

Headline Report – Meeting 3 – Second Balancing Services Task Force

Second Balancing Services Task Force

The Headline Report is produced after every Task Force meeting and aims to provide an overview of the key decisions made. A more comprehensive meeting summary will be published separately.

Meeting Focus

The purpose of the meeting was to discuss potential options for who should pay balancing services charges, and how the charge should be recovered, using the TCR SCR principles to assess each option. There was also input from finance teams from Ofgem and National Grid ESO on risk and financing.

Finance Discussions

- Ofgem's finance team attended the meeting to discuss links between work undertaken by the TF and the ESO's price control (RIIO-T2). Ofgem recognised that since legal separation between National Grid and National Grid ESO, the ESO is asset light yet responsible for transacting £4bn of industry charges per annum.
- The TF was also alerted to the fact that there could be detrimental impacts on the ESO if they were asked to carry the risk of a fixed BSUoS charge, in terms of investor confidence, maintaining an investment grade credit rating, and potential process and system changes. It was noted that BSUoS risk would need to be mitigated through additional funding measures, which could have unintended consequences during the next price control, and that placing disproportionate risk on an asset light ESO, could impact financeability and/or require additional financing measures – there is a risk that these measures potentially detract focus from the incentive scheme, which aims to make the ESO more forward looking.
- National Grid ESO finance agreed with the points put forward by Ofgem.
- The TF noted the issues and recognised they would need to consider them when assessing final options and outcomes.

Options for BSUoS Charging Methodologies

- In the interim period between TF meetings, members were asked to consider different methodologies, focussing on who should pay Balancing Services Charges and how these charges should be set and billed.
- A total of 15 options were put forward by TF members. Each option put forwards was also assessed against the principles of the Targeted Charging Review, namely fairness, practicality and proportionality, and reducing harmful distortions. The Task Force considered both deliverables 1 and 2 through this process.

Key Takeaways

- Some models put forwards by the Task Force transfer BSUoS risk to the ESO. The TF acknowledged that this would need to be considered based on the feedback they heard from Ofgem and NGENO regulatory finance.
- The majority of the TF were in agreement that some form of fixing BSUoS charges would be valued in industry and could result in less uncertainty in the charge which they felt would have benefits for industry and consumers. The TF will consider which period of time for fixing is most suitable in its deliberations on which methodologies are best to charge for Balancing Services.

- Two key themes emerged in TF preferences. One to mirror the TDR approach under the Targeted Charging Review¹ and the second to charge on a volumetric basis but without a HH/Daily shape element.
- The TF will do a further examination of the options put forwards in meeting 4, deciding on which options are most suitable to be included as options in the interim report.

Any Questions?

- Please contact chargingfutures@nationalgrideso.com

¹ Targeted Charging Review Decision - https://www.ofgem.gov.uk/system/files/docs/2019/12/full_decision_doc_updated.pdf