3? Please explain your rationale and provide evidence where possible.
Yes/No	yes
Rationale - Of the 4 types of balancing services that could in theory be used to provide a forward looking signal, we agree with the wider conclusion that doing so would be unlikely to reduce complexity and provide a forward looking signal that market participants can respond to. Furthermore we agree that at present BSUOS costs are based on total system costs rather than marginal costs and therefore it would be hard to accurately forecast and allocate costs efficiently.	

Question 4	Do you agree with the overall draft conclusion of the Task Force? Please explain your rationale and provide evidence where possible.
Yes/No	yes
Rationale On the basis of the findings of the 3 deliverables it seems unlikely that it could be feasible to charge even some of the BSUOS charges on a more cost reflective basis that would effectively influence user behaviour. On that basis, we would agree with the draft conclusion that the costs should be treated on a cost recovery basis, although we recognise that the question of how those costs should be recovered in future is outside of the scope of the taskforce's remit.	

Question 5	Do you have any other comments in relation to the draft report or draft conclusions of the Task Force?
Yes/No	yes
Rationale	Whilst we agree with the draft conclusions and recommendations from the Taskforce, our concern remains how best to manage the next steps, given this process is currently separate from the wider TCR process and also because of the parallel operation of the modifications 281 and 308. Our concern remains that different elements of the charging regime could be considered in isolation or implemented in a piecemeal way, rather than providing market and regulatory clarity for all participants who would / could be impacted by changes resulting from the wider TCR reforms and the specific changes relating to reform of BSUOS costs. We would recommend that the draft conclusion of the taskforce be treated as an urgent input into the wider TCR process [with the recommendation that Ofgem reconsiders its current minded to position on charging reform for BSUOS], to ensure the treatment of all costs are managed in a consistent and non-discriminatory way and that the final decisions for charging reform can be implemented at the same time to minimise the scope and scale of system and process changes.

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The Task Force welcomes all available rationale and evidence to support your responses, in particular if you don't agree with the Task Force draft conclusions.

Respondent Name: **Melissa McKerrow**
Company Name: InterGen

Consultation Questions

Question 1	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 1?** **Please explain your rationale and provide evidence where possible.**
Yes/No	Yes
Rationale	InterGen agrees that under the current arrangements, none of the elements of BSUoS provide a useful forward-looking signal that influences market participant behaviours in an economic and efficient manner. As an independent generator, InterGen has to account for BSUoS within generation costs for electricity sales up to three years ahead of delivery. Longer term BSUoS price forecasts have proven to be highly inaccurate and do not capture its volatility, therefore it is reasonable to assume that generators such as

	InterGen build in a risk premium to their projected generation costs. As generators move closer to dispatch and have a more informed view of likely BSUoS, this can mean that positions that may have been economic season/year ahead become uneconomic in the closer months and particularly through day ahead and intraday. This risk premium is then reflected in dispatch prices for balancing which ultimately leads to an increase in costs for the consumer. BSUoS charging therefore influences user behaviour (in building in a risk premium) but to the detriment of the efficient operation of the market and therefore the consumer.

Question 2	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 2? Please explain your rationale and provide evidence where possible.**
Yes/No	Yes & No
Rationale	InterGen agrees that the 4 elements reviewed as part of Deliverable 2 had merit in their review as being potential options for revision so as to provide more cost-reflectivity within BSUoS. However, we have strong reservations about adjusting any individual elements of BSUoS, particularly constraint costs, as discussed in more detail in our response to Question 3 below.

Question 3	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 3? Please explain your rationale and provide evidence where possible.**
Yes/No	Yes
Rationale	InterGen agrees that none of the proposed options would meaningfully provide a cost-reflective and forward-looking signal that would drive positive market behaviour for the benefit of consumers. We also agree that some elements of the proposals mooted under Deliverable 2 may have significant and unintended consequences for some market participants and could potentially lead to even more volatile and harder to predict BSUoS pricing. When proposing to make some elements of BSUoS charging locational, InterGen agrees that there is significant risk of double counting. InterGen's assets are located where they are due to a number of historical factors, including (but not limited to) land costs, proximity of network services (electricity transmission, gas transmission) and TNUoS signals. Adding in a locational transmission constraint charging signal to BSUoS effectives doubles the 'locational' element of the LRMC calculations. Moreover, it is fundamental to remember that constraint costs are not based on marginal costs but on the total costs incurred by the ESO. Constraint costs can be caused by insufficient reinforcement of network capacity or network outages – neither of which should be charged to parties behind that particular constraint, who have no say on how networks are maintained or upgraded. The manner in which constraints are dealt with across the network vary, and there may be multiple offsetting instructions provided by SO via BM to resolve such constraints. Therefore parties may need to price in even higher (than the current BSUoS risk) risk assumptions as they layer in the potential to be charges for constraints in differing zones. InterGen also agrees that the assessment of locational reactive and voltage constraints is reasonable and appropriate, and believe that these cannot be manipulated to provide a better forward looking signal or a more efficient use of the network, and in turn may make forecasting even more complex and hard to predict due the nature of the driving forces behind reactive power costs.

	Any adjustment to reflect locational constraint payments within BSUoS would also require a complete transparency around where these constraint existing across the network, SO has not as yet provided this level of transparency and considerations would need to be given to how this would be done and updated.

Question 4	**Do you agree with the overall draft conclusion of the Task Force?** **Please explain your rationale and provide evidence where possible.**
Yes/No	Yes
Rationale	As for the reasons set out in our response, above.

Question 5	**Do you have any other comments in relation to the draft report or draft conclusions of the Task Force?**
Yes/No	Yes
Rationale	InterGen is wholly supportive of the work done to date by the Balancing Services Task Force. We would also like to note that the Draft Report is well written and well thought out and not overly complex for what is a short consultation period. We would encourage more of the same for future publications from the Task Force as well as the rest of the TCR SCR project. We would like to take this opportunity to reiterate our previous support for proposals that have looked to simplify BSUoS charging, for the benefit of the consumer. InterGen supported the progress of both CMP 250 (“Stabilising BSUoS with at least a 12 month notice period”) and CMP 308 (“Removal of BSUoS charges from generation”). We believe that the both of the aforementioned proposals better facilitate the CUSC objectives for the following reasons: • They better align the GB charging arrangements with those of most other interconnected countries (and those of most European countries as a whole), allowing GB generation to compete on an equitable basis and reduce distortions in cross-border trade, thereby facilitating more effective competition in the generation and supply of electricity across GB by providing a level playing field. • Ensuring compliance with the European Commission in respect to the EU Third Package. Removing BSUoS from generation reduces market distortions to deliver the full benefits of a competitive internal market in electricity. • Positive impact on consumers. BSUoS is difficult to forecast and has over recent years become very volatile, this has led to it being necessary for generation parties to embed a risk premium into their short run generation costs to account for the BSUoS forecasting inaccuracies. This in itself leads to higher balancing costs across the system. Hence the

removal of BSUoS from the generation side (or stabilisation of charging) should reduce these balancing costs in the system as a whole.

- National Grid, as the System Operator is responsible for balancing actions. It is best placed to forecast costs incurred to balance the system. Proposals to stabilise BSUoS over a 12 month period would allow for the removal of the risk premia attached to forward sales in the wholesale market, or BM pricing strategies. It is becoming increasingly difficult to forecast BSUoS outturns from one day to the next and InterGen are seeing huge differences in between National Grid's forecast BSUoS and settlement out-turn, largely as a result of the increasingly intermittent fuel mix. Flexible generation assets, such as CCGT and OCGT, typically run for peak periods of the day only. Inaccurate forecasting and volatility in charges can lead to loss making dispatch when plant is dispatched over such a short period, particularly when the half hourly BSUoS outturns differ so significantly from the forecast.
- A more accurate forecast, fixed BSUoS costs or moving BSUoS charging entirely over to demand (our preferred option) would remove the risk premium we need to apply to our Short Run Marginal Cost, thereby reducing running costs and system balancing costs. This all leads to a reduction in the price paid by the consumer.

Response to Balancing Services Charges Task Force Draft Report

National Grid Ventures (NGV), part of National Grid plc, is a distinct commercial unit that owns and operates energy businesses in competitive markets in the UK and US. NGV's UK portfolio includes National Grid Interconnector Holdings Limited (NGIH), Grain LNG, and National Grid Metering.

The draft report presents what appears to be a thorough investigation into the application of Balancing Services Use of System (BSUoS) charges and we do not have any comments on its main conclusions.

We note that 'expanding the chargeable parties' to include interconnectors was raised in the Task Force as a potential option for responding to the cost-reflectivity of locational transmission constraints, locational reactive and voltage constraints and response and reserve bands. 'Significant legislative and licence change' and 'unintended consequences' are cited as limitations to this option, however there is no detail provided to support either of these issues. While not impacting the report's fundamental conclusions, it is important to make clear that the existing legislative and regulatory arrangements are underpinned by robust economic rationale.

An interconnector, under EC Regulation (714/2009), is classed as a transmission line that crosses a border connecting national transmission systems. The Regulation sets out conditions for applying network charges to cross-border flows. Members are required to participate in the Inter-TSO Compensation (ITC) Mechanism which compensates TSOs for the costs of hosting cross-border flows on their networks. Beyond these ITC payments (and excepting any provisions for congestion management revenue), cross-border flows should not be liable to any further charges. This is a key regulation for removing potential distortions to cross-border trade within the wider European energy market. Specifically, if each TSO applied its own network charge(s) to interconnector flows, there would be a risk of tariff 'pancaking' for transit flows that cross multiple networks. This occurs whereby an electricity flow will effectively accumulate charges from each host network as it passes along its notional contract path. Such a scenario is harmful to both cost-reflectivity and competition. GB exports would become progressively less competitive the deeper into the European market they flowed. Similarly, potential imports into GB would be exposed to additional charges the further away the generation source, equating to more expensive prices for end consumers. There would be a loss of the price, sustainability and security of supply benefits to consumers that interconnectors deliver and that the existing arrangements facilitate.

The significant benefits that interconnectors can bring to British consumers are widely recognised. Ofgem's assessment of the North Sea Link (NSL) estimated that, on its own, the project would deliver £3.5bn of benefits to GB consumers over a 25-year period[1]. Our analysis has estimated that an additional £11bn of consumer welfare could be delivered by extending GB interconnector capacity to include the 9.5GW of pre-construction projects in the development pipeline[2]. As Ofgem has stated by "allowing the trade of energy into and out of the GB market [interconnectors] can lower electricity bills, improve security of supply and support decarbonisation."[3] These benefits are, in part, realised by promoting free and unfettered access for network users within the wider European market. 'Pancaking' transmission charges in the way abolished by Regulation (714/2009) would reduce these very significant benefits to GB consumers.

We have highlighted these details as clarity on the context framing the legislation should help to avoid any misconceptions that it is in place without justification. It would be helpful to see this clarity captured in the final report.

[1] 'Cap and floor regime: Initial Project Assessment for the NSN interconnector to Norway' Dec 2014
[2] Consumer benefit calculated over 25-year period. 'Connecting for a smarter future' https://www.nationalgrid.com/document/118641/download
[3] 'Cap and floor regime: unlocking investment in electricity interconnectors' May 2016

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Response Pro-forma

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Respondent Name:	William Jago
Company Name:	npower

Consultation Questions

Question 1	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 1? Please explain your rationale and provide evidence where possible.**
Yes	
Rationale:	We agree with the concern of the taskforce that constrained generators may be increasing their offer prices to increase constraint cashflow. We would also suggest that there could possibly be issues with other generators also increasing their bid prices to provide the constrained energy. Generators are not supposed to take advantage of system location to increase revenue and we suggest that this be investigated further by the Authority.

	We broadly agree with the taskforces assessment that for RoCoF currently no signal is provided mainly because it is difficult to forecast and service despatch is opaque . However there is a lack of visibility of this in the market which could create a price signal if published with a forecast. The SO's own figures show RoCoF constraint costs increasing to a significant proportion of the yearly BSUoS. The ESO also currently manages the system on estimates of RoCoF limits not based on the actual generation mix. We suggest that a move by the ESO to calculating 'real-time' RoCoF limits combined with a 24/48 hour forecast (as with wind generation, solar and carbon intensity) could provide some kind of signal to the market at least in the short term horizon.

Question 2	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 2? Please explain your rationale and provide evidence where possible.**
Yes	
Rationale	We have no additional comments.

Question 3	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 3? Please explain your rationale and provide evidence where possible.**
Yes	
Rationale	We have no additional comments

Question 4	**Do you agree with the overall draft conclusion of the Task Force? Please explain your rationale and provide evidence where possible.**
Yes	
Rationale	We have no additional comments.

Question 5	**Do you have any other comments in relation to the draft report or draft conclusions of the Task Force?**
Yes	
	We agree with the Task Force conclusion that BSUoS is a residual charge. TCR is currently suggesting that residual charges for other network charges (DUoS and TNUoS) is recovered as a £/mpan or capacity type charge. We believe that this is a valid approach to charge for BSUoS i.e. BSUoS becomes a published tariff, published say 15 months in advance. Any under or over-recovery by ESO should be treated in the same way as other network charges through a k-factor type approach. It is inappropriate to have a residual charge which is volatile and varies by half hour.

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Respondent Name:	Andrew Ho
Company Name:	Ørsted

Consultation Questions

Question 1	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 1? Please explain your rationale and provide evidence where possible.**
Yes/No	Yes
Rationale	We agree with the conclusion that BSUoS does not currently provide any forward-looking signal. We agree with the rationale as put forward in section 2.1.4. BSUoS charges are currently calculated ex-post, and is the result of multiple, often complex actions that National Grid ESO takes to balance the system. This inherently makes the current charge difficult to forecast. Ørsted reviews the ESO's forecast data as part of our own work, as we believe the ESO would have the most data available to generate an accurate forecast.

	However, when reviewing this data, we also see the mismatch between forecast and outturn costs. The inability to accurately forecast a charge means it is not possible to view BSUoS today as a forward-looking charge that users would alter their behaviour around.

Question 2	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 2? Please explain your rationale and provide evidence where possible.**
Yes/No	Yes
Rationale	We agree with the options as presented in the report, but due to the short turnover time to provide comments have not progressed on thoughts on what additional options or variations on the options presented are eligible for consideration.

Question 3	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 3? Please explain your rationale and provide evidence where possible.**
Yes/No	Yes
Rationale	We agree that from the options presented it is not feasible to create a series of forward-looking charges in BSUoS, and support the rationale presented under 4.1.5. The complexity of a breaking BSUoS down into a series of short-run marginal costs is a particular issue that would require overcoming. Importantly, the potential duplication and resulting double-counting with long-run marginal costs in TNUoS that generators have already paid for (and at the discretion of network companies to provide additional reinforcement or not) would represent a market inefficiency that would only drive up costs to consumers. Furthermore, we agree that the creation of any new charges may still not resolve the fundamental issues concerning BSUoS at present, namely the ability for users to accurately forecast (and therefore react) to a new charge; the complexity and interaction of a suite of new charges may bring compared with the current complexity in balancing behind a simpler, single charge; that new charges may still be as volatile as current BSUoS charges. Additionally, as the ESO can call multiple services to resolve an issue (that may not be the cheapest action, which could cause further issues), how those complex actions can be apportioned and charged back will be unclear. We therefore believe the overall practicality and proportionality of creating new charges may ultimately not create value to consumers.

Question 4	**Do you agree with the overall draft conclusion of the Task Force? Please explain your rationale and provide evidence where possible.**
Yes/No	Yes
Rationale	For the reasons outlined in the previous questions, we agree that it is not feasible to charge BSUoS in a more cost-reflective and forward-looking manner that would effectively influence user behaviour. Actions described in the report as ‘market splitting’ would be significant, but yet may not resolve the problems identified with BSUoS (as per Section 2.1.4).

Question 5	Do you have any other comments in relation to the draft report or draft conclusions of the Task Force?
Yes/No	Yes
Rationale	The industry is observing a lot of proposals and reviews that may impact the work of the Task Force: - CMP308 to charge BSUoS to demand users only - Targeted Charging Review (TCR) which examines residual charging Whilst it is outside the scope of the Task Force to consider how BSUoS could work as a residual charge, we see this as a potential direction of travel within the context of all wider actions, especially considering the findings of this report. We believe that this could be an appropriate course of action as a way for the ESO to recover the costs of balancing the system. Taking both CMP308 and the TCR recommendations into consideration, residual charges are proposed to be levied onto the demand side. As both a generator and a supply business, we would support a recommendation to have BSUoS as a demand side only charge. This avoids generators placing a risk premium onto BSUoS, which represents a benefit to consumers. This also allows generators to compete better with continental generation, which currently does not pay balancing costs. From a supplier perspective, a logical transition for BSUoS as a residual charge would be to have it in line with the TCR recommendations for residual charging, and to define it as some form of fixed charge. Retaining a volumetric charge (i.e. per MWh) but levying on demand side only would not be representative of a residual charge as it may allow for negative demand users to continue to benefit from avoided payments unless CMP308 is approved.

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Response Pro-forma

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Respondent Name:	Mpumelelo Hlophe
Company Name:	ScottishPower Renewables

Consultation Questions

Question 1	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 1? Please explain your rationale and provide evidence where possible.**
Yes/No	Yes
Rationale	BSUoS is overly complex, difficult to forecast and volatile. Any generator that pays BSUoS has very little or no control over BUSoS nor can they alter their behaviour to affect the BSUoS charge.

Question 2	Do you agree with the draft conclusion of the Task Force regarding Deliverable 2? Please explain your rationale and provide evidence where possible.
Yes/No	Yes
Rationale	

Question 3	Do you agree with the draft conclusion of the Task Force regarding Deliverable 3? Please explain your rationale and provide evidence where possible.
Yes/No	Yes
Rationale	It would be highly complex to allocate responsibility for individual elements charged in BSUoS. Also, some of the services procured by the system operator under BSUoS can solve more than one system problem, making it more efficient. To separate the procured services by order of allocating responsibility and cost may be inefficient.

Question 4	Do you agree with the overall draft conclusion of the Task Force? Please explain your rationale and provide evidence where possible.
Yes/No	Yes
Rationale	

Question 5	Do you have any other comments in relation to the draft report or draft conclusions of the Task Force?
Yes/No	No
Rationale	

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Respondent Name:	Alessandra De Zottis
Company Name:	Sembcorp UK

Consultation Questions

Question 1	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 1? Please explain your rationale and provide evidence where possible.**
Yes/No	Yes
Rationale	There is a lack of transparency in how the ESO takes balancing actions, meaning industry bodies are unable to understand costs in real time or ex-post. Without understanding the reasoning beyond costs, forecasting is impossible and as such, BSUoS can send no signal. Even if parties were able to forecast BSUoS perfectly (and had visibility), the majority of chargeable volume (demand and baseload generation) would be unable to alter their behaviour because the costs are relatively small. As such, it is accepted as an unavoidable running cost.

Question 2	Do you agree with the draft conclusion of the Task Force regarding Deliverable 2? Please explain your rationale and provide evidence where possible.
Yes/No	Yes
Rationale	Whilst BSUoS is made of a lot of disparate elements, the Task Force chose the correct areas to focus on. Whilst feedback from the first webinar suggested there could have been other areas to consider, no examples were given. We believe the most suitable elements were selected given the tight timelines. Ideally, more time could have been spent in this area looking more closely at elements that were not obviously residual (Black Start, SO Internal Costs, Energy Imbalance) but not developed further, such as other elements of Reserve/Response or looking at different types of Reserve/Response. Given the tight timeline, the Task Force made the correct choice. We do not believe this would have made any significant difference to the conclusions of the Task Force.

Question 3	Do you agree with the draft conclusion of the Task Force regarding Deliverable 3? Please explain your rationale and provide evidence where possible.
Yes/No	Yes
Rationale	The ideas were clearly expanded upon and had advantages, but failed to address the difficulties identified in Deliverable 1 and would create issues of their own. There is no way they would be advantageous to the industry or system overall.

Question 4	Do you agree with the overall draft conclusion of the Task Force? Please explain your rationale and provide evidence where possible.
Yes/No	Yes
Rationale	The logic of the Task Force is clear, and we agree with the overall conclusion.

Question 5	Do you have any other comments in relation to the draft report or draft conclusions of the Task Force?
Yes/No	Yes
Rationale	While the way in which any BSUoS costs should be recovered is out of scope of the Task Force, it will be a key decision for the continued improvement of the industry. Volumetric charges are the simplest way to ensure proportional cost recovery, whilst encouraging reduction of energy usage. It encourages energy efficiency on behalf of demand users and does not require any significant new information, so can be implemented at minimal cost. We therefore support CUSC Modification CMP308, which seeks to place BSUoS onto demand users whilst retaining the £/MWh mechanism.

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Respondent Name:	Colin Prestwich
Company Name:	SmartestEnergy

Consultation Questions

Question 1	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 1? Please explain your rationale and provide evidence where possible.**
No	
Rationale	The first part of the conclusion states: "The existing elements of BSUoS do not currently provide any forward-looking signal which influences user behaviour to improve the economic and efficient operation of the market." This statement confuses two issues. The existing elements of BSUoS cannot currently provide any forward-looking signal which influences behaviour because they are not separately charged and cannot vary as a result of behaviour. The confusion arises in the fact that BSUoS as a whole is a half hourly charge which looks and feels like it is a forward-looking charge. It is, however, nothing more than a cost recovery mechanism. It just happens to be a half hourly charge which reflects the costs in the periods in

	which they are incurred. A half hourly approach is appropriate because RCRC and cash out are also settled on a half hourly basis. Whilst some elements (e.g. black start) do not naturally lend themselves to half hourly settlement, it would be absurd to suggest that other elements of BSUoS (esp energy imbalance) should not be settled half hourly. If BSUoS is to remain as a single charge it must therefore remain half hourly. The second part of the conclusion states: "The signals some parties can forecast to an extent, i.e. from demand and/or wind, do not result in behaviour that would lower costs to consumers, and the volatility and inability to forecast BSUoS is adding risk premia costs to all parties exposed to BSUoS." We disagree with this. Just because it is difficult to forecast does not mean that it should change. Again, this is implying that it is a forward-looking charge that is failing in its objective. It is, however, a half hourly cost recovery mechanism. Also, any other approach would add even more risk premia as there would be a cost associated with smearing over a longer timeframe.

Question 2	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 2? Please explain your rationale and provide evidence where possible.**
Yes	
Rationale	The document states: "Four potential options have been identified by the Task Force as warranting further investigation regarding their potential to be charged in a more cost-reflective manner and provide forward-looking signals: (i) locational transmission constraints; (ii) locational reactive and voltage constraints; (iii) response and reserve bands; and (iv) response and reserve utilisation." Locational elements are certainly areas to be investigated further for cost-reflective charging.

Question 3	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 3? Please explain your rationale and provide evidence where possible.**
No	
Rationale	The document states: "Whilst there are some theoretical advantages to all four potential options identified, the draft conclusion of the Task Force is that none of the potential options could feasibly provide a cost-reflective and forward-looking signal that drives efficient market behaviour to the benefit of consumers." This is the wrong way round. Whilst it may be difficult to demonstrate that changed behaviour would be to the benefit of consumers, this should not have to be proved first before potential change can be investigated further. Cost reflective charging is good in and of itself. It would certainly be absurd to use the assertion that it is difficult to identify changed behaviour to then move to a flatter allocation of BSUoS. The document states: "BSUoS is based on total costs incurred by the ESO which can vary significantly. An effective forward-looking signal should be built from marginal costs rather than total costs, and it is unclear how to achieve this through BSUoS." In a perfect world we would agree with this. However, BSUoS is what it is, as a whole. Indeed, all the "elements" are to an extent artificial pots to which actions are assigned in post analysis. There will inevitably be some actions which fall into more than one pot. But that does not mean that there is no value in making parts of the charge more cost reflective. The document states: "Assuming an effective forward-looking BSUoS signal could be developed this signal could be ineffective as other signals are already in place through other market and charging arrangements (e.g. TNUoS, BM, cash-out), so double-counting issues arise." This is the wrong way of looking at it. BSUoS is a basic charge and cash-out provides a means of creating an incentive around the energy imbalance element. With BSUoS (and cash-out) staying as is, it would be perfectly feasible

	to develop a further cost-reflective incentive (netting to zero) based on locational constraints. BSUoS itself would not need to change. The document states: “There is no evidence that the issues that exist currently (i.e. the charge being hard to forecast, complex, volatile, etc) will cease to apply under any of the potential options. Indeed, moving elements of BSUoS to targeted groups of users may have the effect of making charges harder to forecast, more volatile and complex for some parties.” The more cost reflectivity there is the better. We would also note that there is a contradiction in the argument that BSUoS is relatively small and therefore not worth participants’ bothering to optimise against, whilst at the same time saying that it is volatile and complex. The document states: “Allocating BSUoS costs to market parties responsible for these costs would be highly complex due to various reasons e.g. services are procured and used based on complex assessments of the whole system.” As stated above, it would be perfectly feasible to develop a further cost-reflective incentive (netting to zero) based on locational constraints. BSUoS itself would not need to change.

Question 4	**Do you agree with the overall draft conclusion of the Task Force?** **Please explain your rationale and provide evidence where possible.**
No	
Rationale	The document states: “It is not feasible to charge any of the components of BSUoS in a more cost-reflective and forward-looking manner that would effectively influence user behaviour. Therefore, the costs within BSUoS should all be treated on a cost-recovery basis.” Influencing behaviour is a secondary effect. Cost reflective charging is desirable in and of itself and, as stated above, it would be perfectly feasible to develop a further cost-reflective incentive (netting to zero) based on locational constraints. BSUoS itself would not need to change. Also desirable in and of itself is the notion of applying the charge in the periods in which it is incurred and, as stated in our answer to Q1, much of BSUoS contains elements which do vary on a half hourly basis.

Question 5	**Do you have any other comments in relation to the draft report or draft conclusions of the Task Force?**
Yes	
Rationale	We are concerned that the conflation of cost-reflectivity and forward-looking charges will be used by those who wish to smear BSUoS over a longer recovery period. Even if industry decides not to pursue cost-reflective charging, it does not mean that half hourly settlement of BSUoS (which appears to be “forward-looking”) needs to be reviewed. A half hourly approach is appropriate because RCRC and cash out are also settled on a half hourly basis, and a large chunk of BSUoS actually relates to energy imbalance. However, we feel that further work should be done on developing a local constraint adjustment.

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Respondent Name: John Tindal
Company Name: SSE

Consultation Questions

Question 1	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 1? Please explain your rationale and provide evidence where possible.**
Yes/No	Yes
Rationale	Agree with the explanation in the draft report. BSUoS generally does not provide an effective forward looking signal because it is too difficult for most parties to accurately forecast it and contractual arrangements mean that many parties may not be commercially exposed to half hourly BSUoS prices.

	Even if parties could accurately forecast BSUoS prices, then it is still not a useful signal because it does not reflect a marginal system cost, or benefit, so user behaviour would not improve the economic and efficient operation of the market. In as far as users may currently respond to current BSUoS price signals, then this would tend to worsen market distortions resulting in higher system cost and higher cost to customers. Examples of such existing distortions include: 1. **Market distortion based on location of connection** – Competition is distorted because generators connected to the transmission network pay BSUoS, while by contrast interconnected generators and generators connected to the distribution network, or behind customer meters do not pay BSUoS. Further, generators connected to the distribution network, or behind customer meters also tend to receive a credit for avoiding demand BSUoS charges, while generators connected to the transmission network do not receive this credit. 2. **Perverse signals overnight** – Overnight low demand results in a reduced BSUoS charging base, therefore a more expensive BSUoS £/MWh unit rate. This provides the perverse overnight incentive to reduce the BSUoS charging base further through even lower demand and even lower transmission connected generation compared with other sources of energy. In addition, due to the charging of BSUoS being calculated on a net basis, this may also result in a distorted incentive for distribution connected and behind the meter generators to increase their generation overnight in order to benefit from more valuable demand BSUoS avoidance credits at these times. 3. **Risk premia increase cost to customers** – It is likely that uncertainty regarding BSUoS prices tends to result in higher risk premiums for both generators and suppliers which tends to increase costs to customers. 4. **Distortions to dispatch of storage assets** – Transmission connected storage currently pays BSUoS on both its imported and exported energy. This creates a distortion which artificially narrows the apparent storage arbitrage margin, so tends to result in an economically inefficient reduced operational dispatch of transmission connected storage.

Question 2	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 2? Please explain your rationale and provide evidence where possible.**
Yes/No	Yes
Rationale	There did not appear to be any clear evidence that any of the options could provide a useful forward-looking price signal. However, it was a reasonable to conclude that the four identified options warranted further investigation.

Question 3	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 3? Please explain your rationale and provide evidence where possible.**
Yes/No	Yes
Rationale	**Constraint costs** Agree with the rationale set out in the report that it would not be appropriate to attempt to apply this element of BSUoS as a forward-looking charge. TNUoS tariffs already provide a long-run marginal cost signal (LRMC). In principle, it would not be appropriate to apply locational BSUoS as a short-run marginal cost (SRMC) signal as well as TNUoS

because this would be double charging. Double charging would not be economically efficient and it would result in higher cost to customers over the long-term.

If a SRMC signal were to be applied, then this could only be appropriate if it were "instead of" rather than "as well as" the long-run marginal cost TNUoS price signal. Even then, BSUoS would not be an appropriate tool for delivering such a SRMC signal. Further, a SRMC signal would pollute existing competitive market and regulatory price signals, so would require a complete overhaul of market arrangements which would not be practical, or proportionate.

In practice, any SRMC price signal would likely still fail to overcome the practical challenges identified in deliverable 1, namely that it would not be effective if charges were set ex-ante because the charges would not be cost reflective, while it would not be effective to use ex-post charges if users could not accurately forecast them, or if users could not efficiently respond to the charges.

Locational reactive and voltage constraints

Agree with the rationale set out in the report that it would not be appropriate to attempt to apply this element of BSUoS as a forward-looking charge.

Response and reserve bands

Agree with the rationale set out in the report that it would not be appropriate to attempt to apply this element of BSUoS as a forward-looking charge.

Response and reserve utilisation

Agree with the rationale set out in the report that it would not be appropriate to attempt to apply this element of BSUoS as a forward-looking charge.

Question 4	**Do you agree with the overall draft conclusion of the Task Force?** **Please explain your rationale and provide evidence where possible.**
Yes/No	Yes
Rationale	Agree with the rationale set out in the report and for the reasons further outlined in our answer to questions 1,2 and 3.

Question 5	**Do you have any other comments in relation to the draft report or draft conclusions of the Task Force?**
Yes/No	Yes
Rationale	Agree with the conclusion that "…the costs within BSUoS should all be treated on a cost-recovery basis." It would be helpful if Ofgem could outline in more detail what it may involve to treat BSUoS on a cost-recovery basis and how the TCR principles for revenue collection could most appropriately be applied to BSUoS revenue collection.

Balancing Services Charges Draft Report Consultation: Response Proforma

Response Pro-forma

The Balancing Services Charges Task Force invites responses to this consultation by **17th May 2019 at 17:00**. The responses to the specific consultation questions (below) or any other aspect of this consultation can be provided by completing the following proforma.

We appreciate that 10 working days is a relatively short consultation period, but this will enable us to publish our final report on the 31st May 2019 as per our Terms of Reference. The objective of the consultation on the draft report is for the Task Force to ensure the wider industry has the opportunity to review and provide feedback on the work and draft conclusion of the Task Force ahead of the final report being sent to Ofgem. The draft report does not propose any change to frameworks at this stage.

Please return the completed proforma to chargingfutures@nationalgrideso.com noting that any responses will be viewed to be non-confidential responses. So, any confidential responses should be provided to Ofgem via TCR@ofgem.gov.uk.

Following receipt of responses to this consultation, the Task Force will review and publish a final report 31st May 2019, according to the Terms of References of the Task Force as above. The outcome of the consultation will be considered in the final report and submitted to Ofgem for further consideration.

The Task Force welcomes all available rationale and evidence to support your responses, in particular if you don't agree with the Task Force draft conclusions.

Respondent Name:	**Scott Keen, Commercial Director**
Company Name:	**Triton Power Ltd**

Consultation Questions

Question 1	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 1? Please explain your rationale and provide evidence where possible.**
Yes/No	Yes
Rationale	Triton Power Ltd agrees with the conclusions of the Task Force regarding deliverable 1 as presented in the draft report. BSUoS provides no useful forward-looking signal. Only NGESO has visibility of the complex set of inputs which make up BSUoS price and therefore it is impossible for market participants to forecast using the true inputs. It is possible to forecast using a set

	of assumptions and historical observations but with no degree of accuracy which would support commercial decision making and change operating behaviours. Instead Triton Power, similar to other generating companies, price a risk premium related to BSUoS into the SRMC of our generating assets to account for the volatility and unpredictability of this charge. This increases the cost of wholesale power and inflates bills for GB consumers, and leads to inefficient operation of the GB system.

Question 2	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 2? Please explain your rationale and provide evidence where possible.**
Yes/No	Yes
Rationale	Triton Power agrees with the Task Force regarding deliverable 2 and believes the correct four options for charging BSUoS differently were identified for investigation. Of the multiple complex constituents of BSUoS, many can only be calculated after the event due to live actions taken at delivery and therefore cannot be accurately forecast to provide a forward looking signal. The four options chosen by the Task Force were examined in an appropriate way and Triton Power believes that none are appropriate to be taken forward as changes to the charging methodology because current BSUoS charging is, and should remain, a cost recovery mechanism and be treated consistent with recent TNUoS charging changes relating to cost recovery elements i.e. allocated to demand users only.

Question 3	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 3? Please explain your rationale and provide evidence where possible.**
Yes/No	Yes
Rationale	Triton power strongly agrees with the Task Force conclusion regarding Deliverable 3 as none of the changes would provide a useful forward looking signal and if any signal could be provided, it would not significantly change behaviours to benefit the system and/or consumers.

Question 4	**Do you agree with the overall draft conclusion of the Task Force? Please explain your rationale and provide evidence where possible.**
Yes/No	Yes
Rationale	The conclusions and recommended next steps are clear and concise, and Triton power supports the findings.

Question 5	Do you have any other comments in relation to the draft report or draft conclusions of the Task Force?
Yes/No	Yes
Rationale	BSUoS charging was never designed to provide forward looking signals and its total cost recovery methodology does not lend itself to providing useful signals to market. Ofgem has clearly stated that cost reflective charges should be based on marginal costs and that total cost recovery charges should minimise distortions (Ofgem decision letters for CMP264/265 & TCR consultation). There are stronger market signals i.e. Balancing Mechanism, System prices etc. which would have much higher influence on behaviour than any BSUoS signal, and locational signals are already provided through TNUoS therefore if BSUoS was to be redeveloped to be locational, then TNUoS charging should be readdressed so there is no double-counting. Triton Power strongly recommends that BSUoS charging remains a cost recovery mechanism however the socialisation of the charges is confined solely to demand users to remove market distortions and counterproductive signals which are detrimental to the efficient operation of the system and negatively impact consumer benefit. A transition to demand only BSUoS would be consistent with Ofgem's recent charging ethos.

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Balancing Services Charges Draft Report Consultation: Response Proforma

Response Pro-forma

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The Task Force welcomes all available rationale and evidence to support your responses, in particular if you don't agree with the Task Force draft conclusions.

Respondent Name:	Alan Currie
Company Name:	Ventient Energy

Consultation Questions

Question 1	**Do you agree with the draft conclusion of the Task Force regarding Deliverable 1? Please explain your rationale and provide evidence where possible.**
Yes/No	Yes
Rationale	We believe that the task force provided a thorough review of the BSUoS elements. We agree that BSUoS does not provide any forward-looking signal. The five main reasons highlighted in the report effectively demonstrate why no forward-looking signal is present and that other market elements take precedence over BSUoS which dominate market behaviour.

Question 2	Do you agree with the draft conclusion of the Task Force regarding Deliverable 2? Please explain your rationale and provide evidence where possible.
Yes/No	Yes
Rationale	The Task force identified four theoretical options and common factors for future charging that require further feasibility studies.

Question 3	Do you agree with the draft conclusion of the Task Force regarding Deliverable 3? Please explain your rationale and provide evidence where possible.
Yes/No	Yes
Rationale	We believe that the task force has provided a thorough review of the theoretical options and agree in full with the limitations highlighted.

Question 4	Do you agree with the overall draft conclusion of the Task Force? Please explain your rationale and provide evidence where possible.
Yes/No	Yes
Rationale	The task force has provided a review of how BSUoS is calculated, a detailed breakdown of the elements within BSUoS and have provided sufficient modelling and documentation in the draft report to support the overall draft conclusions. We believe that no further work is required.

Question 5	Do you have any other comments in relation to the draft report or draft conclusions of the Task Force?
Yes/No	No
Rationale	