

Meeting Summary

Balancing Service Charges Task Force

Meeting Number 6

Date: 26/03/2019	Location: Energy UK, London
Start: 10:00	End: 16:00

Participants

Attendee	Attend/Regrets	Attendee	Attend/Regrets
Colm Murphy, Chair, National Grid ESO (CM)	Attend	James Anderson, SSE, Task Force Alternate (JT)	Attend
Joseph Henry, Technical Secretary, National Grid ESO (JH)	Attend	George Moran, Centrica, Task Force Member (GM)	Dial In
Sophie Van Caloen, National Grid ESO (SVC)	Attend	Grace Smith, UK Power Reserve, Task Force Member (GS)	Attend
Joseph Underwood, Energy UK, Taskforce Member (JU)	Attend	David Bird, Octopus Investments, Task Force Member (DB)	Attend
Mike Oxenham, National Grid ESO, Task Force Member	Attend	Dr Graham Pannell, RES, Task Force Member (GP)	Attend
Paul Mott, EDF, Task Force Member (PM)	Attend	Lisa Waters, Waters Wye Associates, Task Force Member (LW)	Attend
Laurence Barrett, E.On, Task Force Member (LB)	Attend	Tom Edwards, Cornwall Insight, Task Force Member (TE)	Dial In
Paul Jones, Uniper, Task Force Member (PJ)	Attend	Caroline Bragg, ADE, Task Force Member (CB)	Attend
Tim Aldridge, Ofgem, Task Force Member (TA)	Attend	Nicholas Gall, Solar Trade Association, Task Force Member (NG)	Attend
James Kerr, Citizens Advice, Task Force Member (JK)	Dial In	Rob Hudson, Tata Chemicals Europe, Task Force Member (RH)	Attend
Nigel Bessant, SSEN DNO, Task Force Member (NB)	Attend		

Discussions

1. **Introductions and Apologies for Absence**
 - 1.1 Colm Murphy opened the meeting and welcomed the attendees to the sixth meeting of the Balancing Service Charges Task Force. John Tindal sent regrets; James Anderson from Scottish Power attended in his place. Joseph Underwood and Energy UK were thanked for putting forward Energy UK offices as a venue for the Task Force. All slides for the day can be found [here](#).
 - 1.2 The Taskforce were advised by Colm that the meeting would consist of a presentation by Frontier Economics, and then play back of the work from the three subgroups, who over the past two weeks had worked on the options of Locational Reactive and Voltage Constraints, Response and Reserve Bands, and Response and Reserve Utilisation.
 - 1.3 Colm highlighted once again the tight timelines the Task Force had to work to, and invited Sophie Van Caloen to explain what the plan of action was for the proceeding weeks for the Task Force. The following approach was highlighted:

Draft report to be published - by end of April:

 - ESO to draft report and circulate to Task Force by 18 April 2019
 - TF members would then have a period to review this draft report prior to TF7
 - ESO to circulate final draft report including TF feedback by 26 April 2019 for final validation
 - 1.5 The topic of discussion moved to the consultation period, due after the publication of the draft report. Some Task Force members questioned whether a planned two-week consultation period would be sufficient for industry to review. Colm explained to the Task Force members was that this consultation was there as a “sense check”, as opposed to a more overarching, formal consultation, which would come thereafter during any future code modification(s). A question was raised also as to what the approach would be the consultation were to come back with potential options or views the Task Force were yet to consider or which strongly disagreed with the outputs from the Task Force. Tim Aldridge advised that any such input would be considered by Ofgem, and was unlikely to come back to the Task Force once it had concluded.
 - 1.6
 2. **Minutes, Actions and Engagements**
 - 2.1 The Minutes from Task Force meeting 5 received no review feedback, and as such were approved by the Task Force members. These are available [here](#). The Action Log was reviewed also, with many outstanding actions completed between Meeting 5 and 6 in regards to establishing sub groups. Task Force members were advised that the SharePoint site seemed to be experiencing issues with sign up and that this would be looked in to by ESO.
 - 2.2 Sophie Van Caloen explained to the Task Force that there had been positive feedback from previous engagements. Grace Smith will be attending the next TCMF on 10 April 2019. The progress of the Task Force was also discussed at the Ops Forum on 26 March 2019 and the Energy Intensive Users Group (EUIG) on 27 March 2019. In terms of upcoming engagements, the possibility of a webinar prior to consulting, and the consultation itself were highlighted.
 3. **Presentation – Frontier Economics**
 - 3.1 Sam Street and Dan Roberts of Frontier Economics presented to the Task Force on the subject of whether locational BSUoS has any economic rationale.
 - 3.2 The Task Force were taken through a series of slides, which explore a range of analysis on the rationale behind locational BSUoS. Frontier highlighted the concept of marginal cost to the Task Force and that Ofgem believe that system users should face the cost impacts of the behavioural decisions that make to the system, if cost reflectivity is to be achieved, whilst preventing distortions cause by recovering this marginal element of the costs.
 - 3.3 The presentation went on to analyse the right ways of sending marginal cost based locational signals. The Task Force were taken through two zone examples in regards to situations where congestion is prevalent,
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- 3 such as Short Run Marginal Costs (SMRC) being reflected in zonal pricing, or in regards to Long Run Marginal Costs (LRMC), reflection of incremental investment signals. It was also underline that having both SMRC and LMRC at the same time was counter-productive, as both signals were ultimately equivalent over time.
 - 3.2
 - 3.4 In their examination of locational BSUoS, the constraint cost element of BSUoS as things stand today is representative the entire costs of re-dispatch, impacting resource costs and transfers, and that allocating a total cost is unlikely to send effective signals. A theoretical example of an scenario whereby there are a set of locational charges/payments which would mimic market splitting was also considered. However, it was distinguished by Frontier that they are unrelated to re-dispatch total costs.
 - 3.5 To summarise the key takeaways, it was highlighted that Ofgem have previously gave steer that cost reflective charges should be based on marginal costs and that total cost recovery charges should minimise distortions. As things stand, the GB market currently exhibits theoretically justifiable locational signals from the locational allocation of transmission losses, as well as through LRMC based TNUoS charges.
 - 3.63.7 It was also illustrated that Ofgem’s current logic is that the only other theoretically justifiable basis for locational signals would be SRMC based signals. These would need to be instead of rather than as well as TNUoS charges, however the only recognised wat to bring SMRC to the fore would by market splitting, which has positive and negative connotations.
 - 3.7 It was also underline that Ofgem has commented that ‘BSUoS may be changed to introduce incentives to influence forward-looking behaviour’. However, according to the research by Frontier, the constraint cost element of BSUoS equal the total cost of re-dispatch, made up of resource costs and transfers. Despite numerous ways to allocate this cost, it was opined that there is little reasoning to believe that allocating a total cost will this result in efficient cost reflective marginal cost based signals (you would not start to think about efficient tariffs by looking at total costs). It was finally conveyed that There is a set of payments and charges that would create marginal cost based signals, but they bear no relation to the BSUoS total cost
 - 3.8 Colm thanked Frontier Economics for their attendance and work on this subject. The slides presented by Frontier are available [here](#).

4.0 Potential Options: Playback and Discussion

4.1 The Task Force refocussed on Deliverable 3. In the interim period between Task Force meetings 5 and 6, the Task Force were split into three sub groups to explore and discuss the advantages and limitations of **Locational Reactive and Voltage Constraints, Response and Reserve Bands, and Response and Reserve Utilisation**. The focus of this session was to socialise the work done by each group, to feed into the answering the questions posed by Deliverable 3. The same approach taken with Option 1 (namely Locational Transmission Constraints) was taken by each sub group.

4.2 Locational Reactive and Voltage Constraints

The subgroup exploring Locational Reactive and Voltage Constraints raised several points in regards to when the signal would be provided and if it could be an effective signal. It was noted that if it were to be Ex-Ante this could create a signal, but it was somewhat unclear what the level of this response would be. It was also noted that this could be a more consistent spend than constraint costs in relation to forecasting if charged Ex-Post. The ESO’s current administrative price for reactive power was also highlighted, so the subgroup expressed that they were not entirely sure of the level on cost reflectivity this could bring unless first amended. Consideration was also given in regards to which type of user should pay – be that Generation, Demand, both, or potentially whether this would sit best with a network owner. The subgroup also questioned what the drivers behind reactive power and voltage constraints were, and whether those causing the requirement should be responsible for paying and whether they could be identified. The impact of outages was also considered. It was highlighted that a dataset equivalent to that produced for

constraints would be useful in examining this further in future. There was further discussion on the advantages and limitations of this potential option within the task force.

4.3 Response and Reserve Bands

The Sub Group evaluating Response and Reserve Bands concluded that there was little useful operational behaviour that can be incentivised in this regard once assets are on the network, and that any investment signal would be likely to discourage new large units or those not providing inertia. Reducing the risk of a frequency event should in theory reduce frequency costs but this might be best achieved through regulatory means or valuing inertia, which is out of scope of the Task Force.

4.4 Some of the reasoning for this was highlighted, stating that as services for response and reserve are generally procured in advance of gate closure time in this regard, and assets are already in the system, it would likely be possible to identify the highest contracted costs, but not necessarily the cause of those costs being incurred. There was further discussion on the advantages and limitations of this potential option within the task force.

4.5 Response and Reserve Utilisation

The Subgroup investigating the feasibility for Response and Reserve Utilisation found that it was unlikely that any changes would bring about a change in user behaviour. More specifically, even if a signal could be created and targeted at the cause of services being utilised could a market participant reasonably and meaningfully react to it as primarily caused by unplanned events.

5 Next Steps and AOB

5.1 Colm thanked the sub-group for their work on three aforementioned options. Colm noted that the four identified options had now been assessed and challenged, and some of these options potentially require further consideration over the next couple of weeks. Colm noted that the emerging view of the task force seems to be that none of the options presented could incentivise behaviour and provide a forward looking signal in the manner described under Deliverable 3..

5.2 The way forward in terms of the consultation was also further outlined. Colm stated his belief that the outputs of Deliverables 1 and 2 were clear, but needed to be refined prior to the consultation, with the work for Deliverable 3 to be written up and reviewed, prior to the draft report at the end of April and the Consultation, which is to take place in early May. Engagement was also further discussed. It was stated that it may be useful to do a podcast after Task Force meeting 7 to update on the progress of the deliverables may be useful, and to Launch the consultation. A provisional date of 7 May 2019 was agreed for the webinar based on a launch date of 30th April for a two week consultation. **ACTION: Secretariat to consider Podcast and finalise arrangements.**

5.3 The Task Force were thanked for their input and advised that the venue for the next meeting would be confirmed in due course.