

Meeting Summary

Second Balancing Service Charges Task Force

Meeting Number 1

Date: 30/01/2020	Location: Amba Hotel, Charing Cross, London
Start: 10:00	End: 16:00

Participants

Attendee	Attend/Regrets	Attendee	Attend/Regrets
Colm Murphy, Chair, National Grid ESO (CM)	Attend	Eleanor Wood, Ofgem, Observer (EW)	Attend
Joseph Henry, Technical Secretary, National Grid ESO (JH)	Attend	George Moran, Centrica, Task Force Member (GM)	Attend
Eleanor Horn, National Grid ESO (EH)	Attend	Grace March, Sembcorp, Task Force Member (GMA.)	Attend
Joseph Underwood, Energy UK, Taskforce Member (JU)	Attend	Joshua Logan, Drax, Task Force Member (JL)	Attend
Jon Wisdom, National Grid ESO, Task Force Member	Attend	Olaf Islei, Shell, Task Force Member (OI)	Attend
Keith Munday, Bryte Energy, Task Force Member (KM)	Attend	Lisa Waters, Waters Wye Associates, Task Force Member (LW)	Attend
Jon Tindal, SSE, Task Force Member (JT)	Attend	Tom Edwards, Cornwall Insight, Task Force Member (TE)	Attend
Paul Jones, Uniper, Task Force Member (PJ)	Attend	Caroline Bragg, ADE, Task Force Member (CB)	Attend
Kayt Button, Ofgem, Task Force Member (KA)	Attend	Simon Cowdroy, RES, Task Force Member (SC)	Attend
George Douthwaite, Npower, Task Force Member (GD)	Attend	Tom Steward, Good Energy, Task Force Member (TS)	Dial In
Andrew Rimmer (AR), Engie, Task Force Member	Attend		

Discussions

1. Introductions and Apologies for Absence

- 1.1 Colm Murphy opened the meeting and welcomed the attendees to the first meeting of the second Balancing Service Charges Task Force. All members attended, with Tom Steward dialling in. Eleanor Wood from Ofgem attending as an observer. All slides for the day can be found [here](#).
- 1.2 Colm thanked the Task Force members for their commitment to the programme of work. The Task Force members were advised that the work would take place on a collaborative basis, with all members expected to input to the analysis where practicable, based on their expertise. This is a continuation of the approach taken by the first Task Force.
- 1.3 Colm committed to the same open and transparent approach to this Task Force as in the first BSUoS Taskforce to ensure that interested parties have numerous opportunities to engage and good visibility of the Taskforce's thinking.
- 1.4 Colm also expressed that it was an honour for the Electricity System Operator (ESO) to be chairing this Task Force.
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2. Scene Setting

- 2.1 The Taskforce were presented with an overview of the work completed by the first balancing services charges Task Force in 2019. The first Task Force (TF1) took place between January and May 2019, convening a total of 7 times. The members of TF1 tackled 3 key deliverables; i) Determining whether BSUoS currently provides a forward-looking signal, ii) Assessing potential options for charging BSUoS differently and iii) the feasibility of charging elements of BSUoS differently.
- 2.2 The first taskforce concluded that, as it was not feasible to charge components of the charge in a cost reflective and forward looking manner, BSUoS charges should be treated as cost recovery.
- 2.3 The Task Force briefly discussed the findings of the first Task Force, and discussed that the starting point in tackling the deliverables of the second task force was that BSUoS should be recovered on a cost-recovery basis.
- 2.4 Colm asked the Task Force if they had any comments to make on the draft Terms of Reference. The members did not have any further comment and the Terms of Reference were accepted.
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3. Ofgem View

- 3.1 Kayt Button from Ofgem was invited to present Ofgem's view on how the process should proceed. Kayt reiterated points made by Ofgem when they asked for a Second Task Force to be raised; namely that the Targeted Charging Review Principles must be utilised within the Task Force to guide any work undertaken.
- 3.2 The group were also given some context as to why Ofgem thought a second Task Force was necessary. It was highlighted that the first Task Force was essentially to answer the question of whether BSUoS could provide a forward-looking signal. Kayt advised that Ofgem accepted the findings of the first Task Force, but believed that there was some more work to be done into quantifying the First Task Force's conclusion on cost recovery.
- 3.3 Kayt also recognised that there was much work and analysis which had been undertaken in previous CUSC modifications which may be of use, and that the workgroup should not discount analysis on the basis that a modification may have been rejected in the past.
- 3.4 The TCR decision stated that the purely cost recovery residual charges for TNUoS s should be paid by "final demand" only. It was highlighted that it would be important for the Task Force to bear this in mind but to remain open minded when tackling the question of who should pay BSUoS and how it should be recovered. An analysis led approach was, as always, encouraged.
- 3.5 The Task Force were also reminded of the public service obligation relating to the levying and recovery of balancing service charges. The Task Force were alerted to the issue around which industry participants were best placed to carry the commercial risk of BSUoS.
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The Task Force also asked Ofgem to clarify what the expectations were in terms of implementation. Kayt advised that if Ofgem were to accept any findings of the Task Force, it would direct industry to raise the relevant modifications. The Task Force recognised the importance of highlighting to Industry that this forum is the main opportunity to provide views on any changes to Balancing Services Charges, and will engage industry stakeholders accordingly.

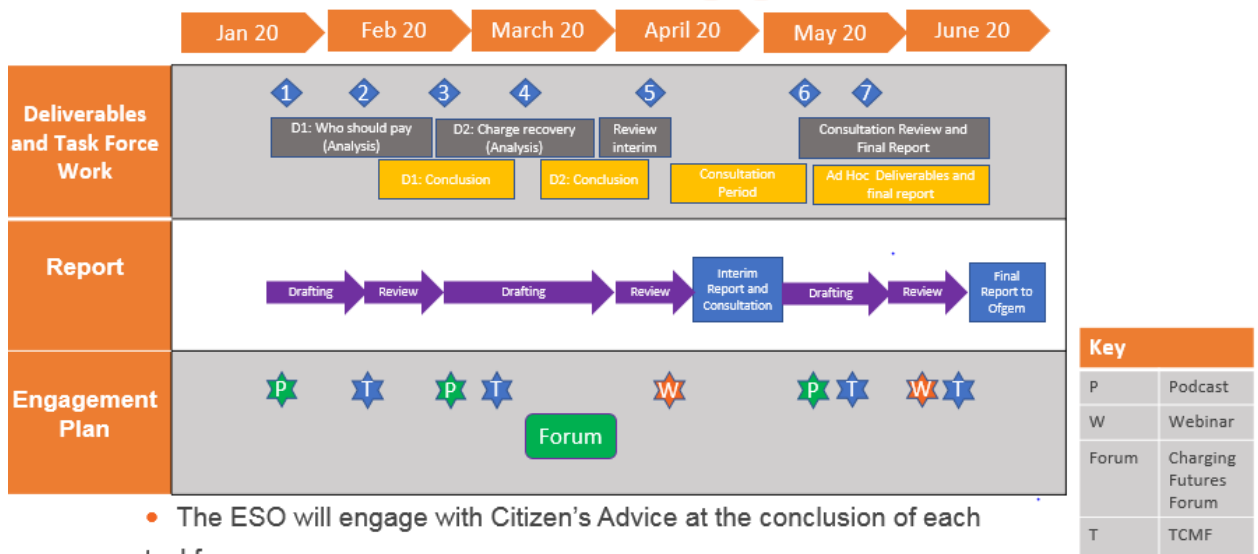
4 **Overview of Deliverables and Engagement**

4.1 Jon Wisdom gave an overview of the deliverables expected by Ofgem of the Second Task Force. The members were advised that consumer representatives, in the form of Citizens Advice, would be updated regularly and attend meetings where possible.

4.2 The Task Force were shown a suggested timeline for completion of the Task Force deliverables and industry engagement, produced by the ESO (see below), which detailed an approach to tackle the two key questions: (i) who should pay BSUoS (Deliverable 1) and (ii) how it should be recovered (Deliverable 2). The plan outlined 7 taskforce meetings, with meetings 1 and 2 used to conduct the analysis of Deliverable 1 and meetings 3 and 4 for Deliverable 2. There would then be an interim consultation, to gain the views of industry, with a final report due to Ofgem in June 2020.

4.3

Overview of Deliverables and Engagement Plan



- The ESO will engage with Citizen’s Advice at the conclusion of each taskforce
- Engagement will be shared between taskforce members

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4.4 Engagement of Industry and transparency of the work of the Task Force was highlighted as key to the delivery of the work. Jon advised the Task Force that there would be structured podcasts and webinars at key points throughout the duration of the Task Force. It was recognised that industry forums such as the Transmission Charging Methodology Forum (TCMF) provided invaluable engagement avenues to consult on the Task Force’s progress. Some Task Force members were tasked with liaising with other forum and panels in which they were involved, in order to engage a broad range of industry stakeholders.

Action: All Task Force members to organise attendance at Industry events to update on the work of the Task Force

- Tom Edwards – Cornwall Small Supplier Forum
- Simon Cowdroy – Renewable UK
- Grace March/Paul Jones – CUSC Panel
- Lisa Waters – Energy Intensive User Group
- Joseph Underwood – Energy UK
- George Moran - DCMF

5 Second Task Force Deliverables

5.1 The Taskforce considered both of the deliverables, and what analysis would be needed to support the process. In terms of deliverable one, the workgroup looked at what information would be required to fully consider where liability for the charge should lie.

The Task Force highlighted some key themes, including (but not limited to):

- Avoiding inadvertent signals or distortions
- Consumer benefit
- Flexibility
- Impacts on Decarbonisation
- Interactions with existing legislative frameworks (both UK and European) Which parties are best placed to cope with risk and volatility
- Price Cap implications

5.2 Similarly, the members carried out a similar exercise for deliverable 2, in terms of what considerations would need to be taken in order to assess how the charge should be recovered.

- What data?
- Granularity of data?
- Allocation of Risk between industry parties
- Alternative collection options e.g. General taxation
- Reconciliation
- Avoiding gaming scenarios and loopholes
- Distributional/Temporal impacts
- Unexpected losses and gains

5.3 Conversation then moved on to what data analysis would potentially be required. The group considered options for both deliverables. These included looking at ESO cost and risk, wholesale price impacts, an analysis of wider regulatory change, comparisons of Contact for Difference and Capacity markets, volumetric vs fixed charges, payments by users group, impact on final demand and visibility of supplier costing strategies.

6.0 Wider Regulatory Change

6.1 Jon Wisdom talked the workgroup through wider regulatory change concerning BSUoS. The Task Force considered modifications that were approved, rejected and ongoing, and any relevance or crossover that these may have with the work of the taskforce, and whether any of the analysis could be carried forwards in the work of this taskforce. Several workgroup members put forward suggestions for relevant pieces of analysis, literature and reports which would be of use for both deliverables.

7.0 Deliverable 1 – Initial Analysis

7.1 The workgroup undertook some initial thinking and conversation in regards to the issue of who should pay BSUoS. The workgroup discussed whether the charge sat best with suppliers, distribution connected generators, or transmission connected generators.

7.2 The workgroup posed various questions: in regards to where the risk associated with BSUoS would best sit, who causes the ESO to take balancing actions and whether interconnectors should share some of the charges (as they currently do not). The workgroup also drew distinctions between different groups of distribution connected generators.

7.3 Some Task Force members postulated that if BSUoS risk was to sit with suppliers, there could be increased risk of defaults, if the number of recent supplier of last resort events are taken in to account. It was also highlighted that credit cover is costly, and will impact parties in different ways. This was noted as particularly important due to the potential impacts on end consumers.

7.4 This lead to further conversations around the contractual positions suppliers hold with customers, and how charges would be passed through to end consumers. Some Task Force members pointed out that they believed suppliers can hedge BSUoS across longer periods to mitigate this risk, whereas others suggested that, in their understanding, hedging was a more difficult proposition.

Discussions also took place around whether aggregators or virtual lead parties could be classed as suppliers, or final demand. This also let to counter arguments that suppliers could technically be classed as

- 7.5 generators, as they often purchase power via long term VPAs. This also lead to questions around the suitability of demand side response users paying BSUoS, despite providing an ancillary service, addressing distortions. This gave rise to debate around whether parties providing balancing services are charged at all, when it is arguably final demand that ultimately causes the need for balancing services in the first instance.
- 7.6 Some Task Force members suggested that charging “behind the meter” generators was feasible, for example if charged on a site by site basis. Charging distributed generators, it was argued by some members, could eventually lead to an overall rise in the cost of BSUoS. This was due that was a perception that a lot of embedded gen derive a sizeable proportion of their revenue from providing balancing services and so if they are charged BSUoS they would put up their prices for balancing services and create an upwards price spiral
- 7.7 In terms of charging generators BSUoS, many members of the workgroup felt this was inefficient for several reasons. A majority of the workgroup recognised that charging generators eventually causes the charge to be put back in to the wholesale market, and then eventually through to final demand, via a supplier. Many Task Force members agreed that this was not the most efficient way to charge, if you can go more directly to final demand through the supplier. It was also argued that by charging generators, a risk premia is applied for BSUoS by generators. This then manifests itself in the wholesale energy price, and also arguably causes cross border distortions, making GB generators less competitive than other generators bases in EU member states. The room acknowledged that under European law currently we cannot charge I/C for balancing services, there was then some discussion about the uncertainty around GB’s participation in the IEM. .
- 7.8 It was suggested that there were two ways to remove distortions as far as balancing services charges were concerned; i) Charge all parties BSUoS, or ii) Charge Suppliers BSUoS, as this was the quickest and most efficient route to final demand. A majority of Task Force members felt that the risk sits best with suppliers, and it would potentially see positive effects on the wholesale energy price, working its way down to the end consumer.
- 7.9 On this basis, the members were tasked with undertaking analysis of how certain discussion points would look if suppliers were to be responsible for BSUoS, ahead of the next meeting of the task force to support this theory.

Analysis	Task Force Member Responsible
Multiple Transaction Cost Examples	PJ and TE
Cost of Capital and Security	KB and KM
Review of Risk Premia work undertaken in CMP250	JL
Contractual Positions Analysis	KB
Regulatory Review	KB
Impact of De-Carbonisation	SC
Review of TCR work on interconnector flows	ESO
Interconnector Investment Efficiency	ESO
Potential for comparisons with other countries balancing services cost recovery regimes, use ACER opinion on charging to support	ESO

Action: All members to complete analysis ahead of next Task Force meeting by February 7

8.0 AOB

8.1 The next meeting will be held at the Amba Hotel, Charing Cross 12 February 2020.